Important Notice

IMPORTANT: You must read the following before continuing. The following notice applies to the prospectus (the "**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 Prospectus. In reading, accessing or making any other use of the Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Prospectus, including any modifications made to them any time you receive any information from us 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.

THIS PROSPECTUS IS ONLY ADDRESSED TO AND DIRECTED AT, AND MAY ONLY BE DISTRIBUTED TO OR ACTED ON BY, (i) PERSONS IN LATVIA, ESTONIA AND LITHUANIA; (ii) PERSONS OUTSIDE THE EUROPEAN ECONOMIC AREA (THE "**EEA**") AND THE UNITED STATES, OR THOSE WHO, IF LOCATED IN MEMBER STATES OF THE EEA (OTHER THAN IN LATVIA, ESTONIA, LITHUANIA AND THE UNITED KINGDOM), ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE NO. 2003/71/EC AND AMENDMENTS THERETO, INCLUDING DIRECTIVE NO. 2010/73/EU, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE) ("**QUALIFIED INVESTORS**"); (iii) PERSONS IN THE UNITED KINGDOM WHO ARE RELEVANT PERSONS (AS DEFINED BELOW); AND (iv) PERSONS IN THE UNITED STATES WHO ARE QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**"), AS DEFINED IN AND IN RELIANCE ON RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**").

AS REGARDS PERSONS LOCATED IN THE UNITED KINGDOM, THIS PROSPECTUS IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, QUALIFIED INVESTORS (i) WHO ARE INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**ORDER**") OR (ii) WHO ARE HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A)-(D) OF THE ORDER, AND OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS, TOGETHER, BEING REFERRED TO AS "**RELEVANT PERSONS**").

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 SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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 WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

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

2. that the e-mail address to which, pursuant to your request, the attached document has been delivered by electronic transmission

(A) 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; or

(B) if the email is located within the United States, it belongs to a QIB (as defined below) in each case in accordance with any applicable securities laws of any state of the United States;

3. you are,

(A) if in the United Kingdom, a Relevant Person or a Relevant Person acting on behalf of Relevant Persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom and/or the EEA;

(B) if in any Member State of the EEA in relation to the offer of the Retail Tranche (as defined in the Prospectus), a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent that you are acting on behalf of persons or entities in the EEA; or

(C) if within the United States, a QIB, or acting on behalf of a QIB in each case in accordance with any applicable securities laws of any state of the United States;

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

5. you will not transmit the attached 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.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the 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 Prospectus to any other person and, in particular, (i) to any U.S. address other than to a QIB nor (ii) to any other person who is not a Qualified Investor outside the EEA or inside the EEA (except in the case of the offer of the Retail Tranche in Latvia, Estonia or Lithuania). Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other 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. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Co-lead Managers or any affiliate of the Managers (as defined in the Prospectus) is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of Citadele (as defined in the Prospectus) in such jurisdiction.

Under no circumstances shall the 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 Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) or the Financial Services and Markets Act 2000 does not apply to the communication.

The 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, none of Citadele, nor the Managers, 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 Prospectus distributed to you in electronic format and the hardcopy version available to you on request from Citadele.

The distribution of this Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by us 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.

Citadele

AS "Citadele banka"

(incorporated and registered in Latvia, with registered number 40103303559)

Offering of up to 100,000,000 ordinary B shares in the form of ordinary B shares and global depositary receipts
Offer Price Range: EUR 1.15 to EUR 2.00 per Share and USD 7.797 to USD 13.56 per GDR

This is an offer (the "**Offer**") by AS "Citadele banka" ("**Citadele**"), a joint stock company incorporated in, and operating under the laws of, the Republic of Latvia, of up to 100,000,000 ordinary B shares with a nominal value of EUR 0.10 per share ("**Shares**") in the form of ordinary B shares and global depositary receipts representing Shares ("**GDRs**") (the Shares and the GDRs together, the "**Securities**"). One GDR represents an interest in 6 Shares.

This document (the "**Prospectus**") has been approved by the Financial and Capital Market Commission of Latvia (*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 (and amendments thereto, including Directive 2010/73/EU, 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 Instrument Market Law of the Republic of Latvia (the "**Latvian Financial Instrument Market Law**") and Regulation (EC) No 809/2004 (the "**Prospectus Regulation**"). The FCMC approved this Prospectus on 22 October 2015.

Application will be made: (i) to the AS "NASDAQ OMX Riga" (the "**Nasdaq Riga**") for the admission of the ordinary B shares to listing and trading on the Main List of the Nasdaq Riga; and (ii)(A) to the U.K. Financial Conduct Authority (the "**FCA**") in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the UK Financial Services and Markets Act 2000 ("**FSMA**") for a listing of GDRs on or about 10 November 2015 (the "**Closing Date**"), to be admitted to the official list of the FCA (the "**Official List**"); and (B) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the standard segment of the London Stock Exchange's regulated market for listed securities (the "**London Regulated Market**") through its International Order Book (the "**IOB**"), which is a regulated market for the purposes of Directive No 2004/39/EC (the "**Markets in Financial Instruments Directive**").

The Offer consists of two tranches: (1) a tranche of Shares (in the form of Shares and GDRs) will be initially offered to qualified investors in and outside of Latvia, Lithuania and Estonia (the "**Institutional Tranche**"); and (2) a tranche of Shares will be initially offered to persons in a public offering in Latvia, Lithuania and Estonia to persons not falling within (1) above (each of them a "**Retail Investor**") (the "**Retail Tranche**"), in each case as permitted by applicable laws and regulations and the terms included in this Prospectus. Citadele, in consultation with the Sole Global Coordinator, may re-allocate Shares from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription for each tranche. See "*Subscription and Sale*" for more information.

Citadele has requested that the FCMC provide (i) the competent authorities in Estonia and Lithuania (the Estonian Financial Supervision Authority (*Finantsinspektsioon*) (the "**EFSA**") and the Bank of Lithuania (*Lietuvos Bankas*) (the "**Bank of Lithuania**"), respectively); and (ii) in respect of the offering of GDRs, the UKLA, with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive.

The final price at which each of the Securities will be sold (such price for each of the Shares and the GDRs being the "**Offer Price**") may be set at any point within the price range indicated in this Prospectus (the "**Offer Price Range**"). A number of factors will be considered in determining the Offer Price, the amount to be raised by Citadele pursuant to the Offer and the basis of allocation to investors, including the level and nature of the demand for the Securities during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Securities. A pricing notification (the "**Pricing Notification**") containing the Offer Price and the final number of Securities offered in the Offer is expected to be published on or about 4 November 2015 on Citadele's website (www.citadele.lv) and via the regulatory information service of the London Stock Exchange and the news service of the Nasdaq Riga (if available to Citadele). Unless required to do so by law or regulation, Citadele does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until announcement of the Offer Price.

In connection with the Offer, Citadele has authorised: (i) Citigroup Global Markets Limited (the "**GDR Stabilisation Manager**") (or any agent or other person acting on behalf of the GDR Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the GDRs on the London Stock Exchange to the extent permitted by applicable laws and regulations, including Regulation (EC) No 2273/2003 (the "**Buy-back and Stabilisation Regulation**"); and (ii) AS LHV Pank (the "**Share Stabilisation Manager**" and, together with the GDR Stabilisation Manager, the "**Stabilisation Managers**") (or any agent or other person acting on behalf of the Share Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the Shares on the Nasdaq Riga to the extent permitted by applicable laws and regulations, including the Buy-back and Stabilisation Regulation. These purchases of Securities (the "**Stabilisation Purchases**") (if any) will be made solely for the purpose of supporting the market price of the Securities at a level higher than which might otherwise prevail in the open market for a limited period after the issue date, which period shall not exceed 30 days from the date commencing on the admission of the Securities to trading on the London Stock Exchange and the Nasdaq Riga (the "**Stabilisation Period**"). The Securities which may be acquired by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele pursuant to the Stabilisation Purchases will not be purchased at a price higher than the Offer Price for Shares and GDRs, respectively. Stabilisation Purchases may be effected by the Stabilisation Managers using proceeds of up to EUR 15 million from the Offer. Any Securities purchased by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele are intended to be cancelled by Citadele after repurchase (and the number of Securities in issue will be reduced accordingly). The cancellation of the Shares acquired as a result of Stabilisation Purchases is subject to the prior approval of the FCMC, at its discretion. If no Stabilisation Purchases are made by the Stabilisation Managers, the full number of Securities issued in connection with the Offer will remain in issue. The Stabilisation Managers will not be required to undertake any Stabilisation Purchases. If any Stabilisation Purchases are undertaken by the Stabilisation Managers, they may be discontinued at any time prior to the end of the Stabilisation Period. Save as required by law or regulation, neither the Stabilisation Managers nor any of their respective agents intend to disclose the extent of any Stabilisation Purchases under the Offer.

Investing in the Securities involves a high degree of risk. See "*Risk Factors*" beginning on page 42.

Unconditional trading of the ordinary B shares on the Nasdaq Riga ("**Share Admission**") is expected to commence on or about 10 November 2015. All dealings in the Shares prior to the commencement of unconditional dealings on the Nasdaq Riga will be of no effect if Share Admission does not take place and will be at the sole risk of the parties concerned. The Shares are expected to be listed on the Nasdaq Riga under the symbol "CBLBR". Admission to the Official List and unconditional trading of the GDRs on the London Stock Exchange (collectively, "**GDR Admission**") is expected to commence on or about 10 November 2015. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if GDR Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the London Stock Exchange's Main Market under the symbol "CBL".

The Securities are being offered outside the United States in reliance on Regulation S ("**Regulation S**", and such Securities, the "**Regulation S Offering**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and within the United States to certain qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**", and such Securities, the "**Rule 144A Offering**") or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. See "*Subscription and Sale*".

The Offer does not constitute an offer to sell, or solicitation of an offer to buy, Securities in any jurisdiction in which such offer or solicitation would be unlawful. The Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that offerors of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or another transaction subject to, the registration requirements of the Securities Act. For a discussion of certain restrictions on transfers of the Securities, see "*Terms and Conditions of the Global Depositary Receipts*" and "*Selling and Transfer Restrictions*".

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 Securities offered in the Offer or determined that this Prospectus is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

The Shares will be issued as bearer shares and will be registered with the Latvian Central Depository (*Latvijas Centrālais Depozitārijs*) (the "**LCD**") in book entry form. Investors may hold Shares through LCD participants, including investment firms and custodian banks operating in Latvia ("**LCD Custodians**"), as well as the participants of the Estonian Central Register of Securities (the "**ECRS**") and the Central Securities Depository of Lithuania ("**CSDL**"). See "*Subscription and Sale*" for more information.

The GDRs will be issued in master form. The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Master Rule 144A GDR**") deposited with the Depositary as custodian for The Depository Trust Company ("**DTC**"), and registered in the name of Cede & Co., as nominee for DTC, and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Master Regulation S GDR**" and, together with the Master Rule 144A GDR, the "**Master GDRs**"), registered in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**"). The Shares represented by the GDRs will be held by Nordea Bank Finland plc (acting through Swedbank AS and "Swedbank" AS as sub-custodians), as custodian (the "**Custodian**"), for the Depositary. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream with respect to the Regulation S GDRs, and their direct and indirect participants, as applicable. It is expected that delivery of the GDRs will be made against payment therefor in USD in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See "*Settlement and Delivery*".

Sole Global Coordinator and Joint Bookrunner

Citigroup

Joint Bookrunner

EFG Hermes UAE Limited

Co-lead Managers

LHV Pank | **Mediobanca** | **Raiffeisen Bank International**

Prospectus dated 23 October 2015

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Important Information About This Prospectus

General

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

None of the Managers (as defined under "*Subscription and Sale*"), or any of their respective affiliates or advisers, makes any representation or warranty, express or implied, nor accepts any responsibility, as to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Citadele, the Depositary or the Managers that any recipient of this Prospectus should purchase the Securities. Each potential purchaser of Securities should determine for itself the relevance of the information contained in this Prospectus, and its purchase of Securities should be based upon such investigation, as it deems necessary.

This Prospectus is issued in compliance with the Latvian Financial Instrument 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 Securities.

In making an investment decision regarding the Securities, 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 Prospectus. None of Citadele Group or the Managers has authorised any other person to provide prospective investors with different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. Prospective investors should assume that the information appearing in this Prospectus is accurate only as of its date. Citadele Group's business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date hereof.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers by the Latvian Financial Instrument Market Law or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made, or purported to be made by, it or any of them or on its, or their, behalf in connection with Citadele or the Securities. Each of the Managers accordingly, disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

Citadele has included its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Prospectus, which has not been verified by an independent third party. Market information 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 Prospectus 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 Securities. None of Citadele, the Depositary or the Managers, or any of their respective affiliates or advisers, makes any representation to any offeree or purchaser of the Securities regarding the legality of an investment in the Securities by such offeree or purchaser under appropriate investment or similar laws.

The Managers are acting exclusively for Citadele and no one else in connection with the Offer and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offer.

In connection with the Offer, the Managers or any of their respective affiliates acting as an investor for its or their own account or accounts may subscribe for or purchase, as the case may be, Securities and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account or accounts in such Securities, any other securities of Citadele or other related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Securities being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of their respective affiliates acting as an investor for its or their own account or accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Citadele and the Managers reserve the right to reject any offer to purchase the Securities prior to 4 November 2015, in whole or in part, and to sell to any prospective investor less than the full amount of the Securities sought by such investor, except for an offer to subscribe for Shares up to EUR 50 in value made by a Retail Investor (as defined below) or an offer to subscribe for Shares up to EUR 1,000 in value made by a Retail Investor who is also an employee or officer of Citadele Group and who is resident in Latvia, Lithuania or Estonia, subject to certain conditions. See "*Subscription and Sale*" for more information on guaranteed allocations.

The Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Securities offered in the Offer. The distribution of this Prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required to inform themselves about, and observe, any such restrictions. See "*Terms and Conditions of the Global Depositary Receipts*", "*Selling and Transfer Restrictions*" and "*Subscription and Sale*" elsewhere in this Prospectus. None of Citadele, the Depositary or the Managers accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any 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 Securities or possess or distribute this Prospectus. Prospective investors must obtain any consent, approval or permission required for their purchase, offer or sale of the Securities 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. None of Citadele, the Depositary or the Managers, or any of their respective affiliates or advisers, is making an offer to sell the Securities or a solicitation of an offer to buy any of the Securities to any person in any jurisdiction except where such an offer or solicitation is permitted.

Responsibility Statement

Citadele, represented by the members of its Management Board (being, at the date of this Prospectus, Guntis Beļavskis, Aldis Paegle, Santa Purgaile, Valters Ābele and Kaspars Cikmačs) accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this 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.

Stabilisation

In connection with the Offer, Citadele has authorised: (i) Citigroup Global Markets Limited (the "**GDR Stabilisation Manager**") (or any agent or other person acting on behalf of the GDR

Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the GDRs on the London Stock Exchange to the extent permitted by applicable laws and regulations, including Regulation (EC) No 2273/2003 (the "**Buy-back and Stabilisation Regulation**"); and (ii) AS LHV Pank (the "**Share Stabilisation Manager**" and, together with the GDR Stabilisation Manager, the "**Stabilisation Managers**") (or any agent or other person acting on behalf of the Share Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the Shares on the Nasdaq Riga to the extent permitted by applicable laws and regulations, including the Buy-back and Stabilisation Regulation. These purchases of Securities (the "**Stabilisation Purchases**") (if any) will be made solely for the purpose of supporting the market price of the Securities at a level higher than which might otherwise prevail in the open market for a limited period from the Closing Date, which period shall not exceed 30 days from the date commencing on the admission of the Securities to trading on the London Stock Exchange and the Nasdaq Riga (the "**Stabilisation Period**"). The Securities which may be acquired by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele pursuant to the Stabilisation Purchases will not be purchased at a price higher than the Offer Price for Shares and GDRs, respectively. Stabilisation Purchases may be effected by the Stabilisation Managers using proceeds of up to EUR 15 million from the Offer. Any Securities purchased by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele are intended to be cancelled by Citadele after repurchase (and the number of Securities in issue will be reduced accordingly). The cancellation of the Shares acquired as a result of Stabilisation Purchases, if any, is subject to the prior approval of the FCMC, at its discretion. If no Stabilisation Purchases are made by the Stabilisation Managers, the full number of Securities issued in connection with the Offer will remain in issue. The Stabilisation Managers will not be required to undertake any Stabilisation Purchases. If any Stabilisation Purchases are undertaken by the Stabilisation Managers, they may be discontinued at any time prior to the end of the Stabilisation Period. Save as required by law or regulation, neither the Stabilisation Managers nor any of their respective agents intend to disclose the extent of any Stabilisation Purchases under the Offer.

Notice to Certain Investors

Notice to United States Investors

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. 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 SECURITIES OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFER OF THE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES. PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT SELLERS OF THE SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A OR ANOTHER EXEMPTION FROM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Securities are being offered in the United States only to QIBs in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. Other than QIBs, persons that are located in the United States will not be permitted to receive the Securities. The Securities are being offered outside the United States in offshore transactions in reliance on Regulation S. The terms "offshore transaction" and "United States" have the meanings given to them in Regulation S.

Any resale or other transfer, or attempted resale or other transfer, of the Securities, made other than in compliance with the above stated restrictions, shall not be recognised by Citadele. In addition, until 40 days after the commencement of the Offer of the Securities, an offer or sale of the Securities within the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to Latvian, Lithuanian and Estonian Investors in Shares

This Prospectus has been prepared by Citadele for use in connection with the Offer in Latvia, Lithuania and Estonia and the listing of the Shares on the Nasdaq Riga. The Prospectus has been approved by the FCMC and for the purposes of passporting the Offer to Estonia and Lithuania notified to the EFSA and the Bank of Lithuania with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive. Citadele and the

Managers reserve the right to reject any offer to purchase the Shares in whole or in part for any reason prior to 4 November 2015 (other than those offers set out in "*Subscription and Sale – Guaranteed allocations*").

Notice to other EEA Investors in Shares

Each person in a Member State of the EEA (other than Latvia, Lithuania or Estonia) which has implemented the Prospectus Directive (each, a "**Relevant Member State**") who receives any communication in respect of the Shares or who acquires any Shares under the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each of the Managers that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any Shares 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 Shares 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 the Managers has been given to the offer or resale; or where the Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Shares to it is not treated under the Prospective Directive as having been made to such persons. Citadele, the Managers and their affiliates and others will rely (and Citadele acknowledges that the Managers and their 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 the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase the Shares.

Notice to U.K., Latvian, Lithuanian, Estonian and other EEA Investors in GDRs

The offer of GDRs in this Prospectus is only addressed to, and directed at, persons in Member States of the EEA who are "qualified investors" ("**Qualified Investors**") within the meaning of Article 2(1)(e) of the Prospectus Directive. In addition, in the United Kingdom, this Prospectus is only being distributed to, and is only directed at, (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or high net worth entities falling within Article 49(2)(a)-(d) of the Order, or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**").

The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any Member State of the EEA other than the United Kingdom, Qualified Investors. The sections of this Prospectus and any of its contents relating to the offer of GDRs should not be acted upon, or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any Member State of the EEA, other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all subsequent offers of the Securities, other than the Offer contemplated in this Prospectus, following approval by the FCMC, will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of the Securities. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for Citadele or any of the Managers to produce a prospectus for such offer. None of Citadele or the Managers has authorised or authorises the making of any offer of the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the GDRs contemplated in this Prospectus.

Each person in a Relevant Member State who receives any communication in respect of the GDRs, or who acquires any GDRs under the offers contemplated in this Prospectus, will be deemed to have represented, warranted and agreed to, and with each of the Managers, that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any GDRs 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 GDRs 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 the Managers has been given to the offer or resale; or where the GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those GDRs to it is not treated under the Prospective Directive as having been made to such persons. Citadele, the Managers and their affiliates and others will rely (and Citadele acknowledges that the Managers and their 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 the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase the GDRs.

The Managers may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Japan

The Securities offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Managers represents and agrees that the Securities which it subscribes for will be subscribed for by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) has been or will be lodged with, or registered by, the Australian Securities and Investments Commission ("**ASIC**") in relation to the Offer of the Securities. This Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

Each of the Managers has represented and agreed that this document is being distributed in Australia by the Managers to persons (the "**Exempt Investors**") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act. The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the Securities without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute this document to any other person.

Each of the Managers has represented and agreed that any of the Securities applied for by Exempt Investors in Australia will not be offered for sale in Australia for 12 months from the date

of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act. This document is not supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act. Any person acquiring the Securities will be required to observe such Australian on-sale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisers.

Canada

The Securities may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offer.

The Offer is subject to additional restrictions in other jurisdictions. See "*Selling and Transfer Restrictions*".

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 years ended 31 December 2014, 2013 and 2012 (the "**Audited Consolidated Financial Statements**") and the reviewed (but unaudited) consolidated interim financial information as at and for the six months ended 30 June 2015, including corresponding figures as at and for the six months ended 30 June 2014 (the "**Reviewed Consolidated Interim Financial Statements**"), as set forth on pages F1 to F310 of this Prospectus. The Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the European Union (the "**EU**"). The financial data set forth herein that is not included in the Audited Consolidated Financial Statements or the Reviewed Consolidated Interim Financial Statements has not been audited or reviewed. References in this Prospectus to financial information for the years 2014, 2013 or 2012 refer to financial information as at or for the years ended 31 December 2014, 2013 and 2012, respectively, and references to financial information for the first half of 2015 or the first half of 2014 refer to financial information as at or for the six months ended 30 June 2015 or 2014, respectively.

Non-IFRS Measures

This Prospectus includes certain non-IFRS measures, such as return on average total assets, return on average total equity, cost of risk, net interest margin, Non-Performing Loan ratio, cost-to-income ratio and capitalization and other ratios, that are not required by, or presented in accordance with, IFRS. For the definition of certain of these terms, see "*Operating and Financial Review—Certain Definitions*". Management believes that the presentation of these non-IFRS measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance, financial position and liquidity. These non-IFRS measures and ratios may not be comparable to similarly titled measures or ratios used by other banks, and they should not be considered as substitutes for the information contained in the Audited Consolidated Financial Statements and the Reviewed Interim Consolidated Financial Statements.

References to "Citadele Group" and "Citadele"

In this Prospectus, references to "Citadele Group" mean Citadele and its subsidiaries unless the context requires otherwise. References to "Citadele" are to Citadele only or, where the context requires, Citadele and its Estonian branch.

Additional Definitions

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

Rounding and Percentages

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

Credit Ratings

The credit ratings included in this Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No 462/2013 (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 Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is B1 (with outlook positive). 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.

Presentation of Third Party Statistical and Other Information

Citadele has derived certain information and statistics in this 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 market information and foreign exchange data used in this Prospectus are:

- European Commission Eurostat (ec.europa.eu/eurostat);
- The World Bank Group (www.worldbank.org);
- Central Statistical Bureau of Latvia (www.csb.gov.lv);
- Statistics Estonia (www.stat.ee);
- Statistics Lithuania (www.stat.gov.lt);
- Latvian Financial and Capital Market Commission (www.fktk.lv);
- Bank of Latvia (www.bank.lv);
- Association of Commercial Banks of Latvia (www.bankasoc.lv);
- Latvian State Treasury (www.kase.gov.lv);
- Bloomberg (www.bloomberg.com); and
- Reuters (www.reuters.com).

Such information is contained in this Prospectus under the captions "*Presentation of Financial and Other Information*", "*Currency Presentation and Exchange Rate Information*", "*Prospectus Summary*", "*Risk Factors*", "*Operating and Financial Review*", "*Selected Statistical and Other Information*", "*Macro-economic profile of the Baltic States and outline of the Latvian banking sector*" and "*Business Description*". 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. None of the Managers accepts liability for the accuracy of any such information, and 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 Prospectus and investors should not rely on them.

Currency Presentation and Exchange Rate Information

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

The 2014 Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements are presented in Euro, which was Citadele's functional and presentation currency for the 2014 Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements. The 2013 and 2012 Audited Consolidated Financial Statements are presented in Latvian Lats, which was Citadele's functional presentation currency at that time.

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

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

The table below sets out historical U.S. dollar / euro conversion rates based on the noon buying rate of the Federal Reserve Bank of New York for the Euro. As used in this document, the term "noon buying rate" refers to the rate of exchange for the Euro, expressed in U.S. dollars per Euro, as certified by the Federal Reserve Bank of New York:

	USD/EUR exchange rate			
Six month period ended	**Average[1]**	**High**	**Low**	**Period-end**
30 June 2015	1.1090	1.2015	1.0524	1.1154
30 June 2014	1.3714	1.3927	1.3500	1.3690
Year ended				
31 December 2014	1.3210	1.3927	1.2101	1.2101
31 December 2013	1.3303	1.3816	1.2774	1.3779
31 December 2012	1.2909	1.3463	1.2062	1.3186
31 December 2011	1.4002	1.4875	1.2926	1.2973
31 December 2010	1.3216	1.4536	1.1959	1.3269

	USD/EUR exchange rate			
Month	**Average[2]**	**High**	**Low**	**Period-end**
October 2015 (through 16 October 2015)	1.1312	1.1437	1.1200	1.1360
September 2015	1.1229	1.1358	1.1104	1.1162
August 2015	1.1136	1.1580	1.0868	1.1194
July 2015	1.0997	1.1150	1.0848	1.1028
June 2015	1.1226	1.1404	1.0913	1.1154
May 2015	1.1167	1.1428	1.0876	1.0994
April 2015	1.0822	1.1174	1.0582	1.1162

(1) The average for a year or six-month period means the average on the last day of each month during such year or period.

(2) The average rate for a month means the average on each business day during such month.

Forward-Looking Statements

Certain statements in this Prospectus are not historical facts and constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans", "will", "may", "might" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "Risk Factors", "Operating and Financial Review", "Selected Statistical and Other Information" 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 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 Branch network 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, the Nasdaq Riga, the London Stock Exchange or the FCA. 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.

Available Information

For so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Citadele will, during any period in which Citadele is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Securities, or to any prospective purchaser of such restricted Securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

Service of Process and Enforcement of Civil Liabilities

Citadele is organised under the laws of Latvia. A majority of Citadele's Management Board and a majority of the members of Citadele's Supervisory Board named in this Prospectus reside outside the United States. All of Citadele's assets and a substantial portion of the assets of its Management Board, Supervisory Board and senior management are located outside the United States. As a result, investors may not be able to effect service of process within the United States upon Citadele, Citadele's Management Board, certain members of the Supervisory Board or its senior management that are located in jurisdictions outside the United States or enforce U.S. court judgments obtained against Citadele, its Management Board, certain members of the Supervisory Board or its senior management in jurisdictions outside the United States, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

Prospectus 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	Warning	This summary should be read as an introduction to the prospectus (the "**Prospectus**"). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the relevant Member State of the EEA, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and 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 Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Consent by the issuer for drawing up and use of the prospectus	Not applicable. Citadele has not consented to the use of the Prospectus for subsequent resale or final placement of the Securities by financial intermediaries.

Section B—Issuer		
B.1	The legal and commercial name	AS Citadele banka ("**Citadele**"). In this summary, references to "Citadele Group" mean Citadele and its subsidiaries, being entities in which Citadele directly or indirectly holds more than 50% of the shares.
B.2	Legal form/country of incorporation/domicile	Citadele is a joint stock company incorporated under the Commercial Law of the Republic of Latvia (the "**Latvian Commercial Law**").
B.3	Key factors relating to current operations, principal activities and main services offered	Citadele is a leading local Latvian bank with a presence across the Baltic States and a market share in Latvia of approximately 6.8% in relation to loans and 8.4% in relation to deposits, each as at 30 June 2015. It provides a wide range of banking services to retail customers, small and medium sized enterprises ("**SMEs**"), micro SMEs (being SMEs with annual revenues up to EUR 0.4 million) and corporate and private capital management customers. Citadele's core operations include accepting deposits, granting

		short and long-term loans, servicing payment cards and conducting foreign exchange transactions. In addition to these core services, Citadele also operates an asset management business in Latvia, Lithuanian, Estonian and Swiss banking operations, a leasing business in Latvia, Lithuania and Estonia, a life insurance business in Latvia and a real estate operation in Latvia.
B.4a	Significant recent trends	During the third quarter ended 30 September 2015, Citadele Group continued to produce results comparable to the ones achieved in the first half of 2015. Loan growth increased gradually in line with Management's targets for the remainder of 2015. Citadele Group's interest income increased during this period showing some improvement compared to the second quarter of 2015. Cost of funds remained stable and, as a result, net margin on total assets improved slightly compared to the second quarter of 2015. Gross commission and fee income continued to grow while net commission and fee income remained stable, compared to the second quarter of 2015, in line with Citadele's plan to increase customer acquisition costs at the initial stage of the implementation of Citadele's business strategy. Compared to the first two quarters of 2015, operating expenses continued to modestly increase due to investments in staff, product development and other initiatives in line with Citadele's business strategy. Citadele expects that the results of these initiatives will be more visible in 2016 and show their full effects in later years. Asset quality remained stable and risk costs were lower than in the second quarter of 2015. As a result, in the third quarter of 2015, net income continued to grow. Compared to 30 June 2015, total assets decreased slightly due to (i) corporate customers effecting certain seasonal transactions during the third quarter of 2015 (such as the payment of dividends and payments for inventory), and (ii) Citadele's current policy of not targeting larger corporate or institutional deposits through increased interest rates due to Citadele Group's sufficient liquidity reserves. Citadele Group's liquidity remained strong in the third quarter of 2015, and its loan-to-deposit ratio was below 50%. As a result of Citadele Group's net profit in the third quarter of 2015, equity continued to grow.
B.4b	Known trends	Citadele Group's business has been impacted by several factors during the period under review, including: (i) restrictions on its activities imposed by the European Commission in relation to the transfer of assets and liabilities from AS Parex banka; (ii) a low interest rate environment across the Eurozone; (iii) Latvia's adoption of the Euro; (iv) increased banking regulation at the domestic and European level; (v) increased demand for online and mobile banking platforms; (vi) deleveraging of the Latvian banking sector; and (vii) the economic growth of the Baltic States.

B.5	Group	As at the date of this Prospectus, Citadele held direct or indirect interests of not less than 50% or more of the shares in 25 companies, which together comprised the other members of Citadele Group. Citadele is the parent company of Citadele Group.
B.6	Shareholders and voting rights	The following table sets out certain information with respect to the ownership of Citadele's shares, as at the date of this Prospectus, and following the Offer.

As at the date of this Prospectus

Shareholder	Number of ordinary A shares held	Number of ordinary B shares held	Number of ordinary C shares held	Ownership (%)[7]
EBRD	391,388	38,747,560	0	25.00 minus one ordinary A share
RA Citadele Holdings, LLC[1]	350,824	34,731,478	32,790,269	22.41 plus one ordinary A share
Delan S.A.R.L.[2]	155,972	15,441,188	14,578,151	9.96
EMS LB LLC[3]	138,641	13,725,501	12,958,355	8.86
NNS Luxembourg Investments S.a.r.l.[4]	138,641	13,725,501	12,958,356	8.86
Amolino Holdings Inc.[5]	138,640	13,725,347	12,958,211	8.86
Shuco LLC[6]	109,990	10,888,989	10,280,383	7.03
Other co-investors	141,460	14,004,676	13,221,927	9.02

Immediately following the Offer (assuming all Securities offered are sold and no Stabilisation Purchases are made)

Shareholder	Number of ordinary A shares held	Number of ordinary B shares held[8]	Number of ordinary C shares held	Ownership (%)[7] (assuming an Offer Price at the mid-point of the Offer Price Range)
EBRD	391,388	38,747,560	0	21.40 minus one ordinary A share
RA Citadele Holdings, LLC	350,824	34,731,478	32,790,269	19.18 plus one ordinary A share
Delan S.A.R.L.	155,972	15,441,188	14,578,151	8.53
EMS LB LLC	138,641	13,725,501	12,958,355	7.58
NNS Luxembourg Investments S.a.r.l.	138,641	13,725,501	12,958,356	7.58
Amolino Holdings Inc.	138,640	13,725,347	12,958,211	7.58
Shuco LLC	109,990	10,888,989	10,280,383	6.01
Other co-investors	141,460	14,004,676	13,221,927	7.73

(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

		(8) Assuming that existing shareholders do not subscribe for additional ordinary B shares (in the form of Shares or GDRs) in the Offer, and this does not reflect any purchases that may be made by such existing shareholders or their respective affiliates , see "*Risk factors – An active and liquid market for either the Shares or the GDRs may not develop and the value of the Securities may fluctuate significantly, particularly given that certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities*"
B.7	Selected historical key financial information	*The selected consolidated statement of profit or loss and selected consolidated statement of financial position data presented below as at and for the years ended 31 December 2014, 2013 and 2012 have been derived from the Audited Consolidated Financial Statements, which appear elsewhere in this Prospectus. The selected consolidated statement of profit or loss and selected consolidated statement of financial position data presented below as at and for the six months ended 30 June 2015 and 30 June 2014 have been derived from the Reviewed Consolidated Interim Financial Statements, which appear elsewhere in this Prospectus. The additional financial data include non-IFRS measures and were derived from the Audited Consolidated Financial Statements, the Reviewed Consolidated Interim Financial Statements and Citadele Group's unaudited consolidated management accounts.*

Selected statement of income

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
					(EUR thousands)
Interest income	39,570	38,585	80,707	74,810	84,526
Interest expense	(10,027)	(9,058)	(18,241)	(19,520)	(35,250)
Net interest income	**29,543**	**29,527**	**62,466**	**55,290**	**49,275**
Commission and fee income	24,500	22,956	47,796	45,099	41,969
Commission and fee expense	(7,287)	(6,722)	(14,413)	(12,930)	(11,481)
Net commission and fee income	**17,213**	**16,234**	**33,383**	**32,169**	**30,488**
Gain on transactions with financial instruments, net	6,286	6,900	13,471	17,141	14,296
Other income	1,533	1,351	2,589	2,911	3,476
Other expense	(306)	(584)	(1,457)	(2,021)	(423)
Administrative expenses	(32,800)	(30,766)	(61,420)	(62,550)	(59,224)
Amortisation and depreciation charge	(2,315)	(2,828)	(5,204)	(5,857)	(6,271)
Impairment charges and reversals, net	(2,789)	(2,843)	(8,569)	(20,144)	(13,335)
Profit before taxation	**16,365**	**16,991**	**35,259**	**16,939**	**18,282**
Corporate income tax	(1,433)	(2,553)	(2,854)	(3,342)	(5,532)
Net profit for the period	**14,932**	**14,438**	**32,405**	**13,597**	**12,750**

Selected balance sheet data

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
				(EUR thousands)
Assets				
Cash and deposits with central banks	324,554	225,399	361,485	271,712
Balances due from credit institutions	296,922	509,404	271,181	183,854
Securities held for trading	21,042	23,950	27,814	14,792
Derivative financial instruments	2,003	5,929	3,548	1,406
Financial assets designated at fair value through profit or loss	102,286	97,449	62,336	50,523
Available for sale securities	559,824	558,196	401,738	382,768
Loans and receivables to customers	1,081,752	1,075,701	1,055,922	1,019,407
Held to maturity securities	251,024	229,252	244,423	236,187
Non-current assets classified as held for sale	–	–	373	376
Property and equipment	42,773	42,525	42,826	44,137
Intangible assets	1,796	1,708	1,845	1,264
Investment property	403	409	748	1,283
Current income tax assets	272	437	341	293
Deferred income tax assets	29,010	30,073	32,534	35,831
Other assets	54,310	54,163	34,408	34,789
Total assets	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**
Liabilities				
Derivative financial instruments	2,859	1,647	3,931	3,873
Financial liabilities designated at fair value through profit and loss	30,052	24,594	16,626	14,752
Financial liabilities measured at amortised cost:	2,452,746	2,554,378	2,280,982	2,030,386
Current income tax liabilities	76	187	–	40
Other liabilities	24,833	23,482	22,960	20,588
Subordinated liabilities	53,976	73,596	73,575	74,009
Total liabilities	**2,564,542**	**2,677,884**	**2,398,074**	**2,143,647**
Equity	**203,429**	**176,711**	**143,448**	**134,974**
Total liabilities and equity	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**

Additional financial data

Selected Financial Ratios[1]	As at and for the six months ended 30 June 2015 (unaudited)	As at and for the six months ended 30 June 2014 (unaudited)	As at and for the year ended 31 December 2014 (unaudited)	As at and for the year ended 31 December 2013 (unaudited)	As at and for the year ended 31 December 2012 (unaudited)
			(EUR thousands, except percentages)		
Average total assets[2]	2,811,283	2,548,590	2,698,058	2,410,071	2,249,362
Average total equity[3]	190,070	151,592	160,079	139,211	122,654
Total equity/ total assets	6.8%	5.9%	5.9%	5.8%	5.9%
Return on average total assets[4]	1.1%	1.1%	1.2%	0.6%	0.6%
Return on average total equity[5]	15.8%	19.2%	20.2%	9.8%	10.4%
Cost of risk based on average gross loans[6]	(0.8%)	(0.7%)	(1.2%)	(1.9%)	(0.8%)
Cost of risk based on average total assets[7]	(0.3%)	(0.3%)	(0.5%)	(0.9%)	(0.4%)
Net interest margin[8]	2.1%	2.3%	2.3%	2.3%	2.2%
Net interest margin (Citadele)[8]	2.1%	2.4%	2.3%	2.3%	2.0%
Loan-to-deposit ratio[9]	44.9%	49.1%	42.7%	47.0%	51.3%
Cost-to-income ratio[10]	64.9%	63.3%	60.8%	65.5%	67.6%
Cost-to-income ratio (Citadele)[10]	62.3%	53.6%	52.3%	54.9%	61.0%
Non-Performing Loans ratio[11]	11.6%	11.9%	12.1%	12.5%	14.2%
Coverage ratio[12]	66.8%	66.6%	63.0%	64.8%	56.5%
90 days past due ratio[13]	5.6%	8.1%	6.8%	8.4%	7.8%
90 days past due coverage ratio[14]	139.5%	98.1%	111%	96%	103%

(1) Return on average total assets, return on average total equity, and loan-to-deposit ratio for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. Return on average total assets, return on average total equity, loan-to-deposit ratio and cost-to-income ratio for the years ended 31 December 2014 and 2013 are included in the 2014 and 2013 Audited Consolidated Financial Statements, respectively. The other financial ratios set forth in this table have not been audited or reviewed.

(2) Average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total assets as at 30 June of the relevant period and as at 31 December of the prior year. Average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total assets as at 31 December of the relevant period and as at 31 December of the prior year.

		(3) Average total equity for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total equity as at 30 June of the relevant period and as at 31 December of the prior year. Average total equity for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total equity as at 31 December of the relevant period and as at 31 December of the prior year. (4) Return on average total assets is calculated as net profit for the relevant period divided by average total assets for such period. (5) Return on average total equity is calculated as net profit for the relevant period divided by average total equity for such period. (6) Cost of risk based on average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period, and has been annualised. Average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total gross loans and receivables as at 30 June of the relevant period and as at 31 December of the prior year. Cost of risk based on average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period. Average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total gross loans and receivables as at 31 December of the relevant period and as at 31 December of the prior year. (7) Cost of risk based on average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period, and has been annualised. Cost of risk based on average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period. (8) Net interest margin for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income for the relevant period divided by average total assets for such period, and has been annualised. Net interest margin (Citadele) for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period, and has been annualised. Net interest margin for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income for the relevant period divided by average total assets for such period. Net interest margin (Citadele) for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period. (9) Loan-to-deposit ratio is calculated as total net loans and receivables from customers (after impairment allowance) divided by deposits from customers, each as at the end of the relevant period. (10) Cost-to-income ratio is calculated as Citadele Group's operating expenses divided by operating income, each for the relevant period. Cost-to-income ratio (Citadele) is calculated as Citadele's operating expenses divided by operating income, each for the relevant period. Operating expenses are calculated as the sum of administrative expense, amortisation and depreciation charge and other expense for the relevant period. Operating income is calculated as the sum of net interest income, net commission and fee income, gain or transactions with financial instruments, net and other income for the relevant period. (11) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(12) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period).

(13) 90 days past due ratio is defined as the percentage of total gross loans and receivables from customers that are 90 or more days overdue as at the end of the relevant period.

(14) 90 days past due coverage ratio is calculated as total allowance for impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

The following table sets out certain of Citadele Group's capital ratios as at the dates indicated:

	As at 30 June		As at 31 December		
Selected Capital Ratios[1]	**2015 (unaudited)**	**2014 (unaudited)**	**2014 (unaudited)**	**2013 (unaudited)**	**2012 (unaudited)**
Basel II/Basel III Transitional Basis[2]					
Total capital adequacy ratio[3]	12.8%	10.1%	11.0%	10.3%	10.5%
Common equity Tier 1 capital ratio[4]	10.7%	8.0%	9.3%	8.4%	7.8%
Net Stable Funding Ratio[5]	123.7%	126.1%	130%	–	–
Liquidity Coverage Ratio[6]	280.9%	481.9%	533.0%	–	–
Leverage Ratio[7]	6.3%	4.9%	5.7%	–	–
Risk weighted assets[8]	1,678,194	1,713,203	1,822,041	1,611,100	1,555,928
Risk weighted assets as a percentage of total assets[9]	60.6%	67.0%	63.8%	63.4%	68.3%
Basel III Fully Loaded Basis[10]					
Total capital adequacy ratio[3]	11.3%	8.6%	9.5%	–	–
Common equity Tier 1 capital ratio[4]	9.2%	6.4%	7.8%	–	–
Leverage Ratio[7]	5.7%	4.1%	5.0%	–	–
Risk weighted assets[8]	1,667,522	1,702,532	1,811,326	–	–
Risk weighted assets as a percentage of total assets[9]	60.2%	66.6%	63.5%	–	–

(1) The capital ratios for the year ended 31 December 2014 and the six months ended 30 June 2015 and 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations as a result of the introduction of Basel III requirements. Accordingly, Net Stable Funding Ratio and Liquidity Coverage Ratio have not been calculated for the years ended 31 December 2013 and 2012. 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 "*Asset, Liability and Risk Management—Capital Adequacy Management*", "*Regulation of Citadele Group's Activities – Banking Regulation and Supervision in the EU*", Note 15 to the Reviewed Interim Consolidated Financial Statements and Note 33 to the 2014, 2013 and 2012 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 2015 and 30 June 2014 are included in the Reviewed Consolidated Interim Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio on a Basel II basis for the years ended 31 December 2013 and 2012 are included in the 2013 and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed. (2) The capital ratios set forth under the heading Basel II/Basel III Transitional Basis are calculated on a Basel II basis for the years ended 31 December 2012 and 2013, and on a Basel III Transitional Basis for year ended 31 December 2014 and the six months ended 30 June 2015 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information. (3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio. (4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio. (5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio. (6) 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio. (7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Leverage Ratio. (8) Risk weighted assets is calculated as total risk exposure amount for the relevant period. (9) Risk weighted assets as a percentage of total assets is calculated as total risk exposure amount divided by total assets. (10) The capital ratios set forth under the heading Basel III Fully Loaded Basis are calculated on a Basel III fully loaded basis for the six months ended 30 June 2015 and 30 June 2014 and for the year ended 31 December 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

		For the first half of 2015, Citadele Group's net interest income remained unchanged at EUR 29.5 million as compared to the first half of 2014. For the first half of 2015, Citadele Group's net commission income and fee income increased by EUR 1.0 million, or 6.2%, to EUR 17.2 million from EUR 16.2 million for the first half of 2014. Citadele Group's net commission and fee income increased by EUR 1.2 million, or 3.8%, to EUR 33.4 million in 2014 from EUR 32.2 million in 2013. Citadele Group's net commission and fee income increased by EUR 1.7 million, or 5.5%, to EUR 32.2 million in 2013 from EUR 30.5 million in 2012. For the first half of 2015, Citadele Group's total allowance and reversals charged to the statement of income, net remained unchanged from EUR 2.8 million for the six months ended 30 June 2014. In 2014, total allowances and reversals charged to the statement of income decreased by EUR 11.6 million, or 57.5%, to EUR 8.6 million from EUR 20.1 million in 2013. In 2013, total allowances and reversals charged to the statement of income increased by EUR 6.8 million, or 51.1%, to EUR 20.1 million from EUR 13.3 million in 2012. For the first half of 2015 and for 2014, 2013 and 2012, Citadele Group's operating expenses (defined as the sum of administrative expenses, amortisation and depreciation charge and other expense for the reporting period) were EUR 35.4 million, EUR 68.1 million, EUR 70.4 million and EUR 65.9 million, respectively. Management expects operating expenses in the second half of 2015 will increase by approximately 10% when compared to the first half of 2015 due primarily to the ongoing growth initiatives that the Company has been implementing since privatisation in April 2015 (after which EC restrictions were lifted). In addition, management expects that net interest income in the second half of 2015 will be relatively unchanged compared to the first half of 2015. Other than as described above, there have been no significant changes in Citadele Group's financial condition and operating results during or subsequent to the periods covered by the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements.
B.8	Selected key pro forma financial information	Not applicable; the Prospectus does not include pro forma financial information and Citadele has no obligation to present pro forma financial information in the Prospectus.

B.9	Profit forecast	Not applicable; the 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 historical financial information, with the exception of the auditors' report on the 2013 Audited Consolidated Financial Statements audited by KPMG Baltics SIA, which contains a qualification in relation to the comparative data from the 2012 Audited Consolidated Financial Statements on the basis that such financial statements were audited by another auditor firm (PricewaterhouseCoopers SIA).
B.31	Information about the issuer of the underlying shares	See: B.1—The legal and commercial name, page 24; B.2—Legal form/country of incorporation/domicile, page 24; B.3—Key factors relating to current operations, principal activities and main services offered, page 25; B.4a—Significant recent trends, page 25; B.4b—Known trends, page 26; B.5—Group, page 26; B.6—Shareholders and voting rights, page 26; B.7—Selected historical key financial information, page 28; B.8—Selected pro forma financial information, page 34; B.9—Profit forecast, page 34; B.10—Qualification in audit report, page 34; and D.4—Key information on key risks of the issuer and its industry, page 45.
B.32	Name/legal form/domicile of the issuer of the depositary receipts	The depositary is Citibank, N.A. (the "**Depositary**"), a national banking association organised under the laws of the United States. The Depositary is an indirect wholly-owned subsidiary of Citigroup Inc., a Delaware corporation, and is an affiliate of Citigroup Global Markets Limited. The Depositary was originally organised on 16 June 1812 under the National Bank Act of 1864 of the United States and is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043, United States of America.

Section C—Securities		
C.1	Type and the class of the securities and security identification number	This is an offer by Citadele of up to 100,000,000 ordinary B shares with a nominal value of EUR 0.10 per share (the "**Shares**") in the form of Shares and global depositary receipts representing Shares (the "**GDRs**") (the Shares and the GDRs together, the "**Securities**") (the "**Offer**"). One GDR represents an interest in 6 Shares. The amount of gross proceeds from the Offer will be EUR 115 million (assuming no Stabilisation Purchases are made and assuming that all Shares offered in the Offer are sold). Stabilisation Purchases may be made by the Stabilisation Managers (or their agents or someone acting on their behalf) as agent for Citadele, as described in Element E.3 below on page 51, which may reduce the number of Securities in issue following the Offer. The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Master Rule 144A GDR**") deposited with the Depositary as custodian for The Depository Trust Company ("**DTC**"), and registered in the name of Cede & Co., as nominee for DTC, and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Master Regulation S GDR**" and, together with the Master Rule 144A GDR, the "**Master GDRs**"), registered in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**"). The Shares represented by the GDRs will be held by Nordea Bank Finland plc (acting through Swedbank AS and "Swedbank" AS as sub-custodians), as custodian (the "**Custodian**"), for the Depositary. Application will be made for the GDRs to be traded on the standard segment of the London Stock Exchange, as defined below, through its International Order Book. The security identification numbers for the GDRs offered hereby are as follows: Rule 144A GDRs: ISIN: US00215D1028 Common Code: 130853242 CUSIP: 00215D 102 SEDOL: BZBWZ37

		Regulation S GDRs: ISIN: US00215D2018 Common Code: 130853285 CUSIP: 00215D 201 SEDOL: BZBWZ48 The GDRs are expected to be traded under the symbol "CBL". Application will be made for the Shares to be traded on the Nasdaq Riga (as defined below). The identification numbers for the Shares are as follows: ISIN: LV0000101558 CUSIP: X02308108 SEDOL: BYYMZ59 The Shares are expected to be traded under the symbol "CBLBR"
C.2	Currency	The currency of the Shares is Euro. The currency of the GDRs is U.S. dollars.
C.3	Issued share capital	As of the date of this Prospectus, Citadele's issued share capital consists of 1,565,566 ordinary A shares with a nominal value of EUR 20.00 each, 154,990,240 ordinary B shares with a nominal value of EUR 0.10 each and 109,745,652 ordinary C shares with a nominal value of EUR 1.00 each, all of which are fully paid. Citadele expects to issue up to an additional 100,000,000 ordinary B shares in connection with the Offer.
C.4	Description of the rights attached to securities	Under the Latvian Commercial Law and Citadele's Articles of Association, a holder of Shares has the right (among others): • to subscribe for shares, pro rata to its shareholding, with respect to any increase of Citadele's share capital or the issuance of any new shares or securities convertible into, exchangeable for, or otherwise granting the right to acquire shares (including options, warrants and other rights); • to attend and vote personally or through proxy at the General Meeting of Shareholders ("**GMS**"); • to inspect Citadele's financial statements and annual accounts, minutes of the GMS, register of shareholders; • to receive dividends paid in accordance with Citadele's dividend policy; and • together with the holders of ordinary A shares, to receive a pro rata share of Citadele's assets (following repayment of creditors) in the event of Citadele's liquidation; and

		• other rights set out in the Latvian Commercial Law. Each GDR represents an interest in 6 Shares on deposit with Nordea Bank Finland plc (acting through Swedbank AS and "Swedbank" AS as sub-custodians), as custodian (the "**Custodian**") for the Depositary (the "**Deposited Shares**"). A holder of GDRs (each, a "**Holder**") will have the rights set out in the terms and conditions of the GDRs as endorsed on each GDR certificate, including the Master Regulation S GDR and a Master Rule 144A GDR (together, the "**Master GDRs**"), including: • the right to withdraw the Deposited Shares (as defined in the terms and conditions of the GDRs) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares; • the right to receive payment in U.S. dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from Citadele in respect of the Deposited Shares; • the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from Citadele by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary not to be reasonably practicable or to be unlawful, the net proceeds in U.S. dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of property other than Shares or cash received by the Depositary from Citadele (or if such distribution is deemed by the Depositary not to be reasonably practicable or to be unlawful, the net proceeds in U.S. dollars of the sale of such property); • the right to request the Depositary to exercise subscription or similar rights made available by Citadele to holders of Shares (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); and • the right to instruct the Depositary regarding the exercise of any voting rights notified by Citadele to the Depositary subject to conditions; and the right that the Depositary will make available copies received by it of notices provided by Citadele to holders of Shares or other material

		information, in each case subject to applicable law, and the detailed terms set out in the terms and conditions of the GDRs as endorsed on each GDR certificate, including the Master GDRs. As described in the terms and conditions of the GDRs, from time to time the Depositary may deduct fees and expenses from dividend or other distributions and may otherwise assess other fees and expenses to the GDR holders.
C.5	Restrictions on transferability	The GDRs are freely transferable, subject to the clearing and settlement rules of DTC (in the case of the GDRs, represented from time to time by the Master Rule 144A GDR) and Euroclear and Clearstream (in the case of the GDRs, represented from time to time by the Master Regulation S GDR), as applicable, and to the terms and conditions of the GDRs, selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the European Economic Area and the Republic of Latvia, and contractual lock-up arrangements applicable to Citadele, members of its Management Board and Supervisory Board and certain other shareholders of Citadele. The Shares are freely transferable, subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the European Economic Area and the Republics of Latvia, Lithuania and Estonia, and contractual lock-up arrangements applicable to Citadele, members of its Management Board and Supervisory Board and certain other shareholders of Citadele.
C.6	Admission to trading on a regulated market	Application will be made: (i) to the NASDAQ OMX Riga (the "**Nasdaq Riga**") for the admission of the ordinary B shares to listing and trading on the Main List of the Nasdaq Riga; and (ii)(A) to the UK Financial Conduct Authority (the "**FCA**") in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the UK Financial Services and Markets Act 2000 ("**FSMA**") for a listing of GDRs on or about 10 November 2015 (the "**Closing Date**"), to be admitted to the official list of the FCA (the "**Official List**"); and (ii)(B) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the standard segment of the London Stock Exchange's regulated market for listed securities (the "**London Regulated Market**") through its International Order Book (the "**IOB**"), which is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). Unconditional trading of the ordinary B shares on the Nasdaq Riga ("**Share Admission**") is expected to

		commence on or about 10 November 2015. All dealings in the Shares prior to the commencement of unconditional dealings on the Nasdaq Riga will be of no effect if Share Admission does not take place and will be at the sole risk of the parties concerned. The Shares are expected to be listed on the Nasdaq Riga under the symbol "CBLBR". Admission to the Official List and unconditional trading of the GDRs on the London Stock Exchange (collectively, "**GDR Admission**") is expected to commence on or about 10 November 2015. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if GDR Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the London Stock Exchange's Main Market under the symbol "CBL".
C.7	Dividend policy	Since its inception, Citadele has not paid any dividend or distribution of any kind to its shareholders and, as at the date of this Prospectus, no dividend payment is in contemplation. Going forward, Citadele will determine its dividend policy in light of its overall strategy and opportunities for growth. The declaration of any dividends in the future will be subject to the discretion of the Management Board and the Supervisory Board to recommend, and the GMS to approve, such dividend, and will depend on, among other things, Citadele's future profits, financial position and capital requirements.
C.13	Information about the underlying shares	See: C.1—Type and the class of the securities and the security identification number, page 35; C.2—Currency, page 37; C.3—Issued share capital, page 37; C.4—Description of rights attached to the securities, page 37; C.5—Restrictions on transferability, page 39; C.6—Admission to trading on a regulated market, page 40; and C.7—Dividend policy, page 40.
C.14	Information about the depositary receipts	See: C.1—Type and the class of the securities and the security identification number, page 35; C.2—Currency, page 37; C.4—Description of rights attached to the securities, page 37; and C.5—Restrictions on transferability, page 39.

		The terms and conditions of the GDRs (the "**Conditions**") set out the provisions relating to the exercise of and benefit from the rights attaching to the Shares. The following summarises relevant provisions of the terms and conditions of the GDRs. Cash Distributions Whenever the Depositary shall receive from Citadele any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of Citadele) or otherwise in connection with the Deposited Property (as defined in the terms and conditions of the GDRs) in a currency other than U.S. dollars, the GDR Depositary shall if practicable, promptly convert or cause to be converted the same into U.S. dollars in accordance with the Deposit Agreements and shall promptly distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of the deposit agreements entered into between Citadele and the Depositary. Distributions of Shares Whenever the Depositary shall receive from Citadele any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; except that, if and insofar as the Depositary deems any such distribution to all or any Holders not to be practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that Citadele, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreements to the Holders entitled thereto. Distribution Other Than Cash or Shares Whenever the Depositary shall receive from Citadele any distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem

		practicable for effecting such distribution; except that, if and insofar as the Depositary deems any such distribution to all or any Holders not to be practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that Citadele, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such manner as the Depositary may determine to be practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreements to the Holders entitled thereto. Rights Issues If and whenever Citadele announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares by way of a rights issue, the Depositary shall as soon as practicable give notice to the Holders in accordance with the terms and conditions of the GDRs of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. If, at its discretion, the Depositary shall be satisfied that it is lawful and practicable and to the extent that it is so satisfied, the Depositary shall distribute rights to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine. If and insofar as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that Citadele, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, or if Citadele requests that the rights not be made available to Holders, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations and the Depositary shall, to the extent reasonably practicable, consult Citadele in relation to the manner and terms of any such sale prior to such sale) and distribute the net proceeds of such

		sale as a cash distribution pursuant to the Deposit Agreements to the Holders entitled thereto except to the extent prohibited by applicable law. Voting Rights Citadele will notify the Depositary of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property. As soon as reasonably practicable after receipt from Citadele of such notice and any information related to the meeting of shareholders, the Depositary shall fix the record date (which shall be as close as possible to the corresponding record date set by Citadele) in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by Citadele in writing and not prohibited by applicable law, and at Citadele's expense, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between Citadele and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreements, the terms and conditions of the GDRs, the Articles of Association and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by Citadele), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property in respect of which the requirements and conditions for voting as may be set forth under applicable law have been complied with by Holders. Upon the timely receipt from a Holder as of the record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under the requirements contained in the Conditions and applicable law (including, but not limited to, any Latvian legal prohibitions or conditions to voting), the provisions of the terms and conditions of the GDRs, the Articles of Association and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

Section D—Risks		
D.1/2/4	Key information on key risks of 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 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; • 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 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; • 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 Branches in key locations; • Citadele Group is subject to operational risks, including in particular those arising from fraud or misconduct of its employees or customers; • Citadele Group or its customers may face restrictions on their business as a result of international sanctions on Russian persons and entities or regional geopolitical pressures; • Citadele Group faces risks in relation to its international deposit book; • Citadele Group may be forced to rebrand itself or certain of its subsidiaries in certain markets, which may limit its ability to compete in those markets; • Citadele Group will no longer be able to charge the current level of interchange fees or have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes; • Citadele Group is exposed to correspondent account risk; • Citadele and the Baltic States may not be able to maintain their credit ratings; • Citadele Group's operations expose it to foreign exchange risk and risks associated with the use of hedging products; • Citadele Group faces risks associated with its pension fund operations; • Citadele Group faces risks associated with its life insurance operations; • Citadele Group may not be able to successfully maintain or upgrade its information technology systems and security; • Citadele Group's ongoing success depends on its senior management team and its ability to recruit and retain key personnel;

		• Citadele Group may be subject to litigation, administrative proceedings or other proceedings; • Catastrophic or unforeseen events such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events may have a material adverse effect on Citadele Group; • Citadele Group's insurance policies may not cover particular future losses; • Citadele Group's business and financial results may change as a result of Citadele's becoming a non-state-owned company; • Citadele Group may be materially and adversely affected by the conclusions of reports produced by public authorities in relation to the sale of Citadele's shares to RA Citadele Holdings, LLC; • The legal and judicial systems in some of the markets in which Citadele Group operates have less experience in commercial 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 believes that it is a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to U.S. holders of GDRs or Shares; • U.S. Foreign Account Tax Compliance Act withholding may affect payments received by Citadele or payments on the Shares or GDRs; • 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 Group may be impacted by changes in accounting methodologies; and • Citadele Group faces risks as a result of regulatory investigations.
D.3/5	Key information on key risks of the Securities	There are a number of key risks relating to an investment in the Securities: • The Shares (in the form of shares and GDRs) offered to investors will have less voting rights per share than the ordinary A shares; • An active and liquid market for either the Shares or the GDRs may not develop, and the value of the Securities may fluctuate significantly, particularly given that certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities; • The sale or availability for sale of substantial amounts of Securities could adversely affect the price of the Securities; • Citadele does not currently pay dividends and may decide not to pay dividends in the future, and the value of any dividends paid to the holders of the GDRs may fluctuate; • Exchange rate fluctuations may impair the return on investment in the GDRs or the proceeds of the Offer; • The issue of additional shares in Citadele in connection with future acquisitions, any share incentive or share option plan or otherwise may have a dilutive effect for investors; • Certain holders of Securities may not be able to participate in future equity offerings; • After the offering, certain shareholders will continue to be able to exercise significant influence over Citadele, its management and its operations; • There has been no prior trading market for the Shares or the GDRs; • Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of Latvian law; • Following the Offering, holders of Shares may not be able to deposit the Shares in Citadele's GDR facility in order to receive GDRs; • Securities holders may be required to comply with requests for information; • Certain qualifying holdings of Securities may be subject to approval by the EU or Swiss regulators;

		• Holders of GDRs may become subject to tax in Latvia; • Citadele may be unable to list the Shares on the Nasdaq Riga, the Shares may be delisted from the Nasdaq Riga, or trading in Citadele's Shares may be suspended; • Citadele may be unable to list the GDRs on the London Stock Exchange, the GDRs may be delisted from the London Stock Exchange, or trading in Citadele's GDRs may be suspended; • Listing may not occur concurrently with settlement and investors may be unable to publicly trade Shares until Listing of the Shares on the Nasdaq Riga; • The Shares may be the subject of an offer which is at a lower price than the price offered for the ordinary A shares in a mandatory bid; and • Citadele has no experience in complying with the requirements for publicly listed companies.

Section E—Offer		
E.1	Total net proceeds and estimate of the total expenses of the issue/offer	The gross proceeds of the Offer to Citadele will be EUR 115 million (assuming no Stabilisation Purchases are made and assuming all Shares offered in the Offer are sold). The total underwriting commissions, fees and expenses payable by Citadele in connection with the Offer are expected to be approximately EUR 11 million. No commissions, fees or expenses in connection with the Offer will be charged to investors by Citadele. The net proceeds that Citadele will receive from the Offer after deduction of underwriting commissions, fees and expenses are expected to be approximately EUR 104 million (assuming no Stabilisation Purchases are made and assuming all Securities offered in the Offer are sold).
E.2a	Reasons for the offer, use of proceeds and estimated net amount of the proceeds	Citadele expects to receive net proceeds of EUR 104 million from the subscription of the Securities (assuming no Stabilisation Purchases are made and assuming all Securities offered in the Offer are sold). The proceeds are to be used to help Citadele Group pursue future growth and to repay the outstanding debt under the subordinated loan currently held by the Latvian Privatisation Agency (of which EUR 34.7 million was outstanding as at 30 June 2015, which matures on 20 December 2017 and carries a coupon of 7.13%).
E.3	Terms and conditions of the offer	The Shares are being offered to the public in Latvia, Lithuania and Estonia in accordance with the requirements of the Financial Instrument Market Law of the Republic of Latvia (the **"Latvian Financial**

		Instrument Market Law") and Regulation EC 809/2004 (the "**Prospectus Regulation**"). The Shares are also being offered outside the United States in offshore transactions in reliance on Regulation S ("**Regulation S**") under the US Securities Act of 1933, as amended (the "**Securities Act**"), and within the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. The terms "offshore transaction" and "United States" have the meanings given to them in Regulation S. The Offer Price Range (as defined below) for the Shares is EUR 1.15 to EUR 2.00. The Shares are expected to be issued, and payment for them to be prefunded by Citigroup Global Markets Limited, on or about 4 November 2015. The GDRs are being offered outside the United States in reliance on Regulation S under the Securities Act, and within the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. The Offer Price Range (as defined below) of each GDR is USD 7.797 to USD 13.56. The Offer consists of two tranches: (1) a tranche of Shares (in the form of Shares and GDRs) will be initially offered to qualified investors in and outside of Latvia, Lithuania and Estonia (the "Institutional Tranche"); and (2) a tranche of Shares will be initially offered to persons in a public offering in Latvia, Lithuania and Estonia to persons not falling within (1) above (each of them a "**Retail Investor**") (the "Retail Tranche"), in each case as permitted by applicable laws and regulations and the terms included in this Prospectus. Citadele, in consultation with the Sole Global Coordinator, may re-allocate Shares from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription for each tranche. Certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities. Any Retail Investor who submits a valid Subscription Order for Shares with a total subscription price of at least EUR 50 is guaranteed to receive a number of Shares equal to EUR 50 divided by the Offer Price (other than where such division would result in a fraction of a Share, in which case the total number of Shares allocated to that Retail Investor shall be rounded down to the nearest whole number). Any Retail Investor who is also an employee or officer of Citadele Group who submits through

		Citadele or AB Citadele bankas a valid Subscription Order for Shares with a total subscription price of at least EUR 1,000 is guaranteed to receive a number of Shares equal to EUR 1,000 divided by the Offer Price (other than where such division would result in a fraction of a Shares, in which case the total number of Shares allocated to that Retail Investor shall be rounded down to the nearest whole number), provided such Retail Investor represents that such Retail Investor is an employee of Citadele Group at the time when such Retail Investor offers to subscribe for the Shares. The total number of Shares allocated to employees and officers of Citadele Group in this paragraph (ii) shall not exceed 1% of the total Securities allocated on the Allocation Date. To the extent that the offers for subscription for Shares made by employees and officers of Citadele Group would, if accepted, result in an allocation to such employees and officers in excess of 1% of the total Shares (in the form of Shares or GDRs) to be allocated in connection with the Offer, the guaranteed allocations for each individual employee or officer in connection with the Offer will be reduced pro rata, such that the total allocation to such persons does not exceed 1% of the total number of Shares (in the form of Shares or GDRs) allocated in connection with the Offer. The Shares are expected to be issued, and payment for them to be prefunded by Citigroup Global Markets Limited, on or about 4 November 2015. The final price at which the GDRs and the Shares will be sold (such price for each of the GDRs and the Shares being the "**Offer Price**") may be set at any point within the price range indicated in this Prospectus (the "**Offer Price Range**"). A number of factors will be considered in determining the Offer Price, the amount to be raised by Citadele pursuant to the Offer and the basis of allocation to investors, including the level and nature of the demand for the Securities during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Securities. A pricing notification (the "**Pricing Notification**") containing the Offer Price and the final number of Securities offered in the Offer is expected to be published on or about 4 November 2015 on Citadele's website (www.citadele.lv) and via the regulatory information service of the London Stock Exchange and the news service of the Nasdaq Riga (if available to Citadele). The Pricing Notification will not automatically be sent to all persons who received this Prospectus, but will be available free of charge at the registered office of Citadele at Republikas laukums 2A, Riga, LV-1010, Latvia. If the Offer Price Range changes prior to the announcement of the final Offer Price, the revised

		Offer Price Range will be announced and advertised as soon as possible and Citadele will publish a supplementary prospectus and each applicant may exercise their withdrawal rights. Any notices relating to the approval of the Prospectus and its supplements (if any) which have to be published by the FCMC will be published on its website (www.fktk.lv), in accordance with Latvian law. Offer Period: 23 October 2015 to 3 November 2015 Pre-Funding by the Sole Global Coordinator: 4 November 2015 Closing Date: 10 November 2015 Admission to the London Stock Exchange: 10 November 2015 Admission to the Nasdaq Riga: 10 November 2015 The timetable above may be subject to change. Certain events provided therein are beyond the control of Citadele. Citadele, in agreement with the Sole Global Coordinator, reserves the right to change the above timetable for the Offer, including the subscription periods for the Shares and GDRs. Information about any changes to the proposed timetable of the Offer will be subject to notification to investors and/or supplements to the Prospectus in accordance with applicable regulations. In connection with the Offer, Citadele has authorised: (i) Citigroup Global Markets Limited (the "**GDR Stabilisation Manager**") (or any agent or other person acting on behalf of the GDR Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the GDRs on the London Stock Exchange to the extent permitted by applicable laws and regulations, including Regulation (EC) No 2273/2003 (the "**Buy-back and Stabilisation Regulation**"); and (ii) AS LHV Pank (the "**Share Stabilisation Manager**" and, together with the GDR Stabilisation Manager, the "**Stabilisation Managers**") (or any agent or other person acting on behalf of the Share Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the Shares on the Nasdaq Riga to the extent permitted by applicable laws and regulations, including the Buy-back and Stabilisation Regulation. These purchases of Securities (the "**Stabilisation Purchases**") (if any) will be made solely for the purpose of supporting the market price of the Securities at a level higher than which might otherwise prevail in the open market for a limited period after the issue date, which period shall not exceed 30 days from the date commencing on the admission of the Securities to trading on the London Stock Exchange and the Nasdaq Riga (the "**Stabilisation Period**"). The Securities which may be acquired by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent

		for Citadele pursuant to the Stabilisation Purchases will not be purchased at a price higher than the Offer Price for Shares and GDRs, respectively. Stabilisation Purchases may be effected by the Stabilisation Managers using proceeds of up to EUR 15 million from the Offer. Any Securities purchased by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele are intended to be cancelled by Citadele after repurchase (and the number of Securities in issue will be reduced accordingly). The cancellation of the Shares acquired as a result of Stabilisation Purchases, if any, is subject to the prior approval of the FCMC, at its discretion. If no Stabilisation Purchases are made by the Stabilisation Managers, the full number of Securities issued in connection with the Offer will remain in issue. The Stabilisation Managers will not be required to undertake any Stabilisation Purchases. If any Stabilisation Purchases are undertaken by the Stabilisation Managers, they may be discontinued at any time prior to the end of the Stabilisation Period. Save as required by law or regulation, neither the Stabilisation Managers nor any of their respective agents intend to disclose the extent of any Stabilisation Purchases under the Offer.
E.4	Material interests in the offer	Not applicable.
E.5	Name of entity offering to sell the security and lock-up agreements/ details	The Securities are being offered by Citadele. Each of Citadele, the members of the Management Board, the members of the Supervisory Board, RA Citadele Holdings, LLC and the European Bank for Reconstruction and Development (the "**EBRD**") has agreed with the Managers that neither it, nor, with respect to Citadele, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until, in the case of Citadele, the Management Board and the Supervisory Board, 360 days after the Closing Date, and in the case of the EBRD and RA Citadele Holdings, LLC, 180 days after the Closing Date, in each case, without the prior written consent of Citigroup Global Markets Limited, directly or indirectly: (i) issue (in the case of Citadele only), offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue (in the case of Citadele only), sell any option or contract to purchase, purchase any option or contract to sell, issue (in the case of Citadele only), transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of Citadele or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of Citadele; (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part,

		any of the economic consequences of ownership of Shares or GDRs of Citadele, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of Citadele or such other securities, in cash or otherwise; or (iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of Citadele, or make any announcement or other publication of the intention to do any of the foregoing (each of the above, a "**Disposal**"), other than, in respect of Citadele only, in relation to: (a) the cancellation of Shares (including Shares represented by GDRs) acquired as a result of Stabilisation Purchases (if any); (b) the issuance of Shares in connection with a long term incentive plan adopted in principle by Citadele's Supervisory Board prior to the Offer; or (c) the repurchase and cancellation of the ordinary C shares following the end of the Stabilisation Period. In addition, RA Citadele Holdings, LLC and the consortium of co-investors has agreed with the Latvian Privatisation Agency under the terms of the acquisition of its stake in Citadele that neither RA Citadele Holdings, LLC and the co-investors nor any of their subsidiaries, affiliates or any person acting on their behalf will, until 20 April 2017, effect any sale or transfer of more than 10% of the shares in Citadele, other than with the consent of the Latvian Privatisation Agency or in other limited circumstances. The EBRD has also agreed with RA Citadele Holdings, LLC (on behalf of itself and the co-investors) that it will not effect a sale or transfer of its shares in Citadele until 20 April 2017.
E.6	Dilution resulting from offer	Pursuant to the Offer, Citadele will issue by way of capital increase 78,750,000 Shares (assuming an Offer Price at the mid-point of the Offer Price Range and assuming no Stabilisation Purchases are made and assuming all the Shares offered are allocated), which will represent 50% of the ordinary A shares and ordinary B shares in issue before such capital increase is effected, and which will represent 33% of the ordinary A shares and ordinary B shares following such capital increase being effected.
E.7	Estimated expenses charged to investors	Not applicable. No commissions, fees or expenses in connection with the Offer will be charged to investors by Citadele. As described in the terms and conditions of the GDRs, from time to time the Depositary may deduct fees and expenses from dividend or other distributions and may otherwise assess other fees and expenses to the GDR holders.

Risk Factors

Investment in the Securities involves a high degree of risk. Prospective investors should carefully review this 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 Securities. Prospective investors should be aware that the value of the Securities 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 could be materially adversely affected. In such a case, the value of the Securities 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 Securities, 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.

Risks Relating to Citadele Group's Business

Citadele may not successfully implement its business strategy

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

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

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

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

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

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

debt levels. These negotiations have resulted in substantial political and financial turmoil in the Eurozone. While at the date of this Prospectus the prospect of a Greek exit from the Eurozone appears less likely, following the approval by the Greek Parliament of a package of austerity measures which was stipulated as a prerequisite for the release of further bailout funds by international creditors, the ultimate result of this bailout and the Greek debt crisis is still unclear, and may yet lead to the exit of Greece from the Eurozone. While Citadele Group's direct exposure to Greece and Greek residents is small, the exit of Greece or another Eurozone country from the Euro would generate significant political and economic uncertainty within the Eurozone and may have a significant negative impact on the value of the Euro. The exit of Greece or another country from the Eurozone may result in the collapse of the Euro as the common currency in some or all of the other Eurozone countries or the destabilisation of Euro exchange rates.

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

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

Citadele Group faces significant competition from both foreign and domestic banks in Latvia and the other Baltic States. According to data published by the Association of Commercial Banks of Latvia (the "**ACBL**"), as at 30 June 2015, there were 17 banks and 10 branches of foreign banks operating in Latvia. The seven largest commercial banks in Latvia in terms of total assets (AS Swedbank, ABLV Bank, AS Rietumu Banka ("**Rietumu Banka**"), AS SEB banka ("**SEB**"), Nordea Bank AB Latvia branch, AS DNB banka and Citadele from greatest to least amount of assets) held a 78.9% combined share of total assets, a 88.0% combined share of total loans and a 76.1% combined share of total deposits as at 30 June 2015. The Latvian market is dominated by large Scandinavian banks, such as AS Swedbank, SEB, Nordea Bank AB Latvia branch and AS DNB banka, which have traditionally provided a wide range of consumer and corporate banking services in all three Baltic States, and which grew quickly before the global financial crisis in 2008 and 2009. Each of these banks has retail and corporate operations in Latvia which compete with those of Citadele Group, and due to their broader customer and funding bases are often able to offer more attractive pricing or other terms to their customers than Citadele Group. In addition to the large Scandinavian banks, Citadele Group also faces competition to a lesser extent from Latvian domestic banks, such as Rietumu Banka and ABLV Bank, which had respective market shares of 11.9% and 14.6% of the Latvian banking sector based on total assets as at 30 June 2015 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 and LHV Pank in Lithuania and Estonia, respectively. LHV Pank also has a limited presence in the Lithuanian market through its affiliates. As at 30 June 2015, Šiaulių bankas and LHV Pank had a 6.9% and 2.3% market share of the Lithuanian and Estonian banking sectors, respectively, 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. The number of these so-called "FinTech" start-ups 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-focussed financial services, particularly in relation to the consumer loans, 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, as set out in "*Business Description—Key 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 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, in part because Citadele Group has not historically been able to access international financial markets at reasonable rates due to the commitments to the EC that Citadele Group undertook in connection with the restructuring of Parex. Customer deposits currently represent, and are expected to continue to represent, the predominant source of Citadele Group's liquidity, and Citadele Group is substantially dependent on its ability to attract and retain customer deposits at favourable interest rates in order to provide sufficient liquidity for its operations.

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

Citadele has previously submitted a report to the FCMC following its internal capital adequacy assessment process ("**ICAAP**") detailing Citadele's proposals aimed at ensuring that it meets its minimum capital adequacy requirements, including its Pillar 2 target, on a Basel III transitional basis by the end of 2015. The content of this plan has been approved by the FCMC, and is based on a number of assumptions, including Citadele's projected revenue growth and the anticipated expansion of its asset base on the basis of its business strategy. However, whilst these assumptions 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's control or expectation, which in turn may affect Citadele Group's ability to meet its minimum Pillar 2 target or other prudential requirements under law or regulation. In order to meet its projected capital adequacy requirements, Citadele 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's strategy to achieve growth in its focus segments will also require an increase in the amount of capital held to maintain its required capital ratios or targets. The investment of capital in projects aimed at growth may affect Citadele'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 be successful in implementing its business strategy in all respects*", above. Any failure by Citadele Group to meet its minimum regulatory capital requirements may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

Citadele Group has sought to develop its brand and reputation in Latvia and the other Baltic States on the basis of high levels of customer service and longstanding relationships with key customers, and Citadele believes that the strength of its brand is a key factor in allowing it to acquire and retain customers. Citadele Group's ongoing commercial success has relied on a positive public perception of its brand in Latvia in order to grow its customer deposit base, as well as the growing recognition of its brand and products in Lithuania and Estonia. Citadele Group also relies on the ongoing success and growth of the American Express and other product brands it offers in the Baltic Shares. 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. Similar publicity may occur in the course of this offering, 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 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 2015, floating rate loans make up 89% and 95% of the loans in Citadele Group's Latvian and Lithuanian loan portfolios, respectively, and 17% of Citadele Group's securities portfolio consists of floating rate instruments. Changes in market interest rates also have a material impact on Citadele's interest expense, particularly with respect to the interest rates its 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, including the holders of Citadele's subordinated liabilities. 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, as the central banks in key economies, such as the ECB in the Eurozone, begin to reduce the scale of their financial crisis bond and other asset purchases, liquidity is expected to 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 flow.

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 2015, 38% 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 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 2015, the manufacturing sector constituted 18%, and the real estate investment and management sector 21%, of Citadele Group's total loan portfolio to entities other than private individuals. Citadele Group is also exposed to a significant concentration risk within these sectors, with the 10 largest customers within each of the manufacturing and the real estate investment and management sectors comprising, as at 30 June 2015, 53% and 48%, respectively, of the loans held by Citadele Group within those sectors. 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 or were to experience financial difficulties or other difficulties servicing their loan obligations, the performance of Citadele'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 2015, Citadele Group's impairment allowance for loans and receivables from customers was EUR 90.8 million, and the ratio of Citadele's impairment allowance for loans and receivables from customers to total gross loans and receivables from customers was 7.7% 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 2014, Citadele Group's collectively assessed impairment increased by EUR 6.5 million, from EUR 3.4 million in 2013, primarily due to an increase in LGD for loans backed by real estate collateral and an increase in the PD estimates for certain not overdue loans. In 2013, Citadele Group's collectively assessed impairment changed to a charge of EUR 3.4 million from a reversal of EUR 6.6 million primarily as a result of an increase in the PD estimate in connection with the calculation of collectively assessed impairment for certain loans as well as due to a change in the methodology for recognition of individual and collective impairment for consumer loans and

credit card balances with overdue payments of more than 90 days. See "*Operating and Financial Review-Key Factors Affecting Citadele Group's Financial Condition and Results of Operations-Impairment Methodology*" for more information. 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

As at 30 June 2015, Citadele held collateral against 80% of its loan portfolio. The remaining 20% of Citadele's asset portfolio was unsecured. 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 2015, 24% of Citadele Group's loan portfolio consisted of residential mortgages, of which 61%, 31% and 8% were issued in Latvia, Lithuania and Estonia, respectively. As at 30 June 2015, 23% of Citadele Group's collateralised loan portfolio had a loan-to-value ratio of greater than 100%.

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

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

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

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

30 June 2015, 3.1% of Citadele Group's loan portfolio was secured by collateral held outside the EU, which was composed of loans within Citadele Group's legacy loan portfolio.

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

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

As at 30 June 2015, 31% and 7% 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'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 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 Branches in key locations

Citadele believes that its ability to maintain a physical presence in key locations across its operating jurisdictions through its Branch network, including Branches 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 Branches on an occasional basis would be unlikely to have a material effect on Citadele Group, if a number of Citadele Group's key Branches were forced to close within a short timeframe, or lease agreements for such Branches 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 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'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 being compromised. Additionally, Citadele has a cash collection service and there remain ongoing risks that its employees or contractors involved in carrying out such cash collection could suffer harm or damage and the relevant cash being transported may be lost. The occurrence of fraud or misconduct by Citadele Group's employees may have a material adverse effect on Citadele Group's business, reputation, prospects, financial condition, results of operations or cash flows.

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

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

Russia remains a sizeable trading partner to Latvia. According to the Investment and Development Agency of Latvia, it accounted for 11% of Latvian exports for the 12 months ended

31 December 2014. Latvia is, therefore, particularly vulnerable to a slowdown in the Russian economy, the imposition of trade restrictions or other sanctions related to Russia and a weakening Rouble. International sanctions imposed by the United States and the EU on Russia and Russian persons and businesses in response to Russia's alleged support of separatist rebels in eastern Ukraine have recently been extended to include specific sectors within the Russian economy. Russia's response has included the placing of an extensive embargo on particular imports from the United States and the EU. Such increases in sanctions and retaliatory responses from Russia may halt or reduce the speed of the EU's economic recovery and may in particular impact upon the stability of international trade between Russia and Latvia and the other Baltic States. Any increases in these restrictions upon trade may have a material impact upon the financial stability of Russia, Ukraine and surrounding countries, including the Baltic States. The Baltic States are also net energy importers and rely to a significant extent on energy imports from Russia. Any impact on the Baltic States' ability to import oil and gas from Russia as a result of sanctions or deteriorations in trade relations between Russia and the EU may have an impact on the Baltic States' energy security, which in turn could have an impact on their economic growth. The ability of Citadele Group's customers to repay amounts due to Citadele Group may also be affected by such customers' exposure to the Russian market. Whilst, at the date of this 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 Prospectus, Citadele Group is in the process of winding up its asset management subsidiary operating in the Ukraine, which holds a real-estate based portfolio of investments. Following the financial crisis in 2008-2009, and subsequent civil unrest in the country, the value of Ukrainian real estate has reduced substantially, and as a result, the value of the portfolio has materially reduced. Citadele Group may therefore face claims from investors who may suffer losses as a result of the reduction in value of the assets held by the subsidiary. Moreover, any withdrawal from Ukraine at a time when the civil unrest in that country is continuing may be met with negative publicity and may cause reputational damage for Citadele Group, either of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

Citadele Group faces risks in relation to its international deposit book

Citadele Group has a number of international depositor customers which are not resident in Latvia, particularly in connection with its private capital management business, which as at

30 June 2015 made up 33% of all customer deposits at Citadele Group. Citadele Group's international depositor customers are primarily in its private capital management segment. Although Citadele Group has put in place policies and procedures to ensure sufficient checks are carried out on all customers, both Latvian and international, servicing such international depositor customers may expose Citadele Group to a greater risk of reputational, regulatory and legal harm—including, but not limited to, the imposition of fines or other penalties—due to the heightened risk of money laundering, tax avoidance or tax evasion associated with such customers and the risk that Citadele Group's checks fail or are otherwise inadequate to detect or prevent such activities. In addition, because these international depositors are concentrated in Russia or other CIS countries, in the event of an intensification of the ongoing conflict in Ukraine and corresponding EU or U.S. sanctions, or an escalation of the trade disputes between Russia and the EU, these international depositors may be forced, or may seek, to withdraw their deposits from Citadele, which may in turn trigger additional withdrawals of resident or non-resident deposits. Any reputational harm to Citadele Group resulting from its international depositors, or outflows from its international depositor book, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

Citadele Group will no longer be able to charge the current level of interchange fees or have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes

As a result of the introduction of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, interchange fees in the EU are set to be further reduced in 2015, following reductions in 2014. In addition, exclusivity arrangements such as that which currently enables Citadele Group to exclusively issue American Express cards in Latvia and Lithuania will no longer be permissible within the EU from 9 December 2015. The cap on interchange fees will result in Citadele Group not being able to charge the same level of fees that it currently does. The loss of American Express exclusivity in Latvia and Lithuania creates a risk that Citadele Group's current customers who use its American Express cards or its future customers may elect to obtain American Express cards from its competitors being other credit institutions operating in Latvia and which are described more fully in the risk factor *"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"*. Any decrease in the interchange fees chargeable by Citadele Group or the number of customers obtaining American Express cards from Citadele

Group or the use of Citadele's American Express cards or American Express Cards generally may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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 2013, JPMorgan announced the closure of correspondent accounts for all credit institutions' operations in a number of jurisdictions, including Latvia and Lithuania. Citadele Group is able to continue to provide U.S. dollar payment services to its customers through Deutsche Bank Trust Company Americas ("**DBTCA**") (and, to a more limited extent, Commerzbank AG, Germany and Raiffeisen Bank International), which as of the date of this Prospectus are the only providers of U.S. dollar correspondent account services to Citadele Group. However, if DBTCA, Commerzbank AG and/or Raiffeisen Bank International elect to withdraw from the Baltic States and Citadele Group fails to open 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 a perception arises that Citadele is no longer able to offer a full spectrum of banking services, including the ability to process payments in key currencies such as U.S. dollars. Any such development may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

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

Citadele Group faces risks associated with its pension fund operations

Citadele Group offers a number of pension products to its customers, including funds for discretionary personal contributions ("**Pillar III pensions**"), as well as contributions made by the Latvian State from income tax contributions made by customers ("**Pillar II pensions**"), which make up 5% and 39%, respectively, of Citadele Group's total assets under management as at 30 June 2015. If Citadele Group suffers reputational harm or the performance of Citadele Group's pension products is materially worse than that of its competitors in a given period, this may result in a significant number of customers withdrawing their pension fund assets from Citadele Group and moving them to a competitor. Any decrease in the number of pension funds or in the amount deposited in those funds may have a detrimental effect on Citadele Group's commission and fee income, or result in the revocation of licences by the relevant regulators, if Citadele fails to meet capital adequacy requirements, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with its life insurance operations

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

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

Citadele Group relies heavily on its information technology ("**IT**") systems and security to conduct its business and protect its data. Whilst Citadele Group has invested substantial resources in upgrading its IT systems and security, Citadele Group may not be able to successfully maintain or upgrade its IT systems or security, resulting in performance or security issues, including in relation to payment card limits on ATM transactions, unauthorised account overdrafts, OFAC sanctions filters or improper use of personal data. In addition, any maintenance and upgrade programme may be more expensive or more time-consuming than Citadele Group anticipates. Failure to maintain Citadele Group's existing IT systems may place Citadele Group at a competitive disadvantage relative to competing banks 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 international 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 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's senior management team must also adapt to the management of Citadele as a non-state-owned entity. 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 Group's business and financial results may change as a result of Citadele's becoming a non-state-owned company

Citadele was originally formed as part of the EC's restructuring plan in 2010 for Parex. Since its formation in 2010 until the completion of the sale of its state-owned shares in April 2015 to RA Citadele Holdings, LLC and a consortium of co-investors, Citadele has been a state-owned entity, with a minority ownership stake (with the power to block certain decisions) held by the EBRD. During that time, Citadele was limited in, or prohibited from, undertaking certain operations, including payments of dividends, acquisitions of other financial and non-financial institutions and relying on its state-sponsored status in advertising its services in Latvia, and was also subject to gross lending and deposit limits. Following the completion of the sale of its state-owned shares in April 2015 to a private consortium led by RA Citadele Holdings, LLC, Citadele is no longer subject to its former commitments to the EC and can thus engage in a wider scope of operations than before. Investors should be aware that Citadele may conduct its business in a different manner than it has done before and that Citadele's business strategy and role in the market may continue to change and develop. As a result, the historical operating and financial results of Citadele Group may not be indicative of its future operating and financial results, and any changes to Citadele Group's business or business strategy may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operation or cash flows.

Citadele Group may be materially and adversely affected by the conclusions of reports produced by public authorities in relation to the sale of Citadele's shares to RA Citadele Holdings, LLC

Following the sale by the Latvian Privatisation Agency of its interests in Citadele in April 2015, the Latvian Parliament commissioned a report to review and report on the sale of shares to RA Citadele Holdings, LLC and a consortium of co-investors (see "*Business Description—History of Citadele*" for more information). The report is expected to be published in October 2015 and, as at the date of this Prospectus, its content remains unknown to Citadele Group. Should the conclusions reached by the Parliamentary commission call into question, in any way, the legitimacy of the sale and purchase process, other bidders which were unsuccessful in the competitive auction process may seek to challenge the acquisition by RA Citadele Holdings, LLC and the consortium of co-investors of the shares in Citadele. Any such challenge may result in negative publicity for Citadele, which could adversely affect the value of the Securities and could have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows. Such challenges could also lead to additional administrative and legal expenses for Citadele, in addition to an increased time burden for senior management.

Regulatory, Political and Tax Risks

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

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

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

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

limited reviews of the Competition Council's activities. Any of these aspects may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

Anticipated revisions to tax legislation or to its interpretation may affect Citadele Group's financial condition in the future. In particular, current Latvian and Lithuanian tax legislation allows for an indefinite carry forward of operating losses as deferred tax assets for losses suffered after 2007. This may be revised in the future, with the imposition of a time limit for carry forward losses and/or a requirement to pay income tax despite the existence of such carry forward losses. In addition, any increase in the level of VAT or Land Book fees in Latvia on the transfer of properties may have a material adverse effect on the Latvian housing market by making it more expensive to acquire property in Latvia, which in turn could adversely affect Citadele Group's mortgage lending activities. Any of these changes may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

Citadele Group is subject to periodic audits by the Latvian, Lithuanian, Estonian and Swiss tax authorities. 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 believes that it is a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to U.S. Holders of GDRs or Shares

While the determination of passive foreign investment company, or "PFIC", status is fact specific, and generally cannot be made until the close of the taxable year in question, based on Citadele's current expectations regarding the sources and nature of its income and the value and nature of its assets during the current taxable year, Citadele believes that it is a PFIC for United States federal income tax purposes for the current taxable year, and may remain a PFIC in subsequent taxable years.

As a result, certain adverse United States federal income tax consequences could apply to U.S. Holders who acquire GDRs or Shares in this offering with respect to any "excess distribution" received from Citadele and any gain from a sale, exchange or other disposition of GDRs or Shares. See "*Material United States Federal Income Tax Consequences*."

U.S. Foreign Account Tax Compliance Act withholding may affect payments received by Citadele or payments on the Shares or GDRs

Sections 1471 through 1474 of the U.S. Internal Revenue Code and the Treasury Regulations promulgated thereunder (provisions commonly known as "**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a "foreign financial institution", or "**FFI**" (as defined by FATCA)) that (i) does not become a "Participating FFI" by entering into an agreement with the U.S. Treasury Department to provide certain information in respect of its account holders and (ii) is not otherwise exempt from or deemed in compliance with FATCA. The withholding regime currently applies to payments received from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 2019.

Citadele has registered with the U.S. Internal Revenue Service as a "registered deemed-compliant financial institution" and intends to maintain that status. If Citadele maintains its status as a "registered deemed-compliant financial institution," Citadele will not be subject to FATCA withholding on payments received from U.S. sources, Participating FFIs, and, potentially, "Reporting FIs", as defined by FATCA. If, contrary to current expectation, Citadele does not maintain its status as a "registered deemed-compliant financial institution", Citadele could be subject to FATCA withholding with respect to payments received, which may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

The United States and a number of partner countries have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Latvia has signed an IGA with the United States, confirming that compliance with FATCA by entities in Latvia will be governed by domestic legislation with reporting directly to the Latvian tax authorities. In this regard, investors may be required to provide additional certifications and information to allow Citadele to determine their FATCA status (such as a U.S. Internal Revenue Service Form W-9 or applicable Form W-8).

Starting in 2019, investors that fail to provide such certifications and information (or non-U.S. financial institutions that are not in compliance with FATCA) may be subject to a withholding tax of up to 30% on certain payments in respect of Shares or GDRs that are considered "foreign passthru payments". Neither Citadele nor any intermediary will make any additional payments to compensate a holder or beneficial owner of any Shares or GDRs for any amounts required to be deducted and withheld in connection with FATCA.

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.

In addition, Citadele is organised in Latvia and conducts the majority of its operations in the territories of the Baltic States and Switzerland. All members of Citadele's Management Board, and a majority of the members of the Supervisory Board are not U.S. persons and reside outside of the United States, and a majority of the assets of the majority of these persons are located outside of the United States. As a result, it may be difficult or impossible for an investor in the Securities in the United States to enforce a U.S. court judgment against Citadele or against these individuals in Latvia. Even if such an investor were successful in bringing an action in the United States, the laws of Latvia may render such an investor unable to enforce a judgment against Citadele's assets or the assets of Citadele's Management Board members or Supervisory Board members that are not U.S. persons and are located outside the United States.

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'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 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 and Latvia has received a "high evaluation" for its implementation of this legislation from the Committee of Experts on the Evaluation of Anti-Money Laundering Measures ("**Moneyval**"), which is an independent monitoring mechanism of the Council of Europe, 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 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 Group has recently engaged external auditors to perform a review of its AML policies and procedures to ensure that these are as up to date and comprehensive as possible. As at the date of this Prospectus, this external review is ongoing, and Citadele Group cannot predict the outcome of this review, which may reveal deficiencies of which Citadele Group was previously unaware. Whilst, as at the date of this 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 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, 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.

Consent from the ECB (and possibly other regulatory authorities in the jurisdictions in which Citadele Group operates) would be required in order for a holder of Securities (or other shares in Citadele) to exceed certain percentage ownership thresholds, such as 10% of the total voting rights or capital of Citadele. If an investor wished to acquire a number of shares in excess of such relevant percentage threshold, the investor would need to apply to the FCMC (and thereby indirectly to the ECB) or other relevant regulators to obtain consent for acquiring such percentage. Such consent is contingent upon the investor meeting the legal criteria for being a 'good investor' as prescribed by the Credit Institution Law of the Republic of Latvia aimed at ensuring that only investors with adequate experience, credentials and reputation invest in the Latvian financial industry and complying with the procedure for applying for such consent (which is also set out in law). In addition, there remains a risk that EU or Latvian legislation may require, or the FCMC may subsequently adopt, more onerous requirements to be complied with than is currently required to provide their consent for any relevant investor, including but not limited to the scope and detail of the information required to be provided by investors before any such consent will be provided. See "*Description of Share Capital and Certain Requirements of Latvian Legislation—Regulation of shareholders of commercial banks*" for more information.

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 Bank Recovery and Resolution Directive No 2014/59/EU (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 Credit Institutions and Investment Firm Recovery and Resolution Law of the Republic of Latvia (the "**Latvian Credit Institutions and Investment Firm Recovery and Resolution Law**"), implementing the BRRD, entered into force on 16 July 2015. Use of bail-in powers by the relevant authorities may result in the issuance of additional share capital or capital instruments, and existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

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 will be applicable from 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 will replace national resolution funds as of 1 January 2016 implemented pursuant to the BRRD. As a consequence, the contribution to the SRF could be significant to Citadele and as a consequence, may have a negative impact on the Issuer's results of operations. During the six-month period ended 30 June 2015, Citadele accrued expenses of EUR 0.3 million in connection with contributions to the SRF. Citadele anticipates that its annual contributions to the SRF EUR 1 million by the end of 2015.

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

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

Citadele Group, like other financial institutions operating within the European Union, faces increasing risks associated with an uncertain and rapidly changing prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios. Whilst Citadele Group is in compliance with existing capital adequacy requirements, there is a risk that more stringent capital adequacy requirements could be introduced in relation to the quality or the quantum of capital required to be held, including a change in the approach taken by the FCMC to the calculation of Citadele Group's minimum capital requirements under the Pillar 2 framework such that the minimum figure would include the capital buffer specified in Citadele's ICAAP report, as is the approach taken by certain regulators within the EU. 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. Citadele Group may also need to increase its capital level in response to changing market conditions or expectations. If Citadele Group is unable to so increase its capital, it may no

longer comply with regulatory requirements or satisfy market expectations related to its capital strength, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any change that limits Citadele Group's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations, liquidity or cash flows.

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

The CRR/CRD IV regime introduced significant changes in the capital adequacy regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the introduction of a minimum leverage ratio. Latvia has implemented new CRR/CRD IV rules according to the implementation schedules set out therein. For example, the rules regulating capital adequacy came into effect on 1 January 2014. Other rules are being gradually implemented until 2018. Citadele's capital position under CRR/CRD IV as implemented by the FCMC, as at 30 June 2015, satisfied its minimum regulatory requirements.

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

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

At present, Citadele Group's primary regulator is the FCMC, and Citadele Group is not currently regulated directly by the ECB. However, any change to the thresholds to determine whether a financial institution falls within the scope of its regulatory mandate, or any future growth of Citadele Group such that it satisfies the criteria for ECB oversight, may result in additional regulatory restrictions, disclosures or information requests being imposed upon Citadele Group, may lead to Citadele Group suffering increased costs with a more onerous regulatory regime and

may result in more of Citadele's management time being used in order to ensure full regulatory compliance. The imposition of any such restrictions, increased costs or extra management time may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See "*Asset Liability and Risk Management—Capital Adequacy Management*" for further information.

Citadele Group may be impacted by changes in accounting methodologies

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

Citadele Group faces risks as a result of regulatory investigations

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

Risks Relating to the Offer and the Securities

The Shares (in the form of shares and GDRs) offered to investors will have less voting rights per share than the ordinary A shares

Investors are being offered Shares (in the form of Shares or GDRs) which have one voting right per share, whilst each ordinary A share will have 200 voting rights per share. This will provide the holders of ordinary A shares with over 50% of the total votes in Citadele and, therefore, control over the key decisions and corporate matters relating to Citadele. Consequently, whilst investors are being provided with voting rights under the offer, these voting rights will be insufficient to influence key decisions and corporate matters relating to Citadele which may adversely impact upon the liquidity or price of the Shares or their desirability in the future.

An active and liquid market for either the Shares or the GDRs may not develop and the value of the Securities may fluctuate significantly, particularly given that certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities

Despite Citadele's intent to apply to the Nasdaq Riga for admission of the Shares to trading on its Main List and to the FCA for admission to the Official List and to the London Stock Exchange for admission to trading on its Main Market of GDRs, an active trading market for either the Shares or the GDRs may not develop or be sustained after the offering. Investors should be aware that RA Citadele Holdings LLC and the consortium of co-investors or their respective affiliates are likely to subscribe for a meaningful proportion (but not a majority) of the Securities being offered under the Offer. This would result in reduced liquidity for the Securities, as a material portion of the Securities following the Offer would be held by RA Citadele Holdings LLC and certain members of its consortium of co-investors or their respective affiliates, each of which are long term strategic investors in Citadele and may also be subject to certain lock-up restrictions. 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 Shares or the GDRs does not develop, the price of the Shares or the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The value of the Securities 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 period-to-period variations in operating results or changes in cost to income ratios, return on equity, capital or dividend targets, changes in revenue or profit estimates by Citadele Group, industry participants or financial analysts. The value of the Securities could also be affected by developments unrelated to Citadele Group's operating performance, such as the operating and share 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. The market value of the GDRs may also vary considerably from their underlying net asset value.

The sale or availability for sale of substantial amounts of Securities could adversely affect the price of the Securities

The market price of the Securities could be negatively affected by sales of substantial amounts of Securities in the public markets. Sales of a substantial number of Securities by Citadele, its directors or other selling shareholders in the public market, or the knowledge that they will, or the perception that these sales may occur, could depress the market price of the Securities and could impair Citadele Group's ability to raise capital through the sale of additional equity securities.

Citadele, its Management Board, its Supervisory Board, RA Citadele Holdings, LLC and the EBRD have entered into customary lock-up arrangements with the Managers: (i) for 360 days for Citadele, the Management Board and the Supervisory Board and (ii) for 180 days for the EBRD and RA Citadele Holdings, LLC, in each case from the Offer Date. In addition, RA Citadele Holdings, LLC and the co-investors have entered into lock-up arrangements with the Latvian Privatisation Agency (which apply until 20 April 2017) in connection with their acquisition of Citadele shares in April 2015. The lock-up arrangements entered into by Citadele, its Management Board, its Supervisory Board and the EBRD may be waived by the Sole Global Coordinator (on behalf of the Managers) at its discretion, in whole or in part, and are subject to certain exemptions. See "*Subscription and Sale*". The lock-up arrangements for RA Citadele Holdings, LLC and the co-investors are also subject to certain exemptions including any sale or disposal below 10% of Citadele's share capital. The lock-up arrangements also do not apply if the sale or transfer of the Securities are: (i) in the course of an initial public offering of up to 30% of Citadele's shares; (ii) required by law, regulation or any governmental or regulatory body;

(iii) arising due to commencement of insolvency proceedings in respect of Citadele; (iv) in certain circumstances, either to a wholly-owned subsidiary, a company under common control or its ultimate parent company or another investor's wholly-owned subsidiary, a company under common control or its ultimate parent company; or (v) a bona fide issue of Citadele's shares for the purpose of increasing the capital of Citadele. The EBRD has also agreed with RA Citadele Holdings, LLC (on behalf of itself and the co-investors) that it will not effect a sale or transfer of its shares in Citadele until 20 April 2017.

Citadele does not currently pay dividends and may decide not to pay dividends in the future, and the value of any dividends paid to holders of the GDRs may fluctuate

Since its inception, Citadele has not paid any dividends to its shareholders, and Citadele may become unable to, or elect not to, declare any dividends in the future. The payment by Citadele of any dividends to holders of the Shares will depend on, among other things, Citadele's future profits, financial position and capital requirements, the sufficiency of Citadele's distributable reserves, credit terms, general economic conditions, and other factors that the directors and/or shareholders deem to be important from time to time. If Citadele does not declare dividends in the future, the price of the Shares (and, consequently, of the GDRs) may be adversely affected.

Citadele currently intends to retain most, if not all, of its available funds and any future earnings after the Offer to fund the development and growth of its business. As a result, Citadele does not expect to pay any dividends in the foreseeable future. Therefore, investors should not rely on an investment in the Securities as a source for any future dividend income. Accordingly, the return on investment on the Securities will likely depend entirely upon any future price appreciation in the price of the Securities.

The payment by Citadele of any dividends to holders of the Shares will depend on, among other things, Citadele's future profits, financial position and capital requirements, the sufficiency of Citadele's distributable reserves, credit terms, general economic conditions, and other factors that the directors and/or shareholders deem to be important form time to time. If Citadele does not declare dividends in the future, the price of the Shares (and, consequently, of the GDRs) may be adversely affected.

Any dividends that Citadele may pay in the future in respect of the Shares held by the Depositary or its nominee on behalf of the GDR holders may be declared in Euro, and will be distributed by the Depositary to holders of the GDRs, net of all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreements between Citadele and the Depositary, or under applicable law in respect of such GDRs or the relative Deposited Shares. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Euro and the U.S. dollar. Such fluctuations could also have an adverse effect on the price of the GDRs if the Euro declines against the U.S. dollar.

In addition, income that Citadele may distribute to the Depositary will be subject to applicable Latvian withholding taxes. See "*Taxation—Latvian Tax Considerations—Taxation of Dividends*" below.

Exchange rate fluctuations may impair the return on the investment in the GDRs or the proceeds of the Offer

The GDRs will be traded on the London Stock Exchange in USD, whereas the underlying shares will be traded on the Nasdaq Riga in EUR. As a result, fluctuations in the value of EUR in relation to other currencies, including USD, can affect the value of the GDRs and dividend payments on conversion into those other currencies for investors outside the Eurozone. Similarly, the fluctuation in the value of EUR to USD may affect the net proceeds of the Offer following conversion of the proceeds of the GDRs from USD or EUR.

The issue of additional shares in Citadele in connection with future acquisitions, any share incentive or share option plan or otherwise may have a dilutive effect for investors

Prospective investors should be aware that, in the event that Citadele issues any shares in itself, any existing shareholdings in Citadele may be diluted as a result of such a fresh issue of shares. As at the date of this Prospectus, Citadele is in the process of implementing a long term share incentive scheme for the members of the Management Board and the head of the private capital management segment 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 year period. Furthermore, in the future Citadele may issue other classes of securities with rights, preferences or privileges that are more favourable than those attached to the Shares.

Certain holders of Securities may not be able to participate in future offerings and further issuances of Shares by Citadele may reduce an investor's ownership percentage in Citadele in certain circumstances

Securities laws of certain jurisdictions may place restrictions on the ability of certain shareholders to participate in any of Citadele's possible future offerings. In particular, holders of GDRs located in an EEA Member State may not be able to exercise their pre-emptive rights, unless a prospectus pursuant to the Prospectus Directive is effective with respect to those rights, or an exemption under the Prospectus Directive from the requirement to produce such a prospectus is available. Citadele does not currently expect to produce such a prospectus or take steps to receive an exemption from the requirement to produce such a prospectus. Holders of the Securities in the United States may, in particular, be unable to exercise any pre-emption rights they may have, unless the securities to be offered and sold are registered under the U.S. Securities Act or are otherwise exempt from the registration requirements of the U.S. Securities Act. Citadele does not currently anticipate that the Securities or any other of its shares will be registered in the United States. Citadele Group is not able to guarantee to potential investors that any exemption from relevant securities laws would be available, or indeed that Citadele Group would utilise any such exemption.

Further issuances of Shares by Citadele may reduce an investor's ownership percentage in Citadele if that investor does not duly exercise its pre-emptive rights in respect of any new issues of Shares. In particular, such rights may not be made available to holders of Securities if Citadele does not request the Depositary to do so, or if it is not lawful or reasonably practicable for the Depositary to do so. See "*Terms and Conditions of the Global Depositary Receipts*". In addition, even if pre-emptive rights are made available to holders of GDRs, the process for exercising such pre-emptive rights through the Depositary may take longer for such holders than for holders of Citadele's Shares, and Citadele cannot assure investors that they will be able to instruct the Depositary to exercise pre-emption rights in a timely manner.

After the Offer, certain shareholders will continue to be able to exercise significant influence over Citadele, its management and its operations

The Securities being offered in connection with the Offer each carry fewer voting rights than the ordinary A shares held by RA Citadele Holdings LLC together with its consortium of co-investors and the EBRD. On a like for like basis, an ordinary A share carries 200 times more voting rights than each of the Securities. Due to the extent and nature of their shareholdings, RA Citadele Holdings, LLC and the consortium of co-investors will remain in a position after the initial public offering to control Citadele's management and operations and hold in excess of 50% of Citadele's voting rights. Such shareholder may not be prepared to support specific aspects of, or the general policies surrounding, Citadele Group's business strategies and may, as a result of this, delay or prevent the passing of certain shareholder resolutions. Such delays or failures may, by preventing the efficient running of Citadele Group's business, have a material adverse impact on Citadele's business, prospects, financial condition, results of operations or cash flows. In addition, RA Citadele Holdings, LLC and its co-investors may take steps that are not in the interests of other investors in Citadele.

There has been no prior trading market for either the Shares or the GDRs

Prior to the offering, there has been no public trading market for either the Shares or the GDRs. The Offer Price will be determined by Citadele and the Sole Global Coordinator and, as a result, may not be accurately indicative of the market price for either the Shares or the GDRs following their admission to trading.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements entered into between Citadele and the Depositary for the establishment and maintenance of: (i) a Regulation S facility and the Regulation S GDRs issued pursuant thereto; and (ii) a Rule 144A facility and the Rule 144A GDRs issued pursuant thereto, resulting in practical limitations upon the ability of the holders of the GDRs to exercise their voting rights. There are additional procedural steps involved in communicating with such holders. Holders of the Shares will receive notice directly from Citadele and will be able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, will not receive notice directly from Citadele. Rather, in accordance with the Deposit Agreements, Citadele will provide notice to the Depositary. The Depositary then, as soon as practicable, at Citadele's expense, will distribute to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from Citadele) and a statement as to the manner in which GDR holders may give instructions. Additionally, applicable law or practice in Latvia may result in the Depositary being required to effect a more time consuming and administratively cumbersome procedure in order to permit and effect the voting by GDR Holders, including a requirement to verify the ultimate beneficial owner of the shares related to each such GDR Holder. Accordingly, GDR Holders may find themselves unable to vote or may be required to provide additional documentation or confirmations in order to vote which the GDR Holders may not be able to readily provide and which may limit the ability for the GDR Holders to vote in practice.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. As a result of these additional procedural steps involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares. Citadele cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner, and GDRs for which the Depositary does not receive timely voting instructions will not be voted. See "*Description of Share Capital and Certain Requirements of Latvian Legislation—Voting Rights*" and "*Terms and Conditions of the Global Depositary Receipts—16. Voting Rights*".

Following the Offer, holders of Shares may not be able to deposit the Shares in Citadele's GDR facility in order to receive GDRs

Whenever the Depositary believes that the Shares deposited with it against issuance of GDRs represent (or, upon accepting any additional shares for deposit, would represent) a percentage exceeding any limit established by any applicable law, directive, regulation or permit, or trigger any condition for the making of any filing, application, notification or registration, or for obtaining any approval, license or permit under any applicable law, directive or regulation, or for taking any other action, the Depositary may (i) close its books to deposits of additional Shares to prevent such thresholds or limits being exceeded or conditions being satisfied, or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of the Shares from Citadele's GDR facility to the extent necessary or desirable to so comply.

Securities holders may be required to comply with requests for information

Securities holders or beneficial owners may, from time to time, be requested by Citadele or the Depositary on behalf of Citadele to provide information as to the capacity in which they hold the Securities and the nature of their interest and the interest of any other affiliated person in such Securities. 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 Securities holder or beneficial owner. Failure to comply with such request could also cause the Depositary (with respect to the GDRs) to take a number of actions, including withholding the execution, delivery or registration of transfer or cancellation of any GDR holding, withholding the distribution of any dividend or distribution of rights or the net proceeds of the sale of deposited property, removing or limiting voting rights or selling or disposing on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holders or beneficial owners until such request is complied with, in each case to the Depositary's reasonable satisfaction and subject to applicable law.

As per the provisions of the Latvian Financial Instrument Market Law, Securities holders or beneficial owners who acquire or dispose of Securities such that the percentage of Securities held by that holder or beneficial owner exceeds or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the total voting rights represented by Citadele's shares, will have to notify the FCMC and Citadele, within four business days after the acquisition or disposal of such Securities. The Latvian Financial Instrument Market Law specifically provides that in respect of acquisition or disposal of GDRs the notifications should be provided by the holders or beneficial owners of the GDRs and not the Depositary as the issuer of the GDRs.

According to the Latvian Financial Instrument Market Law, if Securities holders fail to comply with the notification obligations or other formal requests of the FCMC, the FCMC may, among other things, disclose information to the public about the Securities holders' failure to comply with the request of the FCMC, forbid the sale of such Securities on the regulated market, and/or remove or limit voting rights of the Securities holders.

In addition, amendments proposed to the Latvian Financial Instrument Market Law further transpose the provisions of Directive No 2013/50/EU amending Directive No 2004/109/EC of the European Parliament and of the Council on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, as well as the Prospectus Directive and Commission Directive No 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive No 2004/109/EC. Citadele's failure to abide by these rules may subject it to regulatory action, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Certain qualifying holdings of Securities may be subject to approval by the ECB or the Swiss regulator

Investors who, individually or acting in concert, wish to acquire Securities where such acquisition would result in their holding, directly or indirectly, 10% or more of the capital or voting rights in Citadele, or would otherwise allow them to exercise a significant influence over the management of Citadele, may be required to seek approval from the Swiss Financial Market Supervisory Authority or the ECB prior to such acquisition. See "*Description of share capital and certain requirements of Latvian legislation—Regulation of shareholders of commercial banks".* Approval from any or all of these regulatory bodies may not be immediately forthcoming and may cause considerable delay and expense to the acquisition process. Alternatively, approval may not be granted at all, and investors in the Securities may be unable to increase the size of their investment.

Holders of GDRs may become subject to tax in Latvia, Lithuania or Estonia

Whilst there are certain exemptions applying to income or capital arising from the ownership of shares in Latvia, Lithuania or Estonia, there is no such similar express exemption under the current laws of Latvia, Lithuania or Estonia relating to income or capital arising from the ownership of GDRs. There can be no assurance, therefore, that holders of GDRs will not be subject to taxes on the income or capital arising from the GDRs. See *"Taxation" for more information.*

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

Admission of the Shares 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 regulations of the Nasdaq Riga and other applicable securities laws. These requirements include, but are not limited to: (i) satisfying a minimum free float requirement; (ii) meeting certain market value requirements; (iii) having no restrictions in Latvia on the transferability of the Shares; (iv) the Prospectus being approved by the FCMC; and (v) no bankruptcy or liquidation proceedings having been instigated against Citadele. The management board of the Nasdaq Riga also considers an issuer's current and projected financial standing and investment plans, the experience and qualifications of the issuer's management, the terms upon which the securities are offered and the interests of trading participants on the Nasdaq Riga. Certain of these conditions are discretionary in their nature and application, and Citadele cannot provide any assurance that its application for listing the Shares will be accepted by the Nasdaq Riga. In the event that the listing of Shares on the Nasdaq Riga does not occur following registration and settlement of the Shares, investors may not receive a refund of all of the funds invested or may only receive such refund at a future point in time, as Citadele would need to effect a capital reduction in order to return such funds to investors. Any transactional costs or other costs incurred by any investor in relation to subscribing or holding the Shares may also not be reimbursed in such circumstances.

In addition to the eligibility requirements above, there are certain ongoing requirements for an issuer with securities listed on the Nasdaq Riga. Any failure to comply with these ongoing requirements may result in a mandatory delisting of the Shares. For example, a mandatory delisting will occur if the transferability of the Shares becomes restricted or if the Shares cease to be held in book-entry form. The FCMC may also require the delisting of Citadele's Shares if it considers that trading in the Shares poses a significant threat to the proper functioning of the Nasdaq Riga.

The Nasdaq Riga may suspend trading in the Shares for up to six months, at the request of Citadele, in extraordinary circumstances in order to protect the interests of investors, if the information disclosed by Citadele through the Nasdaq Riga is erroneous or has to be confirmed, or during a general meeting of shareholders where resolutions or information disclosures which may materially affect the price of the Shares are to take place. There can be no assurance, therefore, that the Shares will not be suspended from trading, which may in turn result in an inability to trade or sell the Securities, a corresponding lack of liquidity and a reduction in value of the GDRs.

Whilst, at the date of this Prospectus, the Shares held by the Depositary will be counted towards satisfying the minimum free float requirements of the Nasdaq Riga, there can be no assurance that future calculations of the free float applicable to the Shares will take into account the Shares held by the Depositary, and as a result, Citadele may not meet these minimum thresholds. In such a case, Citadele may be delisted, or demoted to a secondary market, which may cause significant reputational damage.

The occurrence of any of the above may have a material adverse effect on the value and liquidity of the Shares, which may in turn have a material adverse effect on the value of the GDRs.

Citadele may be unable to list the GDRs on the London Stock Exchange, the GDRs may be delisted from the London Stock Exchange, or trading in Citadele's GDRs may be suspended

The admission of the GDRs to listing and trading on the Official List and London Stock Exchange, respectively, requires the approval of the FCA and the London Stock Exchange, respectively and are subject to certain requirements. Whilst Citadele intends to take all necessary steps to ensure that the GDRs are admitted to listing and to trading as soon as possible after the closing of the Offer, there can be no assurance that, should such admission conditions change, all such listing and/or trading conditions will be met, in which case the GDRs may not be admitted to listing on the Official List or to trading on the London Stock Exchange, in each case on the estimated date or at all. If Citadele fails to meet the listing requirements of the London Stock Exchange, trading in the GDRs may be suspended and the GDRs may be delisted from the London Stock Exchange. The occurrence of any of the above may have a material adverse effect on the value of the GDRs.

Listing may not occur concurrently with settlement and investors may be unable to publicly trade Shares until Listing of the Shares on the Nasdaq Riga

Admission of the Shares to trading on the Nasdaq Riga and admission of the GDRs to trading on the London Stock Exchange are each anticipated to take place on or around 10 November 2015. Settlement and delivery of the Shares, however is expected to take place on 9 November 2015. As such, until such listing occurs, investors will be unable to publicly trade their Shares.

The Shares may be the subject of an offer which is at a lower price than the price offered for the ordinary A shares in a mandatory bid

Whilst the Shares are economically equal to the ordinary A shares in terms of their entitlement to payments of dividends and their entitlement to share in Citadele's assets on a liquidation, as a result of the different nominal values and voting rights attached to the Shares and the ordinary A shares, respectively, the FCMC may permit an offeror which has triggered a mandatory takeover bid through the acquisition of ordinary A Shares to make an offer for the Shares at a price which is proportionally lower (or as otherwise determined by the FCMC) than the price offered for the ordinary A shares, or at a price which is proportionately lower (or as otherwise determined by the FCMC) than the price at which such offeror acquired ordinary A shares.

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

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

The Offer

Citadele . . . . . AS "Citadele banka" a joint stock company incorporated under Latvian Commercial Law.

The Offer . . . . . This is an offer by Citadele of up to 100,000,000 ordinary B shares with a nominal value of EUR 0.10 per share (the "**Shares**") and Shares in the form of global depositary receipts representing Shares (the "**GDRs**") (the Shares and the GDRs together, the "**Securities**") (the **"Offer**"). One GDR represents an interest in 6 Shares.

1. The Shares are being offered to the public in Latvia, Lithuania and Estonia in accordance with the requirements of the Financial Instrument Market Law of the Republic of Latvia (the "**Latvian Financial Instrument Market Law**") and Regulation EC 809/2004 (the "**Prospectus Regulation**").

2. The Shares are also being offered outside the United States in offshore transactions in reliance on Regulation S ("**Regulation S**") under the US Securities Act of 1933, as amended (the "**Securities Act**"), and within the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. The terms "offshore transaction", and "United States" have the meanings given to them in Regulation S. The GDRs are being offered outside the United States in reliance on Regulation S under the Securities Act, and within the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act.

Offer Price . . . . . The Offer Price Range is EUR 1.15 to EUR 2.00 per Share and USD 7.797 to USD 13.56 per GDR.

The final price at which the GDRs and the Shares will be sold (such price for each of the GDRs and the Shares being the "Offer Price") may be set at any point within the price range indicated in this Prospectus (the "**Offer Price Range**"). A number of factors will be considered in determining the Offer Price, the amount to be raised by Citadele pursuant to the Offer and the basis of allocation to investors, including the level and nature of the demand for the Securities during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Securities. A pricing notification (the "**Pricing Notification**") containing the Offer Price and the final number of Securities offered in the Offer is expected to be published on or about 4 November 2015 on Citadele's website (www.citadele.lv) and via the regulatory information service of the London Stock Exchange and the news service of the Nasdaq Riga (if available to Citadele). The Pricing Notification will not automatically be sent to all persons who received this Prospectus, but will be available free of charge at the registered office of Citadele at Republikas laukums 2A, Riga, LV-1010, Latvia.

If the Offer Price Range changes prior to the announcement of the final Offer Price, the revised Offer Price Range will be announced and advertised as soon as possible and Citadele will publish a supplementary prospectus and each applicant may exercise their withdrawal rights. Any notices relating to the approval of the Prospectus and its supplements (if

any) which have to be published by the FCMC in accordance with Latvian law will be published on its website (www.fktk.lv).

Share Capital . . . . . Citadele's Shares will be issued under the laws of the Republic of Latvia. Immediately prior to the Offer, Citadele's issued share capital consisted of 1,565,556 ordinary A shares, each with a nominal value of EUR 20.00, 154,990,240 ordinary B shares with a nominal value of EUR 0.10 each, and 109,745,652 ordinary C shares with a nominal value of EUR 1.00, all of which are fully paid. The Shares which form the subject of the Offer (including those represented by the GDRs) will be issued on 9 November 2015.

The number of Shares in issue following the Stabilisation Period (as defined below) may be reduced by up to 10,271,739 Shares (assuming an Offer Price at the mid-point of the Offer Price Range) as a result of any Stabilisation Purchases (as defined below) being made. Citadele intends to cancel any Shares it acquires through Stabilisation Purchases (whether through the purchase of Shares or GDRs) following the Offer. The cancellation of the Shares (or, in the case of GDRs, the Shares represented by such GDRs) is contingent upon approval by: (i) Citadele's shareholders; and (ii) the holders of Shares as a separate class. A general meeting of shareholders (a "**GMS**") will be held on or about 9 December 2015 in order to pass the resolutions required to effect the cancellation of such Shares, if any. In addition, Citadele intends to repurchase and cancel the ordinary C shares following the Offer for no or minimal cost. Citadele's Supervisory Board approved such cancellation in principle on 12 October 2015 subject to obtaining the FCMC's approval for decreasing the share capital to the extent necessary. See *"Description of Share Capital and Certain Requirements of Latvian Legislation—Share Capital"*.

Citadele's ordinary A shares, Shares and ordinary C shares are subject to applicable provisions of Latvian legislation and Citadele's constitutional document under the laws of the Republic of Latvia (the "**Articles of Association**") and have the rights attached to them described under "Description of Share Capital and Certain Requirements of Latvian Legislation".

Stabilisation . . . . . In connection with the Offer, Citadele has authorised: (i) Citigroup Global Markets Limited (the "**GDR Stabilisation Manager**") (or any agent or other person acting on behalf of the GDR Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the GDRs on the London Stock Exchange to the extent permitted by applicable laws and regulations, including Regulation (EC) No 2273/2003 (the "**Buy-back and Stabilisation Regulation**"); and (ii) AS LHV Pank (the "**Share Stabilisation Manager**" and, together with the GDR Stabilisation Manager, the "**Stabilisation Managers**") (or any agent or other person acting on behalf of the Share Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the Shares on the Nasdaq Riga to the extent permitted by applicable laws and regulations, including the Buy-back and Stabilisation Regulation. These purchases of Securities (the "**Stabilisation Purchases**") (if any) will be made solely for the purpose of supporting the market price of the Securities at a level higher than which might otherwise prevail in the open market for a limited period after the issue date, which period shall not exceed 30 days from the date commencing on the admission of the Securities to trading on the London Stock Exchange and the Nasdaq Riga (the "**Stabilisation Period**"). The Securities which may be acquired by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele pursuant to the Stabilisation Purchases will not be purchased at a price higher than the Offer Price for

Shares and GDRs, respectively. Stabilisation Purchases may be effected by the Stabilisation Managers using proceeds of up to EUR 15 million from the Offer. Any Securities purchased by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele are intended to be cancelled by Citadele after repurchase (and the number of Securities in issue will be reduced accordingly). The cancellation of the Shares acquired as a result of Stabilisation Purchases is subject to the prior approval of the FCMC, at its discretion. If no Stabilisation Purchases are made by the Stabilisation Managers, the full number of Securities issued in connection with the Offer will remain in issue. The Stabilisation Managers will not be required to undertake any Stabilisation Purchases. If any Stabilisation Purchases are undertaken by the Stabilisation Managers, they may be discontinued at any time prior to the end of the Stabilisation Period. Save as required by law or regulation, neither the Stabilisation Managers nor any of their respective agents intend to disclose the extent of any Stabilisation Purchases under the Offer.

The GDRs . . . . . One GDR will represent 6 Shares on deposit with a custodian for the Depositary. Nordea Bank Finland plc (acting through Swedbank AS and "Swedbank" AS as sub-custodians) will be appointed as the custodian (the "**Custodian**") on the Closing Date.

The GDRs will be issued by the Depositary pursuant to the Deposit Agreements. The Regulation S GDRs will be evidenced by a master Regulation S global depositary receipt (the "**Master Regulation S GDR**") and the Rule 144A GDRs will be evidenced initially by a master Rule 144A global depositary receipt (the "**Master Rule 144A GDR**" and, together with the Master Regulation S GDR, the "**Master GDRs**"), each to be issued pursuant to the relevant Deposit Agreement. Pursuant to the Deposit Agreements, the Shares represented by the GDRs will be held by the Custodian, for the account of the Depositary, which will in turn hold the Shares for the benefit of the holders of the GDRs.

The GDRs will be governed by English law.

From time to time the Depositary may deduct fees and expenses from dividends or other distributions and may otherwise assess other fees and expenses to the GDR holders. See "*Terms and Conditions of the Global Depositary Receipts—GDR Fees and Charges*".

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreements and the terms and conditions of the GDRs, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa. See "*Terms and Conditions of the Global Depositary Receipts*" and "*Settlement and Delivery—Global Clearance and Settlement Procedures*".

Closing Date . . . . . 10 November 2015.

Use of Proceeds . . . . Citadele expects to receive net proceeds of EUR 104 million from the subscription of the Securities (assuming no Stabilisation Purchases are made and assuming all Securities offered in the Offer are sold). The proceeds are to be used to help Citadele Group pursue future growth and to repay the outstanding amount of the subordinated loan currently held by the Latvian Privatisation Agency (of which EUR 34,728,000 was outstanding as at 30 June 2015, which matures on 20 December 2017 and carries a coupon of 7.13%).

Depositary ..... Citibank, N.A.

Lock-up ..... Each of Citadele, the members of the Management Board, the members of the Supervisory Board, RA Citadele Holdings, LLC and the European Bank for Reconstruction and Development (the "**EBRD**") has agreed with the Managers that neither it, nor, with respect to Citadele, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until, in the case of Citadele, the Management Board and the Supervisory Board, 360 days after the Closing Date, and in the case of the EBRD and RA Citadele Holdings, LLC, 180 days after the Closing date, in each case, without the prior written consent of Citigroup Global Markets Limited:

(i) issue (in the case of Citadele only), offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue (in the case of Citadele only), sell any option or contract to purchase, purchase any option or contract to sell, issue (in the case of Citadele only), transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of Citadele or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of Citadele;

(ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs of Citadele, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of Citadele or such other securities, in cash or otherwise; or

(iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of Citadele, or make any announcement or other publication of the intention to do any of the foregoing (each of the above, a "**Disposal**"),

other than, in respect of Citadele only, in relation to: (a) the cancellation of Shares (including Shares represented by GDRs) acquired as a result of Stabilisation Purchases (if any); (b) the issuance of Shares in connection with the long term incentive plan adopted in principle by Citadele's Supervisory Board prior to the Offer as described in the paragraph *"remuneration"* in the section *"Management"* of this Prospectus; or (c) the repurchase and cancellation of the ordinary C shares following the end of the Stabilisation Period.

In addition, RA Citadele Holdings, LLC and the consortium of co-investors has agreed with the Latvian Privatisation Agency under the terms of the acquisition of its stake in Citadele that neither RA Citadele Holdings, LLC and the co-investors, nor any of their subsidiaries, affiliates or any person acting on their behalf will, until 20 April 2017, effect any sale or transfer of more than 10% of the shares in Citadele, other than with the consent of the Latvian Privatisation Agency or in other limited circumstances. The EDRD has also agreed with RA Citadele Holdings, LLC (acting on behalf of itself and the co-investors) that it will not effect a sale or transfer of its shares in Citadele until 20 April 2017.

Voting ..... Holders of GDRs will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to the provisions of the Deposit Agreements and the terms and conditions of the GDRs and in accordance with requiremnts of applicable law. Each Deposited Share (being an ordinary B share) carries one vote. See "*Terms and Conditions of the Global Depositary Receipts"* and

"Description of Share Capital and Certain Requirements of Latvian Legislation—Voting Rights".

The Depositary will exercise, or cause to be exercised, the voting rights in respect of the Deposited Shares so that, as relevant, a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received from GDR holders. Citadele has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of Shareholders (a "**GMS**") of Citadele. Citadele cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner, and GDRs for which the Depositary does not receive timely voting instructions will not be voted. See "*Description of Share Capital and Certain Requirements of Latvian Legislation—Voting Rights" and "Terms and Conditions of the Global Depositary Receipts—16. Voting Rights"*.

Dividend Policy . . . . Since its inception, Citadele has not paid any dividend or distribution of any kind to its shareholders and, as at the date of this Prospectus, no dividend payment is in contemplation. Going forward, Citadele will determine its dividend policy in light of its overall strategy and opportunities for growth. The declaration of any dividends in the future will be subject to the discretion of the Management Board and the Supervisory Board to recommend, and the GMS to approve, such dividend, and will depend on, among other things, Citadele's future profits, financial position and capital requirements.

Transfer Restrictions . . . . . Transfer of the Shares is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the European Economic Area (the "**EEA**") and the Republic of Latvia and the contractual lock-up arrangements applicable to Citadele and certain other shareholders of Citadele as well as the clearing and settlement rules of the Latvian Central Depositary ("**LCD**"). See "*Selling and Transfer Restrictions*".

Transfer of the GDRs is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the EEA and the Republic of Latvia and the contractual lock-up arrangements applicable to Citadele, members of its Management Board and Supervisory Board and certain other shareholders of Citadele as well as the clearing and settlement rules of The Depository Trust Company (**"DTC"**) (in the case of the GDRs represented from time to time by the Master Rule 144A GDR) and Euroclear Bank SA/NV (**"Euroclear"**) and Clearstream Banking, société anonyme (**"Clearstream"**) (in the case of the GDRs represented from time to time by the Master Regulation S GDR), as applicable, and the terms and conditions of the GDRs. See "*Selling and Transfer Restrictions*".

Listing and Trading . . . . . Application will be made: (1) to the NASDAQ OMX Riga (the "**Nasdaq Riga**") for the admission of the ordinary B shares to listing and trading on the Main List of the Nasdaq Riga; and (2)(A) to the UK Financial Conduct Authority ("**FCA**") in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the Financial Services Markets Act 2000 ("**FSMA**"), for a listing of GDRs on or about 10 November 2015 (the "**Closing Date**"), to be admitted to the official list of the FCA (the "**Official List**"); and (2)(B) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the standard segment of the London Stock Exchange's regulated market for listed securities (the "**Regulated Market**") through its International Order Book (the "**IOB**"), which is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

Unconditional trading of the ordinary B shares on the Nasdaq Riga ("**Share Admission**") is expected to take place on or about 10 November 2015. All dealings in the Shares prior to the commencement of unconditional dealings on the Nasdaq Riga will be of no effect if Share Admission does not take place and will be at the sole risk of the parties concerned. The Shares are expected to be listed on the Nasdaq Riga under the symbol "CBLBR". Admission to the Official List and unconditional trading of the GDRs on the London Stock Exchange (collectively, "**GDR Admission**") is expected to take place on 10 November 2015. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if GDR Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the London Stock Exchange's Main Market under the symbol "CBL".

Settlement Procedures . . . . . It is expected that the delivery of the Shares will take place on or about 9 November 2015 by appropriate entry into the securities account held through a member of the LCD (an "**LCD**"). The exact timing of delivery is dependent upon: (i) registration of Citadele's capital increase with the Commercial Register; and (ii) registration of the Shares with the LCD. See "*Settlement and Delivery*".

It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See "*Settlement and Delivery*". The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Master Rule 144A GDR**") deposited with the Depositary, as custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC, and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Master Regulation S GDR**" and, together with the Master Rule 144A GDR, the "**Master GDRs**"), registered in the name of Citivic Nominees Limited as nominee for Citibank Europe plc as common depositary for Euroclear and Clearstream. The Shares represented by the GDRs will be held by Nordea Bank Finland plc (acting through Swedbank AS and "Swedbank" AS as sub-custodians), as custodian (the "**Custodian**"), for the Depositary. Except as described in this Prospectus, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream with respect to the Regulation S GDRs, and their direct and indirect participants, as applicable. See "*Settlement and Delivery*".

Secondary market sales of book-entry interests in the GDRs held through Euroclear, Clearstream and DTC to purchasers of book-entry interests in the GDRs through Euroclear, Clearstream and DTC will be conducted in accordance with the normal rules and operating procedures of Euroclear, Clearstream or DTC, as applicable, and will be settled using the normal procedures applicable to depositary receipts.

The security identification numbers for the Shares offered hereby are as follows:

ISIN: LV0000101558

CUSIP: X02308108

The Shares are expected to be traded under the symbol "CBLBR".

	The security identification numbers for the GDRs offered hereby are as follows: Rule 144A GDRs: ISIN: US00215D1028 Common Code: 130853242 CUSIP: 00215D 102 SEDOL: BZBWZ37 Regulation S GDRs: ISIN: US00215D2018 Common Code: 130853285 CUSIP: 00215D 201 SEDOL: BZBWZ48 The London Stock Exchange trading symbol for the GDRs is expected to be "CBL".
Risk Factors	Prospective investors should consider carefully certain risks relating to investing in the Securities. See "*Risk Factors*".

Use of Proceeds

Citadele expects to receive net proceeds of EUR 104 million from the subscription of the Securities (assuming no Stabilisation Purchases are made and assuming all Securities offered in the Offer are sold). The proceeds are to be used to help Citadele Group pursue future growth and to repay the outstanding amount under the subordinated loan currently held by the Latvian Privatisation Agency (of which EUR 34,728,000 was outstanding as at 30 June 2015, which matures on 20 December 2017 and carried a coupon of 7.13%). For more information on the LPA Subordinated Debt, see "*Material Contracts—LPA Subordinated Debt*."

Following the Offer, Citadele intends to hold discussions with the Latvian Privatisation Agency in connection with the early repayment of the LPA Subordinated Debt. Bastion anticipates a period of up to two months from receipt of the proceeds of the Offer and the requisite permissions being granted to enable the early repayment of the LPA Subordinated Debt. Citadele Group expects (on the basis of facts and data available as at the date of the Prospectus) the repayment of the LPA Subordinated Debt to result in its Tier 1 and total capital adequacy ratio, calculated on a Basel III fully loaded basis, to increase by up to 200 basis points and up to 100 basis points respectively, and to reach up to 11.3% and up to 12.4%, respectively. If calculated on a Basel III transitional basis, Citadele Group's Tier 1 and total capital adequacy ratios would be expected to be up to 12.8% and up to 13.9% respectively following the repayment of the LPA Subordinated Debt. The actual changes to Tier 1 and total capital adequacy ratio arising from the repayment of the LPA Subordinated Debt may differ from the amounts and percentages that are provided above, which have been prepared on the basis of facts and data available as at the date of this Prospectus. The repayment of the LPA Subordinated Debt and the consequential change to Bastion's capital adequacy position is subject to the prior approval of the FCMC.

Dividend Policy

Dividend Policy

In accordance with the Latvian Commercial Law and Citadele's Articles of Association, dividends are determined by a decision of the GMS. Citadele may pay dividends only as permitted by law and subject to consideration of its investment requirements, financial condition, including its level of indebtedness and liquidity requirements, and its results of operations. See "*Payment of Dividends and Capital Adequacy*".

The declaration, amount and payment of dividends are subject to the discretion of the Management Board and the Supervisory Board to recommend, and the GMS to approve by a simple majority of votes of the shareholders represented at the GMS as it is provided in the Articles of Association of Citadele. Dividends shall be calculated and paid out for fully paid-up ordinary A shares and Shares, and dividends may be paid out only in cash, based upon a decision concerning the division of profit. Citadele does not plan to pay dividends in the near-term. Future dividends will depend on Citadele's future profits, financial position and capital requirements.

Payment of Dividends and Capital Adequacy

Since its inception Citadele has not paid any dividend or distribution of any kind to its shareholders and, as the date of this Prospectus, no dividend payment is in contemplation. Going forward, Citadele will determine its dividend policy in light of its overall strategy and opportunities for growth.

The after-tax earnings of Citadele, after deducting all general expenses and other expenses in each fiscal year, as increased or reduced, as the case may be, by any profit or loss carried forward from prior years, is available for distribution in accordance with the requirements of Latvian Law and Citadele's Articles of Association, pursuant to a shareholders' resolution in the GMS.

However, in accordance with the Latvian Commercial Law, dividends may not be determined, calculated and paid out if, according to the annual accounts or according to Citadele's report of economic activity, the own funds (shareholders equity) of Citadele is less than the total amount of equity.

In addition, there are also capital adequacy requirements applicable to Citadele, namely, that Citadele is required to establish and maintain a capital buffer. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information.

Furthermore, Citadele has an obligation to notify the FCMC one month prior to any payment of dividends. The FCMC has the right to prohibit Citadele from paying dividends if, as a result of the payment of dividends, Citadele fails to conform to such indicators and restrictions laid down in the Latvian Credit Institutions Law and directly applicable EU laws and regulations.

In respect of payment of dividends to different classes of shares, the terms applicable for each share category are stipulated in Citadele's Articles of Association. It is also prescribed under the Latvian Commercial Law that different rights may be applied to different category shares in respect to receiving dividends. For a description of the dividend rights applicable to the different classes of Citadele's shares, see "*Description of share capital and certain requirements of Latvian legislation—Share capital*".

Payment of Dividends

Dividends paid in connection with the Shares are distributed to holders of Shares through the LCD and the LCD Custodians. According to the LCD's rules, dividends are allocated to those who are shareholders in the book-entry accounts at the end of the record date. The record date is a date specified by the issuer, and shall be set by the issuer not earlier than the tenth business day where the decision on payment of dividends is to be passed.

The dividend payment date shall be determined according to the following requirements: (i) where the issuer is obliged to withhold tax from the dividends or other proceeds payable, the payment date shall be set not earlier than the fifth business day and not later than the tenth business day from the record date; (ii) where the issuer is not obliged to withhold tax from the dividends or other proceeds payable, the payment date shall be set not earlier than the next business day and not later than the fifth business day from the record date. The issuer shall subsequently transfer the entire amount of cash payable as dividends, to the LCD account by 14:00 on the payment date which, in turn, distributes it to the custodians for further crediting to shareholders' cash accounts.

From time to time the Depositary may deduct fees and expenses from dividend or other distributions and may otherwise assess other fees and expenses to the GDR holders. The value on any dividends or distributions may also fluctuate based on exchange rate fluctuations. See "*Terms and Conditions of the Global Depositary Receipts—GDR Fees and Charges*".

Capitalisation and Indebtedness

The following table shows Citadele's consolidated capitalisation and indebtedness as at 30 June 2015 and as adjusted to give effect to the Offer, after deducting underwriting commissions, fees and expected expenses relating to the Offer. This information should be read in conjunction with "*Stabilisation*", "*Selected Consolidated Financial Information*", "*Operating and Financial Review*" and the Reviewed Consolidated Interim Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2015	As adjusted to give effect to the offer[5]
		EUR thousands
Cash and deposits with central banks	324,554	324,554
Balances due from credit institutions[1]	272,931	341,708
Total cash and cash equivalents	597,485	666,262
Subordinated liabilities[2]	884	389
Deposits from customers	2,408,256	2,408,256
Total current debt	**2,409,140**	**2,408,645**
Subordinated liabilities[3]	53,092	18,364
Total non-current debt	53,092	18,364
Total long-term debt	**2,462,232**	**2,427,009**
Paid-in share capital	156,556	164,433
Ordinary Shares	156,556	–
Ordinary A Shares	–	31,311
Ordinary B Shares	–	23,374
Ordinary C Shares	–	109,746
Share premium	–	96,123
Retained earnings	44,550	44,550
Reserves[4]	2,323	2,323
Total equity	**203,429**	307,429
Total capitalisation[6]	**2,665,661**	**2,734,438**

(1) Net of balances due to credit institutions. Balances include only term facilities with an initial agreement term of 3 months or less.
(2) Accrued interest expense, due in August 2015.
(3) Subordinated debt less accrued interest due in August 2015.
(4) For more detailed information, please refer to the Condensed Interim Statement of Changes in Equity for the 6 month period ended 30 June 2015 in the Reviewed Consolidated Interim Financial Statements.
(5) Assuming no Stabilisation Purchases will be made, an Offer Price at the mid-point of the Offer Price Range and assuming all Shares offered in the Offer are sold.
(6) Total capitalisation is the sum of total long-term debt and total equity.

Other than Citadele's subordinated liabilities, it does not have any short-term or long-term borrowing, and instead relies on customer deposits.

There have been no material changes in Citadele's capitalisation since 30 June 2015.

As at 30 June 2015, Citadele only had one class of shares in issue (ordinary shares). Following 30 June 2015, but prior to the Offer, Citadele redesignated its share capital into three new classes of shares. See "*Description of share capital and certain requirements of Latvian legislation—Share capital*" for more information.

Selected Consolidated Financial Information

The selected statement of income and selected balance sheet data presented below have been derived from the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements, which appear elsewhere in this Prospectus. The 2014 and 2013 Audited Consolidated Financial Statements were audited by KPMG Baltics SIA, independent auditor of Citadele, which also reviewed (but did not audit) the Reviewed Consolidated Interim Financial Statements. The 2012 Audited Consolidated Financial Statements were audited by PricewaterhouseCoopers SIA. Citadele's Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements have been prepared in accordance with IFRS as adopted by the EU. The additional financial data include non-IFRS measures and were derived from data extracted from the Audited Consolidated Financial Statements, Reviewed Consolidated Interim Financial Statements and Citadele Group's unaudited consolidated management accounts. The segment results presented as at and for the years ended 31 December 2014 and 2013 were produced for purposes of this Prospectus and have not been reviewed or audited by KPMG Baltics SIA or PricewaterhouseCoopers SIA. The segment results presented as at and for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Consolidated Interim Financial Statements, which were reviewed (but not audited) by KPMG Baltics SIA.

The Republics of Latvia and Lithuania adopted the Euro as their official currency on 1 January 2014 and 2015, respectively. For purposes of this Prospectus, unless otherwise indicated, financial information not originally reported in Euro has been recast in Euro using the official exchange rates.

Prospective investors should read this financial information in conjunction with the information contained in "Risk Factors", "Operating and Financial Review", "Selected Statistical and Other Information", "Presentation of Financial and Other Information" and "Business Description", as well as the Audited Consolidated Financial Statements, the Reviewed Consolidated Interim Financial Statements and all other financial data appearing elsewhere in this Prospectus.

Selected Statement of Income

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
					(EUR thousands)
Interest income	39,570	38,585	80,707	74,810	84,526
Interest expense	(10,027)	(9,058)	(18,241)	(19,520)	(35,250)
Net interest income	**29,543**	**29,527**	**62,466**	**55,290**	**49,275**
Commission and fee income	24,500	22,956	47,796	45,099	41,969
Commission and fee expense	(7,287)	(6,722)	(14,413)	(12,930)	(11,481)
Net commission and fee income	**17,213**	**16,234**	**33,383**	**32,169**	**30,488**
Gain on transactions with financial instruments, net	6,286	6,900	13,471	17,141	14,296
Other income	1,533	1,351	2,589	2,911	3,476
Other expense	(306)	(584)	(1,457)	(2,021)	(423)
Administrative expenses	(32,800)	(30,766)	(61,420)	(62,550)	(59,224)
Amortisation and depreciation charge	(2,315)	(2,828)	(5,204)	(5,857)	(6,271)
Impairment charges and reversals, net	(2,789)	(2,843)	(8,569)	(20,144)	(13,335)
Profit before taxation	**16,365**	**16,991**	**35,259**	**16,939**	**18,282**
Corporate income tax	(1,433)	(2,553)	(2,854)	(3,342)	(5,532)
Net profit for the period	**14,932**	**14,438**	**32,405**	**13,597**	**12,750**

Selected Balance Sheet Data

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
				(EUR thousands)
Assets				
Cash and deposits with central banks	324,554	225,399	361,485	271,712
Balances due from credit institutions	296,922	509,404	271,181	183,854
Securities held for trading	21,042	23,950	27,814	14,792
Derivative financial instruments	2,003	5,929	3,548	1,406
Financial assets designated at fair value through profit or loss	102,286	97,449	62,336	50,523
Available for sale securities	559,824	558,196	401,738	382,768
Loans and receivables to customers	1,081,752	1,075,701	1,055,922	1,019,407
Held to maturity securities	251,024	229,252	244,423	236,187
Non-current assets classified as held for sale	–	–	373	376
Property and equipment	42,773	42,525	42,826	44,137
Intangible assets	1,796	1,708	1,845	1,264
Investment property	403	409	748	1,283
Current income tax assets	272	437	341	293
Deferred income tax assets	29,010	30,073	32,534	35,831
Other assets	54,310	54,163	34,408	34,789
Total assets	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**
Liabilities				
Derivative financial instruments	2,859	1,647	3,931	3,873
Financial liabilities designated at fair value through profit and loss	30,052	24,594	16,626	14,752
Financial liabilities measured at amortised cost:	2,452,746	2,554,378	2,280,982	2,030,386
Current income tax liabilities	76	187	–	40
Other liabilities	24,833	23,482	22,960	20,588
Subordinated liabilities	53,976	73,596	73,575	74,009
Total liabilities	**2,564,542**	**2,677,884**	**2,398,074**	**2,143,647**
Equity	**203,429**	**176,711**	**143,448**	**134,974**
Total liabilities and equity	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**

Additional Financial Data

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

Selected Financial Ratios[1]

	As at and for the six months ended 30 June		As at and for the year ended 31 December		
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
			(EUR thousands, except percentages)		
Average total assets[2]	2,811,283	2,548,590	2,698,058	2,410,071	2,249,362
Average total equity[3]	190,070	151,592	160,079	139,211	122,654
Total equity/total assets	6.8%	5.9%	5.9%	5.8%	5.9%
Return on average total assets[4]	1.1%	1.1%	1.2%	0.6%	0.6%
Return on average total equity[5]	15.8%	19.2%	20.2%	9.8%	10.4%
Cost of risk based on average gross loans[6]	(0.8%)	(0.7%)	(1.2%)	(1.9%)	(0.8%)
Cost of risk based on average total assets[7]	(0.3%)	(0.3%)	(0.5%)	(0.9%)	(0.4%)
Net interest margin[8]	2.1%	2.3%	2.3%	2.3%	2.2%
Net interest margin (Citadele)[8]	2.1%	2.4%	2.3%	2.3%	2.0%
Loan-to-deposit ratio[9]	44.9%	49.1%	42.7%	47.0%	51.3%
Cost-to-income ratio[10]	64.9%	63.3%	60.8%	65.5%	67.6%
Cost-to-income ratio (Citadele)[10]	62.3%	53.6%	52.3%	54.9%	61.0%
Non-Performing Loans ratio[11]	11.6%	11.9%	12.1%	12.5%	14.2%
Coverage ratio[12]	66.8%	66.6%	63.0%	64.8%	56.5%
90 days past due ratio[13]	5.6%	8.1%	6.8%	8.4%	7.8%
90 days past due coverage ratio[14]	139.5%	98.1%	111%	96%	103%

(1) Return on average total assets, return on average total equity, and loan to deposit ratio for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. Return on average total assets, return on average total equity, loan to deposit ratio and cost to income ratio for the years ended 31 December 2014 and 2013 are included in the 2014 and 2013 Audited Consolidated Financial Statements, respectively. The other financial ratios set forth in this table have not been audited or reviewed.

(2) Average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total assets as at 30 June of the relevant period and as at 31 December of the prior year. Average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total assets as at 31 December of the relevant period and as at 31 December of the prior year.

(3) Average total equity for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total equity as at 30 June of the relevant period and as at 31 December of the prior year. Average total equity for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total equity as at 31 December of the relevant period and as at 31 December of the prior year.

(4) Return on average total assets is calculated as net profit for the relevant period divided by average total assets for such period.

(5) Return on average total equity is calculated as net profit for the relevant period divided by average total equity for such period.

(6) Cost of risk based on average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period, and has been annualised. Average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total gross loans and receivables as at 30 June of the relevant period and as at 31 December of the prior year. Cost of risk based on average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period. Average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total gross loans and receivables as at 31 December of the relevant period and as at 31 December of the prior year.

(7) Cost of risk based on average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period, and has been annualised. Cost of risk based on average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period.

(8) Net interest margin for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income for the relevant period divided by average total assets for such period, and has been annualised. Net interest margin (Citadele) for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period, and has been annualised. Net interest margin for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income for the relevant period divided by average total assets for such period. Net interest margin (Citadele) for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period.

(9) Loan-to-deposit ratio is calculated as total net loans and receivables from customers (after impairment allowance) divided by deposits from customers, each as at the end of the relevant period.

(10) Cost-to-income ratio is calculated as Citadele Group's operating expenses divided by operating income, each for the relevant period. Cost-to-income ratio (Citadele) is calculated as Citadele's operating expenses divided by operating income, each for the relevant period. Operating expenses are calculated as the sum of administrative expense, amortisation and depreciation charge and other expense for the relevant period. Operating income is calculated as the sum of net interest income, net commission and fee income, gain or transactions with financial instruments, net and other income for the relevant period.

(11) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(12) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

(13) 90 days past due ratio is defined as the percentage of total gross loans and receivables from customers that are 90 or more days overdue as at the end of the relevant period.

(14) 90 days past due coverage ratio is calculated as total allowance for impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

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

Selected Capital Ratios(1)

	As at 30 June		As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
Basel II/Basel III Transitional Basis(2)					
Total capital adequacy ratio(3)	12.8%	10.1%	11.0%	10.3%	10.5%
Common equity Tier 1 capital ratio(4)	10.7%	8.0%	9.3%	8.4%	7.8%
Net Stable Funding Ratio(5)	123.7%	126.1%	130.0%	–	–
Liquidity Coverage Ratio(6)	280.9%	481.9%	533.0%	–	–
Leverage Ratio(7)	6.3%	4.9%	5.7%	–	–
Risk weighted assets(8)	1,678,194	1,713,203	1,822,041	1,611,100	1,555,928
Risk weighted assets as a percentage of total assets(9)	60.6%	67.0%	63.8%	63.4%	68.3%
Basel III Fully Loaded Basis(10)					
Total capital adequacy ratio(3)	11.3%	8.6%	9.5%	–	–
Common equity Tier 1 capital ratio(4)	9.2%	6.4%	7.8%	–	–
Leverage Ratio(7)	5.7%	4.1%	5.0%	–	–
Risk weighted assets(8)	1,667,522	1,702,532	1,811,326	–	–
Risk weighted assets as a percentage of total assets(9)	60.2%	66.6%	63.5%	–	–

(1) The capital ratios for the year ended 31 December 2014 and the six months ended 30 June 2015 and 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations as a result of the introduction of Basel III requirements. Accordingly, Net Stable Funding Ratio and Liquidity Coverage Ratio have not been calculated for the years ended 31 December 2013 and 2012. 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 "*Asset, Liability and Risk Management—Capital Adequacy Management*", "*Regulation of Citadele Groups Activities – Banking Regulation and Supervision in the EU*", Note 15 to the Reviewed Interim Consolidated Financial Statements and Note 33 to the 2014, 2013 and 2012 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 2015 and 30 June 2014 are included in the Reviewed Consolidated Interim Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio on a Basel II basis for the years ended 31 December 2013 and 2012 are included in the 2013 and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed.

(2) The capital ratios set forth under the heading Basel II/Basel III Transitional Basis are calculated on a Basel II basis for the years ended 31 December 2012 and 2013, and on a Basel III transitional basis for year ended 31 December 2014 and the six months ended 30 June 2015 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio.

(5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio.

(6) 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio.

(7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Leverage Ratio.

(8) Risk weighted assets is calculated as total risk exposure amount for the relevant period.

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

(10) The capital ratios set forth under the heading Basel III fully loaded basis are calculated on a Basel III Fully Loaded Basis for the six months ended 30 June 2015 and 30 June 2014 and for the year ended 31 December 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

Operating and Financial Review

The following review is intended to assist in the understanding and assessment of the trends and significant changes in Citadele Group's operating and financial results. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Presentation of Financial and Other Information—Forward-Looking Statements" and "Risk Factors". In this Prospectus, the financial statements presented are those of Citadele Group. The 2014 and 2013 Audited Consolidated Financial Statements were audited by KPMG Baltics SIA, independent auditor of Citadele, which also reviewed (but did not audit) the Reviewed Consolidated Interim Financial Statements. The 2012 Audited Consolidated Financial Statements were audited by PricewaterhouseCoopers SIA. Citadele's Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements have been prepared in accordance with IFRS as adopted by the EU. The additional financial data include non-IFRS measures and were derived from data extracted from the Audited Consolidated Financial Statements, Reviewed Consolidated Interim Financial Statements and Citadele Group's unaudited consolidated management accounts. The segment results presented as at and for the years ended 31 December 2014 and 2013 were produced for purposes of this Prospectus and have not been reviewed or audited by KPMG Baltics SIA or PricewaterhouseCoopers SIA. The segment results presented as at and for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Consolidated Interim Financial Statements, which were reviewed (but not audited) by KPMG Baltics SIA.

The Republics of Latvia and Lithuania adopted the Euro as their official currency on 1 January 2014 and 2015 respectively. For purposes of this Prospectus, unless otherwise indicated, financial information not originally reported in Euro has been recast in Euro using the official exchange rates. See "Presentation of Financial and Other Information" for more information.

Unless otherwise indicated, all of the financial data and discussions thereof are based on the Audited Consolidated Financial Statements, the Reviewed Consolidated Interim Financial Statements and the unaudited consolidated management accounts, and should be read in conjunction with the Audited Consolidated Financial Statements, the Reviewed Consolidated Interim Financial Statements and all other financial data included elsewhere in this Prospectus.

Key Factors Affecting Citadele Group's Financial Condition and Results of Operations

Citadele Group's financial condition and results of operations are affected by numerous factors. Management believes that the following are of particular importance:

General economic conditions in Latvia, the Baltic States and the European Union

Because Citadele Group operates primarily in Latvia, its operating and financial results are highly dependent on the general economic conditions of Latvia. Operations in Latvia accounted for 84.3%, 89.0%, 89.7% and 81.0% of Citadele Group's operating income for the first half of 2015 and for 2014, 2013 and 2012, respectively. As at 30 June 2015 and 31 December 2014, 2013 and 2012, 64.4%, 62.9%, 64.4% and 66.5% of Citadele Group's total net loans and receivables from customers were to Latvian residents, respectively. For the period from 2012 to 2014, Citadele's operations in Latvia experienced a compound annual growth rate of 2.5% in loans and receivables from customers, which as at 30 June 2015 translated into EUR 27.3 million in loans and receivables per Branch in Latvia. Citadele Group also has operations in Lithuania and Estonia, and its operating and financial results are also dependent on the general economic conditions of Lithuania and Estonia. Citadele Group's operations in Lithuania accounted for 13.0%, 10.8%, 12.8% and 13.6% of Citadele Group's operating income, and Citadele Group's operations in Estonia accounted for 4.2%, 3.4%, 3.0% and 2.7% of its operating income, for the first half of 2015 and for 2014, 2013 and 2012, respectively.

There has been continued growth in the Latvian, Lithuanian and Estonian economies during the periods under review. Latvia's GDP grew by 4.8% in 2012 and 4.2% in 2013, although GDP

growth slowed to 2.4% in 2014. Lithuania's GDP grew by 3.8% in 2012 and 3.3% in 2013, although GDP growth slowed to 2.9% in 2014. Estonia's GDP grew by 4.7% in 2012 and 1.6% in 2013, with GDP growth increasing to 2.1% in 2014, according to the World Bank. According to Eurostat, overall GDP growth in the European Union increased to 1.4% in 2014 following two years of stagnation. For more information regarding economic developments in the Baltic States and the Eurozone, see "*Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector—Macro-economic profile of the Baltic States*".

Citadele Group has benefited from the economic growth in the Baltic States in 2014, with increases across all of its major product segments. In 2014, more than 17,000 new private customers and nearly 3,000 companies signed up with Citadele Group. Significant growth came from Lithuania and Estonia with over 9,000 new customers in the aggregate. Private Capital Management also experienced strong growth with over 1,600 new clients in 2014.

According to the FCMC, the Latvian banking market has been in a prolonged period of deleveraging as a result of the global financial crisis in 2008 and 2009. The total loan portfolio in Latvia shrank by EUR 5.7 billion, or 7.9% per annum, between 2010 and 2014, and the share of total loans included in bank assets fell to EUR 14.7 billion, or 47.6%, by the end of 2014, as compared with approximately 70% in 2008. The share of customer deposits included in bank liabilities rose to 72% at the end of 2014 from 40% to 45% in the midst of the global financial crisis in 2008 and 2009, and the loan-to-deposit ratio declined to 66% in 2014 from a peak of 169% in 2008. The volume of loans has also been affected by the unwillingness of banks in Latvia to engage in new lending as they continued to amortise and write-off their existing loan portfolios.

The ongoing deleveraging of the Latvian banking market has resulted in a decrease in corporate and household debt levels and created the potential for future lending growth across the Baltic States. New lending has begun to increase following the recovery of the Latvian economy and improvements in the solvency of Latvian companies and households. According to the FCMC, banks in Latvia issued nearly EUR 2.5 billion in new loans in 2014, with half of the volume issued to Latvian residents. Total assets in the Latvian banking sector rose to EUR 30.8 billion at the end of 2014 from EUR 29.2 billion in 2013 and EUR 28.8 billion in 2012, although loan volume continued to decrease over that period. Profitability across the Latvian banking sector also improved between 2010 and 2014, with return on equity rates rising from negative 20.4% at 31 December 2010 to 11.1% as at 31 December 2014, driven by the improved asset quality and growing revenue base of Latvian banks. Cost-to-income ratios have declined from 72% as at 31 December 2010 to 49.7% as at 31 December 2014, and net interest margins have also improved as reflected in net interest margin rates of 1.8%, 1.7%, 1.7%, 1.7% and 1.6% for the first halves of 2015 and 2014 and for 2014, 2013 and 2012, respectively.

Citadele Group anticipates that it will continue to benefit from economic growth in the Baltic States, as well as broader economic growth in the European Union, particularly to the extent that such growth drives growth in the Latvian banking sector and the banking sectors of the other Baltic States. Citadele Group's financial results, however, may be materially impacted if economic growth in the Baltic States or the European Union does not develop, or develops more slowly than anticipated.

Competition in the Latvian, Lithuanian and Estonian banking sectors

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.

The level of competition in the Latvian banking sector is relatively high. According to data published by the Association of Commercial Banks of Latvia (the "**ACBL**"), as at 30 June 2015, there were 17 banks and 10 branches of foreign banks operating in Latvia. The seven largest commercial banks in Latvia in terms of total assets (AS Swedbank, ABLV Bank, AS Rietumu Banka, AS SEB banka, Nordea Bank AB Latvia branch, AS DNB banka and Citadele, from greatest to least amount of assets) held a 78.9% combined share of total assets, a 88.0% combined share of total loans and a 76.1% combined share of total deposits as at 30 June 2015.

The Latvian market is dominated by large Scandinavian banks, such as AS Swedbank, 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. From 2012 to 2014, however, AS Swedbank, AS SEB banka, Nordea Bank AB Latvia branch and AS DNB banka have scaled back their Latvian operations and experienced a significant degree of deleveraging, with negative compound annual growth rates in loans and receivables over this period of 8%, 4%, 5% and 8%, respectively, according to the ACBL. Although these banks suffered losses in the global financial crisis in 2008 and 2009 and have since substantially reduced their lending in the Latvian market, they remain a substantial presence in Latvia with a market share of nearly 46% of the Latvian banking sector based on total assets at the end of 2014 according to the Association of Commercial Banks of Latvia.

In addition to the large Scandinavian banks, Citadele also faces competition to a lesser extent from leading Latvian domestic banks, such as AS Rietumu Banka and ABLV Bank, which had respective market shares of 11.9% and 14.6% of the Latvian banking sector based on total assets as at 30 June 2015 according to the ACBL. Citadele believes that these banks mainly focus on serving customers who reside outside of Latvia, primarily in the CIS countries and particularly in Russia, and as a result compete with Citadele Group only in limited market segments, particularly within the private capital markets segment.

In Latvia, Citadele has typically targeted SME borrowers or mid-size corporate borrowers with complex financing needs, because these types of borrowers typically seek execution speeds or loan structures that differ from those offered by the large Scandinavian banks in the Latvian market. Although Citadele does not seek to compete on the basis of interest rates with the large Scandinavian banks due to the low-cost funding available to these banks, Citadele has been able to operate successfully by providing flexible solutions to its SME and corporate customers. In Latvia in 2014, Citadele issued EUR 122.4 million in total new gross loans to SME and corporate customers, with the agricultural sector accounting for the largest share of loans granted (29%), followed by the service sector (21%) and the manufacturing and trade sectors (13% each). In the first half of 2015, total new gross loans to SME and corporate customers were EUR 48.5 million, with the trade sector, agricultural sector and real estate sector accounting for 33%, 25% and 16%, respectively, of such new gross loans.

In the Lithuanian and Estonian banking sectors, Citadele Group faces competition not only from the large Scandinavian banks which also operate in these countries, but also from other local banks, such as Šiaulių bankas and LHV Pank in Lithuania and Estonia, respectively. As at 30 June 2015, Šiaulių bankas and LHV Pank had a 6.9% and 2.3% market share of the Lithuanian and Estonian banking sectors, respectively, based on total assets. Citadele Group aims to compete efficiently in Lithuania and Estonia by taking advantage of economies of scale, which may involve turning Citadele Group's Lithuanian entity into a branch of Citadele in the future.

Interest rates and net interest income

Citadele Group derives the majority of its income from net interest income, which represented 54.1%, 55.8%, 51.4% and 50.5% of Citadele Group's operating income (calculated as the sum of

net interest income, net commission and fee income, gains on transactions with financial instruments, net and other income) for the first half of 2015 and for 2014, 2013 and 2012, respectively.

Citadele Group derives interest income primarily from its loan and receivables portfolio (also referred to in this Prospectus as its loan portfolio), as well as its securities portfolio. As at 30 June 2015, floating rate loans made up 89% and 95% of the loans in Citadele Group's Latvian and Lithuanian loan portfolios, respectively. Growth in interest income from Citadele Group's loan portfolio has been driven primarily by an increase in the size of its loan portfolio in the periods under review in this Prospectus. Citadele Group's securities portfolio consists primarily of government bonds, followed by credit institution bonds and corporate bonds.

Citadele Group's net interest margin is a significant factor in determining Citadele Group's profitability. For the first half of 2015 and for 2014, 2013 and 2012, Citadele Group's net interest margin was 2.1%, 2.3%, 2.3% and 2.2%, respectively. Citadele Group's net interest margin has been driven largely by resilient yields on its loan portfolio as its cost of funding has fallen due to the low interest rate environment in the periods under review in this Prospectus. For the first halves of 2015 and 2014 and for 2014, 2013 and 2012, the yield on Citadele Group's loan portfolio was 5.9%, 5.8%, 6.1%, 5.6% and 6.2%, respectively. Yield on Citadele Group's loan portfolio is calculated as total interest income from loans and receivables for the relevant period as a percentage of the average of total loans and receivables at end of the relevant period and at the end of the prior period.

For the same periods, yield on Citadele Group's securities portfolio was 1.7%, 2.0%, 1.9%, 2.3% and 3.7%, respectively, driven primarily by the declining interest rate environment and a maturing portfolio of higher-yielding securities. Yield on Citadele Group's securities portfolio is calculated as total interest income from securities for the relevant period as a percentage of average total securities for the relevant period. Average total securities is calculated as the average of (i) the sum of securities held for trading, financial assets designated at fair value through profit or loss, available for sale securities and held to maturity securities as at the end of the relevant period and (ii) the sum of securities held for trading, financial assets designated at fair value through profit or loss, available for sale securities and held to maturity securities as at the end of the prior period.

Both the level of market interest rates and the trend in the changes in such rates have a material impact on the interest income earned by Citadele Group's loan and receivables and securities portfolios, as well as on the interest expenses paid by Citadele Group. Decreases in interest rates on Citadele Group's loans and receivables from customers without corresponding decreases in interest rates payable on customer deposits or other interest-bearing liabilities would have a negative impact on Citadele Group's profitability. At the same time, increases in interest rates would have an immediate negative impact on Citadele Group's equity due to the revaluation of Citadele Group's available-for-sale securities portfolio. The offsetting positive impact of increased interest income from Citadele Group's loan portfolio due to interest rate increases would not take effect for at least six months in the future as a result of the timing of the reset of the underlying EURIBOR reference rates for Citadele Group's floating rate loans and receivables, assuming that increases in interest rates did not reduce borrowers' ability to service their increased loan payments and result in higher rates of impairment or default.

Interest rates remain low in most of the countries where Citadele Group operates and particularly in the Eurozone. As economic growth potential deteriorated and inflation expectations fell during and following the global financial crisis in 2008 and 2009, the ECB has continued to reduce interest rates substantially from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2014 until the date of this Prospectus. In conjunction with a record low main refinancing rate and recently announced quantitative easing, many Eurozone sovereign bond yields have been pushed to extremely low levels. Although the current ECB interest rate environment allows Citadele Group to benefit from lower interest rates, Citadele Group's profits are also impacted through lower interest rates on its loan and receivables portfolio and lower yields on its securities portfolios.

In response to the Eurozone sovereign debt crisis, the ECB has conducted, and continues to conduct, several programmes designed to increase market liquidity. The latest and most significant programme commenced in March 2015, when the ECB started the purchase of bonds issued by Eurozone central governments and certain agencies and international or supranational institutions located in the Eurozone. The ECB has stated that it intends to carry out purchases under the foregoing programmes until at least September 2016 in order to achieve a path of inflation that is consistent with the ECB's goal of achieving inflation rates below, but close to, 2% over the medium term.

The ECB has stressed that monetary policy alone cannot revive the struggling Eurozone economy and that national governments should undertake a wide range of structural reforms to boost competitiveness, productivity and innovation. If implemented successfully, Citadele believes that structural reforms could lead to improvements in employment and income levels, which in turn could motivate businesses to invest and help to overcome the slow growth that has impacted the Eurozone over recent years. Although Citadele Group remains cautiously optimistic about future growth in the Eurozone, economic and regulatory developments in the European Union and changes in market interest rates, particularly in the Eurozone, could have a material impact on Citadele Group's operating and financial results going forward.

Cost of funding

The cost at which Citadele Group is able to obtain funding for its operations directly impacts Citadele Group's interest expense, which may in turn affect Citadele Group's net interest margin and its overall profitability. Citadele Group's principal source of funding is customer deposits, while subordinated loans from Citadele Group's current and former shareholders make up only a small portion of its funding base. Historically, customer deposits have generally required Citadele Group to pay lower interest rates than other sources of funding, and consequently represent a reasonably priced source of funding for Citadele Group.

The interest rates that Citadele Group offers to its customers are determined based 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. Citadele Group will seek to attract higher volumes of customer deposits if it anticipates an increased need for liquidity in the short or long term. Competition from other participants in the banking market limits the extent to which Citadele Group can reduce its interest rates when it believes that its liquidity needs are currently being met. Currently, the majority of Citadele Group's securities purchases are driven by its liquidity management needs, and Citadele Group does not generally engage in trading activities for profit.

Citadele Group's strategy is to be funded predominantly from customer deposits. Due to the EC Commitments (as defined below in "*—European Commission commitments*") that Citadele was subject to following its formation and the receipt of certain assets and liabilities from AS "Parex Banka", Citadele Group has historically not been able to access international financial markets at reasonable interest rates. Citadele Group believes that customer deposits will continue to make up a substantial part of its funding mix going forward. However, Citadele Group may consider pursuing additional forms of funding, including issuing debt and seeking additional subordinated loans, in the future.

Citadele Group's cost of funding is also impacted by the prevailing interest rate environment, particularly in the Eurozone. As described in "*—Interest rates and net interest income*" above, the ECB has continued to reduce interest rates substantially in the Eurozone from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2014 to the date of this Prospectus. Although the current ECB interest rate environment allows Citadele Group to benefit from lower interest rates through reduced payments on customer deposits, there is limited potential for further interest rate reductions due to the ECB's negative interest rates and competition from other banks operating in the Baltic States, particularly the large Scandinavian banks. Although Citadele Group introduced negative interest

rates on certain large customer deposits in Switzerland in the first half of 2015, Citadele Group is unlikely to be able to introduce negative interest rates on customer deposits in the Baltic States unless its main competitors do so first. In the first half of 2015, Citadele Group transferred some of its own liquidity deposits from credit institutions to the ECB, which as at 30 June 2015 had a negative interest rate on deposits. Citadele Group recognized additional interest expense of EUR 0.5 million in the first half of 2015 in connection with these liquidity deposits.

Average interest rates on Citadele Group's customer deposits have generally declined to 0.6% for the first half of 2015 from 0.5%, 0.7% and 1.5% for 2014, 2013 and 2012, respectively. Accordingly, new customer deposits have typically had lower interest rates than older customer deposits. In addition, over these same periods, the composition of Citadele Group's customer deposit base has changed, with demand deposits making up 74.4% of Citadele's Group's customer deposit base as at 30 June 2015 as compared to 75.4%, 74.7% and 68.4% as at 31 December 2014, 2013 and 2012, respectively. This shift toward demand deposits instead of fixed-term deposits has been driven by the low interest rates currently available to retail customers on fixed-term deposits, and Citadele Group anticipates that this shift will continue in the short to medium term. Although demand deposits typically bear lower interest rates than fixed-term deposits, demand deposits tend to be more volatile, which could increase Citadele Group's cost of funding. Since, however, Citadele Group's demand deposits have tended to be fairly stable in the periods under review in this Prospectus, Citadele Group does not anticipate a substantial impact on its cost of funding due to this change in customer deposit composition. See "*Asset, Liability and Risk Management—Liquidity Risk Management*" for more information.

As at 30 June 2015 and 31 December 2014, 2013 and 2012, Citadele Group's loan-to-deposit ratio was 44.9%, 42.7%, 47.0% and 51.3%, respectively. This overall decrease in Citadele Group's loan-to-deposit ratio since 2012 reflects the more rapid growth in Citadele Group's customer deposits than in loans and receivables from customers, largely driven by Citadele Group's focus on increasing overall liquidity and capitalisation and limits on its ability to increase its loan portfolio as part of the EC Commitments (as described below in "*—European Commission commitments*"). The increase in Citadele Group's loan-to-deposit ratio in the first half of 2015 was driven by a decrease in customer deposits of EUR 108.9 million, or 4.3%, from EUR 2,517.1 million as at 31 December 2014 to EUR 2,408.3 million as at 30 June 2015. EUR 80.0 million of this decrease in customer deposits as at 30 June 2015 resulted from Swiss customers transferring their funds into off-balance sheet instruments, driven in part by the imposition of negative rates by the Swiss bank on large balances in customers' current accounts. Because Citadele Group believes that it currently has sufficient liquidity to support its operations and business strategy, Citadele Group has not actively sought to retain existing or compete for additional customer deposits on the basis of interest rates. Citadele Group regularly evaluates and adjusts, if necessary, the interest rates that it offers on customer deposits based on its short and long term funding needs.

While the size of loan portfolios across the Baltic States has generally decreased in the periods under review in this Prospectus, Citadele Group's loan portfolio has remained relatively constant in size. Citadele Group has been selective in undertaking new loan projects, and it believes that there is currently sufficient demand to drive growth of its loan portfolio going forward, particularly in light of the growth in total lending in Latvia during the first half of 2015 following a protracted period of substantial credit contraction, according to the FCMC. Citadele Group believes that its loan-to-deposit ratio will increase in the short to medium term, in part due to the fact that the EC Commitments no longer apply to Citadele Group following the sale of its state-owned shares in April 2015. See "*—European Commission commitments*" for more information.

Quality of loan portfolio

The quality of Citadele Group's loan portfolio directly impacts Citadele Group's impairment charges and reversals. An increase in the volume of impaired loans would have a corresponding impact on Citadele Group's impairment allowance and potentially on Citadele Group's net profit. For more information regarding Citadele Group's impairment methodology, see "*—Impairment Methodology*" below.

Citadele Group believes that it has typically taken a conservative position with respect to the recognition and measurement of credit risk. The quality of Citadele Group's loan portfolio is driven by a number of factors including levels of consumer, household or business income, unemployment rates, interest rates and foreign exchange rates, the underwriting standards applied at the time the loans were issued and the robustness of Citadele Group's loan and borrower monitoring processes, as well as by the secondary markets for the collateral securing certain of its loans, such as the market for real estate in the Baltic States. Citadele Group's SME and corporate loan portfolios are also affected by macroeconomic factors that influence the financial condition of the companies in its loan portfolios. Because of their smaller size and more limited financial resources, the impact of such factors may be more pronounced on SME and micro SME borrowers than on corporate borrowers.

In the periods under review in this Prospectus, Citadele Group believes that it has benefitted from a loan portfolio with a relatively good credit quality. As at 30 June 2015 and 31 December 2014, 2013 and 2012, Citadele Group's total allowance for impairment was EUR 90.8 million, EUR 88.7 million, EUR 93.0 million and EUR 89.2 million, respectively, or 7.7%, 7.6%, 8.1% and 8.0% of Citadele Group's total gross loans and receivables from customers as at the same dates. In 2012 and 2013, Citadele Group's total net impairment allowance charged to the statement of income was primarily due to Citadele Group's legacy loan portfolio (as described below in "*—Legacy loan portfolio*"). Over the first half of 2015, total allowance for impairment increased primarily due to deterioration in the medium term business prospects of certain customers and an increase in the number of days by which payment was delayed for certain past due unimpaired loans. The increase in the number of delayed days for certain past due unimpaired loans in the first half of 2015 was primarily driven by payment delays related to a limited number of large exposures which Management believes are not representative of the entire portfolio. Total allowance for impairment in the first half of 2015 was also affected by write backs of impairment.

In 2013, Citadele sold to a third party debt collector a portion of a fully written-off loan portfolio consisting of credit card loans and other unsecured consumer loans. This disposal resulted in an increase in Citadele Group's recovered written-off assets to EUR 3.2 million in 2014 from EUR 0.5 million in 2013 as a result of the proceeds of the sale. Citadele intends to continue disposing of parts of its non-performing loan portfolio in the future; it does not, however, anticipate that these disposals will have a material impact on its 2015 results.

Since its inception, Citadele Group has continued to diversify its loan portfolio by reducing its reliance on lending to the real estate industry, whose share in Citadele Group's gross loan portfolio has decreased from 14.4% at the end of 2012 to 12.9% as at 30 June 2015. At the end of the first half of 2015 and at the end of 2014, 2013 and 2012, Citadele's top 10 loan exposures (calculated by consolidating any affiliated borrowers and taking into account off-balance sheet exposures) were EUR 155.2 million, EUR 168.0 million, EUR 178.3 million and EUR 196.9 million, respectively, or 14.3%, 15.6%, 16.9% and 19.3% of Citadele Group's total net loans. As at 30 June 2015, Citadele Group did not have any borrower concentrations that exceeded 10% of its total gross loan portfolio. Citadele Group expects to continue diversifying its loan portfolio and reducing its reliance on its largest borrowers going forward.

As at 30 June 2015, restructured loans comprised approximately 12.5% of Citadele Group's total gross loans. During the period from 31 December 2013 to 30 June 2015, this ratio has fluctuated between 11% and 15%. The share of restructured loans is gradually decreasing, comprising approximately 11.5% of Citadele Group's total gross loans as at 31 August 2015.

As at 30 June 2015, restructured loans comprised approximately 14.5% of Citadele's total gross loans. During the period from 31 December 2013 to 30 June 2015, this ratio has fluctuated between 12% and 17%. The share of restructured loans is gradually decreasing, approximately comprising 13.4% of Citadele's total gross loans as at 31 August 2015. As at 30 June 2015, restructured loans comprised 8.4% of the Latvian banking sector's total gross loans.

Restructured loans are considered to be impaired when specific impairment is established for specific loans. As at 30 June 2015, 26.6% of Citadele's total restructured loans were impaired and 76.7% of impaired restructured loans were not overdue. As at 30 June 2015, impairment coverage of Citadele's restructured loans was 14%.

As at 30 June 2015, restructured loans that were 90 or more days overdue comprised 8.5% of the Latvian banking sector's total gross loans that were 90 or more days overdue. As at the same date, restructured loans that were 90 or more days overdue comprised 3.5% of Citadele's total gross loans that were 90 or more days overdue.

Impairment methodology

Citadele Group assesses specific and collective loan impairment at the end of each reporting period. A loan or portfolio of loans and receivables from customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events. Citadele Group estimates collective impairment losses to cover losses inherent in its loan portfolio when there is objective evidence to suggest that its loan portfolio contains impaired loans, although the individual impaired loans cannot yet be identified. Collective impairment losses are calculated 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. See "*—Critical Accounting Estimates and Judgements—Impairment of loans and receivables from customers*" for further information regarding Citadele Group's impairment methodology.

To determine its PD and LGD estimates, Citadele Group employs a combination of statistical analyses and management judgment. Citadele Group estimates LGD values based on (a) historical collateral realisation information and (b) management's judgment regarding the appropriate LGD ratio. Citadele Group estimates PDs based on (a) statistical information on the delinquency days of homogenous loans and (b) management's judgment on the probability of default rates for not overdue loans based on the level of incurred losses within the current loan portfolio. For purposes of PD estimation, "default" is defined as 90 days or more overdue. With regard to not overdue non-restructured and not overdue restructured loans, Citadele Group applies a standardised PD percentage of 4.5% and 9%, respectively. From time to time, Citadele Group may apply a different PD percentage to certain loans based on the application of management judgment. Citadele Group also takes into account segment-specific statistics, such as statistics applicable to the leasing segment, in the calculation of PD and LGD ratios. Citadele Group does not expect significant changes in its methodology for estimating PD and LGD in the near future.

In the first half of 2015, the changes in impairment allowance for property and equipment mainly related to the reduction in impairment allowance for the Citadele headquarters building. Based on the re-estimate of the fair value of the Citadele headquarters building, the carrying amount of the building as at 30 June 2015 was the same as at 31 December 2014, and, accordingly, a reversal of impairment took place. In 2014, based on the impairment assessment for this asset, this reversal took place only at year end.

In 2014, Citadele Group's collectively assessed impairment increased by a net impairment charge of EUR 6.5 million from EUR 3.4 million in 2013, primarily due to an increase in LGD for loans backed by real estate collateral resulting from a review of Citadele Group's loan portfolio in light of new statistical data. As a result, Citadele's weighted average LGD ratio estimate increased by approximately 400 basis points. The increase in collectively assessed impairment in 2014 was also due to an increase in the PD estimates for certain not overdue loans resulting from the application of management judgment. As at 31 December 2014, an increase in Citadele Group's LGD ratio of 500 basis points would have resulted in an increase in the charge for collectively assessed impairment of EUR 2.3 million, and an increase in Citadele Group's PD ratio relating to the not overdue category of 100 basis points would have resulted in an increase in the charge for collectively assessed impairment of EUR 1.9 million.

In 2013, the collectively assessed impairment charge for loans amounted to EUR 3.4 million, as compared to the EUR 6.6 million reversal/release in 2012. The impairment charge in 2013 mainly resulted from an increase in the balance of the collectively assessed impairment allowance due to an increase in the PD ratio for not overdue, not restructured loans and not overdue, restructured loans, and an increase in the PD ratio for both not overdue and overdue payment card and restructured payment card balances. The EUR 6.6 million reversal in 2012 resulted from a decrease in the balance of the collectively assessed impairment allowance between 2012 and 2011, which was mainly driven by the reclassification of part of the collective impairment balance at 31 December 2012 (in the amount of EUR 5.2 million) from a collectively assessed to an individually assessed impairment balance.

Collateral valuation

In the first half of 2015, Citadele Group changed the methodology used to determine the fair value of the collateral securing its loans. As at 30 June 2015, for loans that were not development projects, the fair value of the collateral was determined using both the estimated fair value of the real estate securing the loan and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects, the anticipated future loan-to-value ratio was used, adjusted to reflect the completion rate of the development project as at the reporting date. Prior to 2015, only the value of real estate collateral was used in calculating the fair value of collateral. Comparative data for Citadele Group's loan-to-value analysis as at 31 December 2014 have been restated using the updated methodology. Data for prior periods have not been restated. For information regarding Citadele Group's loan-to-value analysis, see "*Selected Statistical and Other Information—Loan and Receivables Portfolio—Loan-to-value analysis*".

Loans in the categories "regular loans" and "utilised credit lines" are primarily secured by collateral and/or commercial pledges. Payment card loans are granted to clients on the basis of a cash flow assessment and no collateral is required in most cases. Finance leases are secured by the property leased. See Note 21 to the Reviewed Consolidated Interim Financial Statements for more information.

Legacy loan portfolio

Following the restructuring of AS "Parex Banka" in 2010, certain of the assets and liabilities of AS "Parex Banka" were transferred to Citadele. Loans that were 60 or more days overdue at the time of the restructuring were retained by AS "Parex Banka", and the remainder of its loan portfolio was transferred to Citadele. Citadele Group's "legacy loan portfolio" consists of the loans that were transferred from AS "Parex Banka" to Citadele in 2010, as well as later increases in certain of these loans under existing loan documentation. As at 30 June 2015, 3.1% of Citadele Group's loan portfolio was secured by collateral held outside the EU, all of which loans were part of Citadele Group's legacy loan portfolio.

Some of the loans that make or made up Citadele Group's legacy loan portfolio were originally issued by AS "Parex Banka" under less stringent underwriting standards than those currently in force at Citadele Group. In 2012 and 2013, Citadele's total net impairment allowance charged to the statement of income was significantly impacted by the legacy loan portfolio. From 2014 onward, there has been only a limited impact on Citadele Group's financial results as a result of impairment charges from the legacy loan portfolio.

In the periods under review in this Prospectus, Citadele Group's cost of risk, which represents the sum of collective and specific loan impairment for the relevant period divided by the average total gross loans for such period, declined due to the declining size of the legacy loan portfolio. In the first half of 2015 and in 2014, 2013 and 2012, Citadele Group's cost of risk was 0.8%, 1.2%, 1.9% and 0.8%, representing EUR 4.7 million, EUR 13.3 million, EUR 21.2 million and EUR 9.2 million in total collective and specific impairment for the same periods. See "*—Quality of loan portfolio*" for more information.

Net commission and fee income

Net commission and fee income represents a substantial component of Citadele Group's net income. Net commission and fee income amounted to EUR 17.2 million, EUR 33.4 million, EUR 32.2 million and EUR 30.5 million for the first half of 2015 and 2014, 2013 and 2012, respectively, accounting for 31.5%, 29.8%, 29.9% and 31.5% of Citadele Group's operating income (defined as the sum of net interest income, net commission and fee income, gains on transactions with financial instruments, net and other income), respectively, for the same periods.

The key drivers of commission and fee income for Citadele Group are commissions and fees associated with the use of payment cards and merchant banking services by customers in Latvia, as well as payment transfer fees and custody, trust and asset management fees associated with Citadele Group's Private Capital Management and asset management activities. The growth of these revenue streams allows Citadele Group to diversify its income base, making Citadele Group less reliant on net interest margins for profitability. Citadele Group anticipates that commission and fee income will continue to be a significant part of its revenues going forward.

Prior to the adoption of the EUR by Latvia and Lithuania on 1 January 2014 and 2015, respectively, Citadele Group conducted local currency exchange transactions in both countries. Income from these operations was reported in the line item gain on transactions with financial instruments. From 1 January 2014 and 2015 onward, Citadele Group has not conducted local currency exchange transactions in Latvia and Lithuania, respectively, due to the adoption of the EUR by those countries.

Following the adoption in April 2015 of a new regulation on interchange fees for card-based payment transactions, interchange fees in the European Union are set to be further reduced in 2015 following reductions in interchange fees introduced in 2014 as a result of EU antitrust investigations relating to interchange fees in the payment card market. Citadele Group anticipates that these reductions in interchange fees will have a limited impact on its financial results.

Prudential regulation

Citadele Group is subject to a wide range of prudential regulations, which require it to control risks and hold adequate capital. In particular, Citadele is subject to prudential regulation in Latvia as well as the EU capital adequacy framework published by the Basel Committee, which is known as Basel III and has been implemented into EU law by a legislative package referred to as "CRR/CRD-IV". Citadele Group's primary regulator is the FCMC in Latvia, and Latvian laws are aligned with EU laws regarding capital adequacy and prudential requirements for credit institutions. For more information regarding the prudential and other regulations to which Citadele Group is subject, see "*Regulation of Citadele Group's Activities*".

The FCMC calculates Citadele's standalone minimum capital adequacy ratio based on CRR/CRD-IV as implemented by the FCMC. The 2014 results of this calculation indicated that Citadele's standalone capital adequacy ratio should be at least 10.9% on a Basel III transitional basis. Citadele Group must also comply with this minimum capital adequacy ratio. Citadele uses the standardised approach under Basel III for determining its risk weighting percentages. The decrease in Citadele Group's risk weighted assets from 2014 to the first half of 2015 resulted primarily from the transfer of EUR 93.3 million to lower risk weighted assets. Citadele Group currently applies a 100% risk weighting to mortgages because Citadele Group has not yet established all necessary procedures for its Latvian mortgage book to qualify for a 35% risk weighting. See "*Asset Liability And Risk Management—Compliance Risk Management, Anti-Money Laundering, and Anti-Bribery and Corruption—Changes to risk management that are known or anticipated to come into effect to the future*".

As at 31 December 2014 (including audited profits for 2014) Citadele's and Citadele Group's capital adequacy ratios satisfied the FCMC requirements. During the first half of 2015, Citadele Group's capital adequacy ratio was less than the FCMC requirement unless unaudited profits

from 2014 were included as part of its Tier 1 equity. As at 30 June 2015, Citadele Group satisfied the FCMC minimum capital adequacy ratio without including unaudited profits as part of its Tier 1 equity, primarily due to the increases in regulatory capital described below. Citadele Group's capital adequacy ratio as at 30 June 2015 was 12.8% on a Basel III transitional basis and 11.3% on a Basel III fully loaded basis. If profits from the first half of 2015 had been included in this calculation, Citadele Group's capital adequacy ratio would have increased by 90 basis points.

In April 2015, Citadele Group's regulatory capital increased by EUR 18.6 million as a result of a EUR 10 million share capital increase following the acquisition in April 2015 of Citadele's state-owned shares by RA Citadele Holdings, LLC and a consortium of 12 co-investors for EUR 74.7 million, and changes in Citadele Group's subordinated liabilities to the Latvian Privatisation Agency and the EBRD. In April 2015, Citadele repaid EUR 18.4 million of its subordinated liabilities with the Latvian Privatisation Agency, and the Latvian Privatisation Agency transferred EUR 11.2 million of Citadele's remaining subordinated liabilities to the EBRD. The EBRD then extended the maturity of these transferred subordinated liabilities, as well as Citadele Group's other subordinated liabilities with the EBRD, to August 2020. The interest rate margin on the subordinated liabilities transferred to the EBRD by the Latvian Privatisation Agency is 8.3%. As of 8 August 2015, this interest rate was applied to all of Citadele Group's subordinated liabilities with the EBRD, which, as at 30 June 2015, were EUR 18.4 million. As at 30 June 2015, Citadele Group's remaining subordinated liabilities with the Latvian Privatisation Agency were EUR 34.7 million. For further information, see Notes 13, 14 and 15 to the Reviewed Interim Consolidated Financial Statements.

Citadele Group is also subject to a number of regulatory levies imposed at the national and European level, including the payment of contributions, calculated on the basis of its liabilities, towards the establishment of a Single Resolution Fund. See "*—Regulatory levies*" for more information.

Operating expenses

Citadele Group's operating expenses consist primarily of personnel expenses, but also include depreciation and amortisation expenses, other administrative expenses and other expenses.

For the first half of 2015 and for 2014, 2013 and 2012, Citadele Group's operating expenses (defined as the sum of administrative expense, amortisation and depreciation charge and other expense for the reporting period) was EUR 35.4 million, EUR 68.1 million, EUR 70.5 million and EUR 65.9 million, respectively. For the first half of 2015 and for 2014, 2013 and 2012, Citadele Group's cost-to-income ratio (calculated as operating expenses divided by operating income) was 64.9%, 60.8%, 65.5% and 67.6%, respectively. Operating expenses in the first half of 2015 included expenses incurred in relation to an advisory services agreement entered into by Citadele with Ripplewood Advisors LLC in April 2015. Under the advisory services agreement, Ripplewood Advisors LLC will receive annual payments of EUR 2 million (plus VAT) for services provided to Citadele, including services related to business plan development, risk management, capital allocation, strategic analysis, operating efficiency and human resources. Other than the fee expenses incurred in 2015, Citadele has incurred no other expenses in relation to Ripplewood Advisors LLC or RA Citadele Holdings, LLC. Operating expenses in the first half of 2015 also included certain expenses related to the preparation for Citadele's new strategy (including expenses in connection with the Offer) and personnel expenses amounting to EUR 20.2 million. See "*Shareholders and Related Party Transaction—Advisory services agreement*" for further information. Citadele anticipates incurring additional incremental expense of approximately EUR 1 to 2 million over the next one to two years in connection with implementation of its business strategy.

During the periods under review in this Prospectus, Citadele Group has generally been successful in growing its operating income more rapidly than its operating expenses, and Citadele Group anticipates that it will continue to do so. While Citadele Group intends to continue to find ways

to limit expense growth, planned accelerated growth in business volumes will likely result in an incremental growth in Citadele Group's cost base going forward.

Currency exchange rates

A portion of Citadele Group's assets and liabilities, including a portion of its securities portfolio, is denominated in foreign currencies, primarily U.S. dollars but also Swiss Francs in connection with Citadele Group's operations in Switzerland. In addition, a significant number of Citadele Group's Private Capital Management customers perform transactions in U.S. dollars. In 2014 and the first half of 2015, the Euro significantly declined in value against the U.S. dollar, the Swiss Franc and many other currencies, while the Swiss Franc significantly increased in value against the U.S. dollar and the Euro.

Citadele Group hedges its currency exchange risk through the use of short-term currency swaps and Citadele Group believes that, as result of such hedging, it does not currently have any material exposures to non-Euro currencies. See "*Asset, Liability and Risk Management—Currency Risk Management".* Citadele Group does not currently engage in any strategic currency exchange transactions for investment purposes. Nonetheless, fluctuations in exchange rates between the EUR and other currencies could impact Citadele Group's financial results in a number of ways. Exchange rate fluctuations could impact Citadele Group's financial results due to the fact that Citadele Group's financial results are reported in Euro and may also have other financial or accounting impacts on individual entities in the Citadele Group. Commission and fee income from payment transfers, as well as other fees collected in non-Euro currencies, may be affected by exchange rates. Because Citadele's investment in its Swiss banking subsidiary, AP Anlage & Privatbank AG, is reported at historical cost in Swiss Francs and is largely hedged, changes in the Euro/Swiss Franc exchange rate may affect Citadele's financial results and equity due to hedging of the amount of the investment. During the first half of 2015, Citadele Group recognized gains of EUR 2.7 million in other comprehensive income and Citadele recognized losses of EUR 2.2 million in relation to its investment in its Swiss banking subsidiary, each as a result of the appreciation of the Swiss Franc relative to the Euro. For more information on Citadele Group's currency exchange rate hedging activities, see "*—Liquidity and Capital Resources—Off-balance sheet items*".

European Commission commitments

As part of the restructuring plan of AS "Parex Banka" in 2010, certain of the assets and liabilities of AS "Parex Banka" were transferred to Citadele and Citadele became subject to certain commitments to the European Commission (collectively, the "**EC Commitments**"). The EC Commitments placed certain limits on Citadele Group's business operations. These commitments included obligations of Citadele Group to:

- pay an "asset relief fee" to the Latvian State Treasury if Citadele Group's capital adequacy ratio exceeded by 50 basis points the minimum capital adequacy ratio set by the FCMC (see Note 3 to the 2012 Audited Consolidated Financial Statements for more information);
- refrain from paying dividends or coupons to investors on existing capital instruments;
- refrain from acquiring financial or non-financial institutions and from increasing the total number of Citadele Group's branches;
- limit Citadele Group's gross lending total loan and deposit balances in terms of both volume and market share; and
- refrain from using any competitive advantage arising from Citadele Group's ownership by the Latvian state for advertising purposes.

The following table sets out the EC restrictions on lending and deposit taking during the period from Citadele's establishment until 20 April 2015 (after which all EC restrictions ceased to apply to Citadele), as at the dates indicated:

	As at 30 June 2012	As at 31 December 2012	As at 30 June 2013	As at 31 December 2013[1]	As at 30 June 2014[1]	As at 31 December 2014[1]	As at 31 March 2015[1]
							EUR millions
Caps on new lending							
Core loans in Latvia							
Cap on total gross new lending	190.7	190.7	258.1	258.1	229.1	307.2	400.3
Actual gross new lending	60	141.7	48.1	147	101.7	155.9	21.9
PCM loans in Latvia							
Cap on total gross new lending	15.1	15.1	26.5	26.5	18.1	32.8	48.9
Actual gross new lending	1.1	5.1	5.7	5.5	1.3	3.7	0.8
Loans in Lithuania							
Cap on total gross new lending	63.2	63.2	107.9	107.9	46.1	81.9	120.2
Actual gross new lending	11.1	24.8	9.8	56.9	23.7	45.2	11.4
Loans in Estonia							
Cap on total gross new lending	12	12	19.8	19.8	14.2	16.6	16.3
Actual gross new lending	2.8	5.1	15.9	16.4	6.8	15.8	4.5
Caps on deposits							
Core deposits in Latvia							
Cap on core deposit balance	1039	1039	1143	1143	1256	1256	1381.6
Actual core deposit balance	987	953	1017	1150	1032	1107	1077.9
PCM deposits							
Cap on deposit balance	592	592	646	646	693	693	747.0
Actual deposit balance	485	538	566	599	596	674	707.4
Deposits in Lithuania							
Cap on deposit balance	222	222	245	245	269	269	296.0
Actual deposit balance	218	212	178	199	238	294	272.3
Deposits in Estonia							
Cap on deposit balance	162	162	178	178	196	196	214.9
Actual deposit balance	98	108	88	87	96	130	137.9

(1) Current year new lending cap plus roll-over from previous years.

The following table sets out the EC restrictions on market share for loans during the period from Citadele's establishment until December 31, 2014, as at the dates indicated:

	As at 30 June 2012	As at 31 December 2012	As at 30 June 2013	As at 31 December 2013	As at 30 June 2014[1]	As at 31 December 2014
Core loans in Latvia (including PCM, excluding CIS countries)						
Cap on market share	4.70%	4.70%	4.70%	4.90%	5.10%	5.10%
Actual market share for core loans (excluding CIS loans)	4.47%	4.18%	4.18%	4.87%	5.22%[1]	5.22%[1]
Loans in Lithuania						
Cap on market share	1.56%	1.56%	1.72%	1.71%	1.89%	1.89%
Actual market share for loans	1.05%	1.02%	1.02%	1.06%	1.11%	1.08%
Loans in Estonia						
Cap on market share	0.30%	0.30%	0.33%	0.33%	0.37%	0.37%
Actual market share for loans	0.27%	0.27%	0.26%	0.27%	0.28%	0.36%

(1) Cap breach was due to the decrease in size of the overall loan market; Citadele was compliant with the caps on the volume of new lending.

As a result of the completion of the sale of the state-owned shares of Citadele to RA Citadele Holdings, LLC and a consortium of 12 co-investors in April 2015, Citadele Group is no longer bound by the EC Commitments.

Citadele Group believes that the sale of its state-owned shares will allow it to strengthen its capital base and improve its capital adequacy ratio. In addition, Citadele is no longer subject to limits on its gross lending total loan and deposit balances and is no longer restricted from acquiring financial or non-financial institutions, both of which it may engage in as part of its business strategy going forward. See "*Business Description—Strategy*" for more information.

Latvian tax regime

Citadele Group's corporate income tax expense is driven in part by the current Latvian tax regime. As a result of changes to the Latvian tax regime in 2014, interest income on certain publicly traded securities issued by European Union member states is exempt from taxation in Latvia, increasing Citadele Group's non-taxable income and reducing Citadele Group's income tax charge. Due to uncertainty regarding the implementation of the changes to the Latvian tax regime, a portion of Citadele Group's income for 2014 was recorded under the tax regime existing prior to the change, resulting in a higher income tax expense for the first half of 2014 than otherwise would have been the case under the new tax regime. This impact was reversed in the second half of 2014. For the first half of 2015 and for 2014, Citadele Group's income tax expense was reduced by EUR 0.8 million and EUR 1.8 million, respectively, as a result of this change in the Latvian tax regime. Further changes to the Latvian tax regime for interest income from certain publicly traded European Union securities may increase Citadele Group's taxable income and corresponding tax expense in the future.

As part of the restructuring plan of AS "Parex Banka" in 2010, certain tax losses of AS "Parex Banka" were transferred to Citadele. As at 30 June 2015 and 2014 and 31 December 2014, 2013 and 2012, Citadele Group's deferred tax assets were EUR 29.0 million, EUR 30.3 million, EUR 30.1 million, EUR 32.5 million and EUR 35.8 million, respectively, primarily due to the tax losses of AS "Parex Banka" transferred to Citadele. Over the same periods, Citadele Group utilised EUR 1.2 million, EUR 2.2 million, EUR 2.6 million, EUR 3.3 million and EUR 5.3 million of its deferred tax assets. Citadele Group's tax loss carry forwards are not affected by the acquisition of Citadele's state-owned shares by RA Citadele Holdings and a consortium of 12 co-investors in April 2015, provided that the business profile of Citadele does not change during future taxation periods. The current Latvian tax regime provides for an indefinite carry forward period for operating losses incurred in 2008 or later, which includes the tax losses of AS "Parex Banka"

received by Citadele. Citadele Group anticipates that it will continue to be able to utilise its deferred tax assets going forward. Based on Citadele Group's previous results and taxable income, Citadele Group anticipates that its tax loss carry-forwards and consequently its deferred tax assets may be fully utilised within six to seven years. The carry forward period in Latvia for operating losses, however, may be limited in the future, which may reduce Citadele Group's ability to offset future tax expense or impact Citadele Group's effective tax rate.

Regulatory levies

Citadele Group's administrative and interest expenses are driven in part by regulatory levies imposed at the national and European Union level.

On 1 July 2015, the new Latvian Deposit Guarantee Law of the Republic of Latvia (the "**LDGL**"), which implemented most of the provisions of the recast EU Deposit Guarantee Scheme Directive No 94/19/EC (the "**EU DGSD**"), entered into force. 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 at the date of this Prospectus, Citadele's quarterly contributions to the LDGL scheme are 0.05% of the total deposits covered by LDGL. Citadele incurred an expense in the amount of EUR 1.7 million, EUR 1.6 million, EUR 3.2 million, EUR 3.0 million and EUR 4.3 million for the first halves of 2015 and 2014 and for 2014, 2013 and 2012, respectively, in connection with the LDGL. Since 1 July 2015, when the LDGL entered into force, actual expense in connection with the deposit guarantee scheme has decreased by approximately 45%. In the future, Citadele Group expects that its expense associated with the LDGL will increase from this reduced level in line with its customer deposits. Expenses associated with LDGL contributions are reported as interest expenses.

On 15 July 2014, the Council of the EU adopted regulation EU/806/2014 establishing the Single Resolution Mechanism ("**SRM**"), which provides for the establishment of the Single Resolution Board ("**SRB**") in each Member State 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 in each Member State. The SRM will be applicable from 1 January 2016. The SRF will replace the national resolution funds implemented pursuant to the Bank Recovery and Resolution Directive. 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 banks calculated on the basis of their liabilities, excluding own funds and covered deposits and adjusted for risks. In connection with its contributions obligations, Citadele accrued EUR 0.3 million in the first half of 2015 in respect of the SRF and anticipates this expense will increase in the second half of 2015. Citadele Group estimates that its contribution towards the SRF will be EUR 1 million annually in 2015. In the future, Citadele Group expects that its expenses associated with the SRF will increase in line with its customer deposits. Expenses associated with SRF contributions are reported as interest expenses.

Pursuant to the Law on the Financial and Capital Market Commission, which provides that the activities of the FCMC shall be financed from payments of financial and capital markets participants, Citadele is subject to the payment of fees to finance the operations of the FCMC. Specifically, Article 23 of the law empowers the FCMC to specify the amount of the levy within limits set by the law based on the type of financial institutions under its supervision, including private pension funds and credit institutions, among others. In compliance with its obligation as a supervised entity, Citadele's incurred expenses in relation to the FCMC financing fee were EUR 0.2 million, EUR 0.2 million, EUR 0.4 million, EUR 0.3 million and EUR 0.3 million for the first halves of 2015 and 2014 and for 2014, 2013 and 2012, respectively. Expenses associated with the FCMC financing fee are reported as administrative expenses.

In addition, Citadele's operations are subject to a financial stability fee pursuant to the Latvian Financial Stability Fee Law. The fee is a duty, collected on a quarterly basis by the State Treasury,

of 0.072% on the total liabilities of the fee payer at the end of the taxation period minus the following deductions: (1) deposits included in the deposit guarantee scheme of Latvia or another Member State; (2) mortgage debentures issued by the fee payer; and (3) underlying obligations included in the calculation of own capital as the subordinated capital in accordance with the regulations of the FCMC. In this regard, Citadele's incurred expense in relation to the financial stability fee was EUR 0.1 million, EUR 0.1 million, EUR 0.2 million, EUR 0.2 million and EUR 0.3 million for the first halves of 2015 and 2014 and for 2014, 2013 and 2012, respectively. Citadele Group anticipates that this fee will increase substantially in 2016. Expenses associated with the financial stability fee are reported as interest expenses.

Segment Information

Citadele Group's operating segments reflect the internal reporting methodology of the Management Board. For reporting purposes, Citadele Group is organised into the following operating segments:

Banking segments

- Retail and SME segment: consists of services to private individuals and SMEs in Latvia, including banking and advisory services through branches, internet bank and mobile bank.
- Corporate segment: consists of services to customers with either an annual turnover of more than EUR 7 million, assets greater than EUR 5 million or total loan exposure greater than EUR 2 million, as well as those who need complex financing solutions.
- Private Capital Management segment: consists of private banking, wealth management and transaction services to local and foreign high net-worth individuals and foreign companies.
- Lithuania segment: consists of banking services to all types of companies and individuals in Lithuania, as well as certain foreign clientele.
- Estonia segment: consists of banking services to all types of companies and individuals in Estonia, mostly outside the Baltic States.
- Switzerland segment: consists of private banking services to high-net worth individuals mostly located outside the Baltic States.
- Other segment: consists of support to Latvian banking business units, such as treasury operations, cash collection, processing of various transactions and other operations that are not related to an identified business segment.

Other business lines segments

- Asset management segment: consists of investment, wealth management, life insurance and discretionary portfolio management services to all types of companies and individuals.
- Leasing segment: consists of finance and operating lease and factoring services to all types of companies and individuals in the Baltic States.
- Other segment: consists of support to business units, including the results of subsidiaries that offer non-banking services, such as subsidiaries that manage properties purchased in the process of work-outs for defaulted loans and subsidiaries that own and manage Citadele's headquarters building.

For information regarding the results of operations of Citadele Group's segments, see "*—Results of Operations for the Six Months Ended 30 June 2015 and 30 June 2014—Segment analysis*" and "*—Results of Operations for the Years ended 31 December 2014, 2013 and 2012—Segment analysis*". For further information regarding Citadele Group's segment reporting, see Note 19 to the Reviewed Consolidated Interim Financial Statements.

Recent Developments

During the third quarter ended 30 September 2015, Citadele Group continued to produce results comparable to the ones achieved in the first half of 2015. Loan growth increased gradually in line with Management's targets for the remainder of 2015. Citadele Group's interest income increased during this period showing some improvement compared to the second quarter of 2015. Cost of funds remained stable and, as a result, net margin on total assets improved slightly compared to the second quarter of 2015. Gross commission and fee income continued to grow while net commission and fee income remained stable, compared to the second quarter of 2015, in line with Citadele's plan to increase customer acquisition costs at the initial stage of the implementation of Citadele's business strategy. Compared to the first two quarters of 2015, operating expenses continued to modestly increase due to investments in staff, product development and other initiatives in line with Citadele's business strategy. Citadele expects that the results of these initiatives will be more visible in 2016 and show their full effects in later years. Asset quality remained stable and risk costs were lower than in the second quarter of 2015. As a result, in the third quarter of 2015, net income continued to grow.

Compared to 30 June 2015, total assets decreased slightly due to (i) corporate customers effecting certain seasonal transactions during the third quarter of 2015 (such as the payment of dividends and payments for inventory), and (ii) Citadele's current policy of not targeting larger corporate or institutional deposits through increased interest rates due to Citadele Group's sufficient liquidity reserves. Citadele Group's liquidity remained strong in the third quarter of 2015, and its loan-to-deposit ratio was below 50%. As a result of Citadele Group's net profit in the third quarter of 2015, equity continued to grow.

Results of Operations for the Six Months Ended 30 June 2015 and 30 June 2014

Consolidated results of operations

The following table sets out the main components of Citadele Group's statement of income for the six months indicated:

	For the six months ended 30 June	
	2015	**2014**
	(EUR thousands)	
Interest income	39,570	38,585
Interest expense	(10,027)	(9,058)
Net interest income	**29,543**	**29,527**
Commission and fee income	24,500	22,956
Commission and fee expense	(7,287)	(6,722)
Net commission and fee income	**17,213**	**16,234**
Gain on transactions with financial instruments, net	6,286	6,900
Other income	1,533	1,351
Other expense	(306)	(584)
Administrative expenses	(32,800)	(30,766)
Amortisation and depreciation charge	(2,315)	(2,828)
Impairment charges and reversals, net	(2,789)	(2,843)
Profit before taxation	**16,365**	**16,991**
Corporate income tax	(1,433)	(2,553)
Net profit for the period	**14,932**	**14,438**

The following table sets out certain financial ratios for the periods indicated. Unless otherwise indicated, the information presented is for Citadele Group.

	As at or for the six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)
	(EUR thousands, except percentages)	
Financial Ratios:[1]		
Average total assets[2]	2,811,283	2,548,590
Average total equity[3]	190,070	151,592
Total equity/total assets	6.8%	5.9%
Return on average total assets[4]	1.1%	1.1%
Return on average total equity[5]	15.8%	19.2%
Cost of risk based on average gross loans[6]	(0.8%)	(0.7%)
Cost of risk based on average total assets[7]	(0.3%)	(0.3%)
Net interest margin[8]	2.1%	2.3%
Net interest margin (Citadele)[8]	2.1%	2.4%
Loan-to-deposit ratio[9]	44.9%	49.1%
Cost-to-income ratio[10]	64.9%	63.3%
Cost-to-income ratio (Citadele)[10]	62.3%	53.6%
Non-Performing Loans ratio[11]	11.6%	11.9%
Coverage ratio[12]	66.8%	66.6%
90 days past due ratio[13]	5.6%	8.1%
90 days past due coverage ratio[14]	139.5%	98.1%

(1) Return on average total assets, return on average total equity, and loan to deposit ratio for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. The other financial ratios set forth on this table have not been audited or reviewed.

(2) Average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total assets as at 30 June of the relevant period and as at 31 December of the prior year.

(3) Average total equity for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total equity as at 30 June of the relevant period and as at 31 December of the prior year.

(4) Return on average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as net profit for the relevant period divided by average total assets for such period.

(5) Return on average total equity for the six months ended 30 June 2015 and 30 June 2014 is calculated as net profit for the relevant period divided by average total equity for such period.

(6) Cost of risk based on average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period, and has been annualised. Average gross loans for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of total gross loans and receivables as at 30 June of the relevant period and as at 31 December of the prior year.

(7) Cost of risk based on average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period, and has been annualised.

(8) Net interest margin for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income for the relevant period divided by average total assets for such period, and has been annualised. Net interest margin (Citadele) for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period, and has been annualised.

(9) Loan-to-deposit ratio is calculated as total net loans and receivables from customers (after impairment allowance) divided by deposits from customers, each as at the end of the relevant period.

(10) Cost-to-income ratio is calculated as Citadele Group's operating expenses divided by operating income, each for the relevant period. Cost-to-income ratio (Citadele) is calculated as Citadele's operating expenses divided by operating income, each for the relevant period. Operating expenses are calculated as the sum of administrative expense, amortisation and depreciation charge and other expense for the relevant period. Operating income is calculated as the sum of net interest income, net commission and fee income, gain or transactions with financial instruments, net and other income for the relevant period.

(11) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(12) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

(13) 90 days past due ratio is defined as the percentage of total gross loans and receivables from customers that are 90 or more days overdue as at the end of the relevant period.

(14) 90 days past due coverage ratio is calculated as total allowance for impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

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

	As at 30 June	
	2015 (unaudited)	2014 (unaudited)
	(EUR thousands, except percentages)	
Capital Ratios[1]		
Basel III Transitional Basis[2]		
Total capital adequacy ratio[3]	12.8%	10.1%
Common equity Tier 1 capital ratio[4]	10.7%	8.0%
Net Stable Funding Ratio[5]	123.7%	126.1%
Liquidity Coverage Ratio[6]	280.9%	481.9%
Leverage Ratio[7]	6.3%	4.9%
Risk weighted assets[8]	1,678,194	1,713,203
Risk weighted assets as a percentage of total assets[9]	60.6%	67.0%
Basel III Fully Loaded Basis[10]		
Total capital adequacy ratio[3]	11.3%	8.6%
Common equity Tier 1 capital ratio[4]	9.2%	6.4%
Leverage Ratio[7]	5.7%	4.1%
Risk weighted assets[8]	1,667,522	1,702,532
Risk weighted assets as a percentage of total assets[9]	60.2%	66.6%

(1) The capital ratios for the first halves of 2015 and 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1) and are not directly comparable with the Basel II capital ratios for 2013 and 2012 due to substantial changes in the relevant FCMC regulations as a result of the introduction of Basel III requirements. 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 "*Asset, Liability and Risk Management—Capital Adequacy Management*", "*Banking Regulation*" *Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU*, Note 15 to the Reviewed Interim Consolidated Financial Statements and Note 33 to the 2014, 2013 and 2012 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 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. The other capital ratios set forth in this table have not been audited or reviewed.

(2) The capital ratios set forth under the heading Basel III/Basel III Transitional Basis are calculated on a Basel III transitional basis 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio.

(5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio.

(6) 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio.

(7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Leverage Ratio.

(8) Risk weighted assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as total risk exposure amount for the relevant period.

(9) Risk weighted assets as a percentage of total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as total risk exposure amount divided by total assets.

(10) The capital ratios are set forth under the heading Basel III Fully Loaded Basis are calculated on a Basel III fully loaded basis 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

Interest income

The following table sets out the principal components of Citadele Group's interest income for the periods indicated:

	For the six months ended 30 June	
	2015	**2014**
	(EUR thousands, except percentages)	
Interest income on:		
—Loans and receivables from customers	31,748	30,775
—Balances due from credit institutions and central banks	493	403
—Held to maturity securities	3,040	3,602
—Available for sale securities	3,582	2,933
—Held for trading securities	204	285
—Financial assets designated at fair value through profit or loss	503	587
Total interest income	**39,570**	**38,585**
Yield on average total assets(1)	3.1%	3.3%
Net interest margin(2)	2.1%	2.3%

(1) Yield on average total assets for the six months ended 30 June 2015 and 30 June 2014 is calculated as total interest income as a percentage of average interest earning assets, each for the relevant period, and has been annualised.

(2) Net interest margin for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income divided by average total assets, each for the relevant period, and has been annualised.

For the first half of 2015, total interest income increased by EUR 1.0 million, or 2.6%, to EUR 39.6 million from EUR 38.6 million for the first half of 2014. This increase was primarily due to an increase in interest income on loans and receivables from customers of EUR 0.9 million, or 2.9%, to EUR 31.7 million from EUR 30.8 million, which resulted from an increase in the size of Citadele Group's customer loan portfolio as well as a one-time gain of EUR 1.5 million from a non-performing loan. Interest income on available for sale securities also increased by EUR 0.7 million, or 24.1%, to EUR 3.6 million from EUR 2.9 million, resulting primarily from a changing currency mix in the available for sale securities portfolio, from lower yielding EUR-denominated to higher yielding USD-denominated securities. These increases were partially offset by a decrease in interest income on held to maturity securities of EUR 0.6 million, or 16.7%, to EUR 3.0 million from EUR 3.6 million, resulting primarily from the replacement of higher yielding matured securities with new lower yielding securities.

For the first half of 2015, the average interest rate on total net loans and receivables from customers increased to 5.9% from 5.8% in the first half of 2014, primarily due to the one-time gain of EUR 1.5 million from non-performing loan exposure, as described above. If this gain was not included, the average interest rate on total net loans and receivables from customers in the first half of 2015 would have declined slightly due to the declining interest rate environment. The average interest rate on securities available for sale decreased to 1.3% from 1.5% due to the overall decline in interest rates in the Eurozone. The average interest rate on held to maturity securities decreased to 2.6% from 2.9% due to the overall decline in interest rates in the Eurozone.

Interest expense

The following table sets out the principal components of Citadele Group's interest expense for the periods indicated:

	For the six months ended 30 June	
	2015	2014
	(EUR thousands)	
Interest expense on:		
—Deposits from customers	(6,707)	(6,096)
—Subordinated liabilities	(2,358)	(2,668)
—Balances due to credit institutions and central banks	(677)	(89)
—Other financial liabilities	(1)	(1)
—Other interest expense	(143)	(96)
—Financial liabilities designated at fair value through profit or loss	(141)	(109)
Total interest expense	**(10,027)**	**(9,058)**

For the first half of 2015, total interest expense increased by EUR 0.9 million, or 10.7%, to EUR 10.0 million from EUR 9.1 million for the first half of 2014. This increase was primarily due to an increase in interest expense on deposits from customers of EUR 0.6 million, or 9.8%, to EUR 6.7 million from EUR 6.1 million, which resulted from increased contributions under the European Union's deposit guarantee scheme. Interest expense on balances due to credit institutions and central banks also increased by EUR 0.6 million to EUR 0.7 million from EUR 0.1 million, primarily due to a shift of some of Citadele Group's deposits from credit institutions to the ECB and Swiss National Bank, which as at 30 June 2015 had a negative interest rate on deposits.

Net interest income

For the first half of 2015, Citadele Group's net interest income remained unchanged at EUR 29.5 million as compared to the first half of 2014. For the first half of 2015, Citadele Group's net interest margin decreased to 2.1% from 2.3% for the six months ended 30 June 2014.

Commissions and fees

Commission and fee income

The following table sets out certain information on Citadele Group's commission and fee income for the periods indicated:

	For the six months ended 30 June	
	2015	**2014**
	(EUR thousands)	
Commission and fee income on:		
—Transactions with settlement cards	10,394	9,870
—Payment transfer fees	5,105	4,595
—Custody, trust and asset management fees	3,533	3,833
—Service fees for account maintenance	1,712	1,226
—Cash collection	1,088	1,052
—Cash disbursement/transaction commissions	626	664
—Securities, financial instrument brokerage fees	424	451
—Review of loan applications and collateral evaluation	304	302
—Letters of credit and guarantees	252	248
—Other fees	1,062	716
Total commission and fee income	**24,500**	**22,956**

For the first half of 2015, commission and fee income increased by EUR 1.5 million, or 6.5%, to EUR 24.5 million from EUR 23.0 million for the first half of 2014. This increase was primarily due to the increase in commissions and fees on transactions with settlement cards and payment transfers, which were mainly driven by an increase in customer activity.

Commission and fee expense

The following table sets out information on Citadele Group's commission and fee expense for the periods indicated:

	For the six months ended 30 June	
	2015	**2014**
	(EUR thousands)	
Commission and fee expense on:		
—Securities, financial instrument brokerage fees	(232)	(212)
—Custody, trust and asset management fees	(180)	(159)
—Settlement card operations	(5,702)	(5,361)
—Correspondent accounts	(705)	(639)
—Other fees	(468)	(351)
Total commission and fee expense	**(7,287)**	**(6,722)**

For the first half of 2015, commission and fee expense increased by EUR 0.6 million, or 8.4%, to EUR 7.3 million from EUR 6.7 million for the first half of 2014. This increase was primarily due the increase in expense for settlement card operations to EUR 5.7 million from EUR 5.4 million, resulting primarily from an increase in customer activity and increase in number of payment cards issued.

Net commission and fee income

For the first half of 2015, Citadele Group's net commission and fee income increased by EUR 1.0 million, or 6.2%, to EUR 17.2 million from EUR 16.2 million for the first half of 2014, primarily due to the increase in commissions and fees on transactions with settlement cards and payment transfers, which were mainly driven by an increase in customer activity.

Gain on transactions with financial instruments, net

The following table sets out certain information on Citadele Group's gain on transactions with financial instruments, net for the periods indicated:

	For the six months ended 30 June	
	2015	2014
	(EUR thousands)	
Gain from foreign exchange trading and revaluation of open positions, net	3,498	5,097
Gain / (loss) from disposal of available for sale securities, net	2,333	1,654
Gain / (loss) from trading and revaluation of securities held for trading purposes, net	733	221
Gain from trading and revaluation of other derivatives, net	–	1
Gain / (loss) on financial assets measured at amortised cost, net	(278)	(90)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	–	17
Gain on trading with financial instruments, net	**6,286**	**6,900**

For the first half of 2015, gain on transactions with financial instruments, net decreased by EUR 0.6 million, or 8.7%, to EUR 6.3 million from EUR 6.9 million for the first half of 2014 due in part to an increase in gain from disposal of available for sale securities of EUR 0.6 million, or 26.1%, to EUR 2.3 million from EUR 1.7 million resulting in part from a re-assessment of the fair value of a certain credit linked note (which was transferred to Citadele as part of the restructuring of AS "Parex banka" described above) as set out below. In the first half of 2015, Citadele Group reclassified a certain credit linked note as a German credit institution bond instead of a Latvian municipality bond. The performance of this credit linked note is linked to the credit performance of the municipality of Riga, and Citadele Group's credit exposure to the municipality of Riga is now separately classified as an embedded credit derivative. In the first half of 2015, Citadele Group recognized a gain of EUR 0.3 million as a result of the re-assessment of the fair value of this embedded credit derivative. Citadele Group also received EUR 0.4 million in income from the credit default swap margin on this embedded credit derivative. See Notes 8 and 23 to the Reviewed Consolidated Interim Financial Statements for further information.

Other income and other expense

In the first half of 2015, other income increased by EUR 0.1 million, or 7.1%, to EUR 1.5 million from EUR 1.4 million in the first half of 2014.

In the first half of 2015, other expense decreased by EUR 0.3 million, or 50.0%, to EUR 0.3 million from EUR 0.6 million in the first half of 2014.

Administrative expenses

The following table sets out certain information on Citadele Group's administrative expenses for the periods indicated:

	For the six months ended 30 June	
	2015	2014
	(EUR thousands)	
Administrative expenses:		
Personnel expense	(20,224)	(20,497)
Rent, utilities, maintenance	(1,885)	(1,912)
IT equipment and software related expense	(1,723)	(1,470)
Non-refundable value added tax	(1,696)	(1,411)
Consulting and professional fees	(2,845)	(1,320)
Advertising, marketing and sponsorship	(1,235)	(1,076)
Office administration expense	(384)	(398)
Communications	(329)	(332)
Other administrative expenses	(2,480)	(2,350)
Total administrative expenses	**(32,800)**	**(30,766)**

For the six months ended 30 June 2015, total administrative expenses increased by EUR 2.0 million, or 6.5%, to EUR 32.8 million from EUR 30.8 million for the six months ended 30 June 2014, primarily due to expenses incurred in relation to the advisory services agreement with Ripplewood Advisors LLC and expenses related to the preparation for Citadele Group's new strategy and personnel expenses to EUR 20.2 million.

Amortisation and depreciation charge

For the six months ended 30 June 2015, amortisation and depreciation charge decreased by EUR 0.5 million, or 17.9%, to EUR 2.3 million from EUR 2.8 million for the six months ended 30 June 2014, primarily due to the continued use of fully depreciated equipment.

Impairment charges and reversals

The following table sets out certain information on Citadele Group's impairment charges and reversals for the periods indicated:

	For the six months ended 30 June	
	2015	2014
	(EUR thousands)	
Loans—specifically assessed impairment, net	(1,199)	(1,268)
Loans—collectively assessed impairment, net	(3,464)	(2,747)
Available for sale securities	–	(255)
Other financial and non-financial assets, net	1,223	(498)
Recovered written-off assets	651	1,926
Total allowance and reversals charged to the statement of income, net	**(2,789)**	**(2,843)**
Non-Performing Loans ratio[(1)]	11.6%	11.9%
Coverage ratio[(2)]	66.8%	66.6%

(1) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(2) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

For the six months ended 30 June 2015, Citadele Group's total allowance and reversals charged to the statement of income, net remained unchanged from EUR 2.8 million for the six months ended 30 June 2014. The charge for collectively assessed impairment increased by EUR 0.8 million, or 29.6%, to EUR 3.5 million from EUR 2.7 million, resulting primarily from an increase in the number of days by which payment was delayed for certain past due unimpaired loans. See "*—Quality of loan portfolio".* This increase was partially offset by the decrease in the charge for specifically assessed impairment of EUR 0.1 million, or 7.7%, to EUR 1.2 million from EUR 1.3 million, resulting from the improvements in recoverability of certain loans, partially offset by the impairment of other loans due to the deterioration of certain clients' medium term business prospects.

Taxation

The following table sets out certain information on Citadele Group's income tax expense for the periods indicated:

	For the six months ended 30 June	
	2015	**2014**
	(EUR thousands)	
Current corporate income tax	(211)	(232)
Deferred income tax	(1,175)	(2,308)
Tax withheld abroad	(47)	(53)
Prior year adjustments	–	40
Total corporate income tax expense	**(1,433)**	**(2,553)**

For the six months ended 30 June 2015, Citadele Group's income tax expense decreased by EUR 1.2 million, or 44.0%, to EUR 1.4 million from EUR 2.6 million for the six months ended 30 June 2014, primarily due to the fact that Citadele Group did not fully implement the new Latvian tax regime with respect to certain publicly traded European Union securities in the first half of 2014 (see "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Latvian tax regime*" for further information). Primarily due to this, Citadele Group has an effective tax rate (calculated as total corporate income tax expense as a percentage of profit before taxation) of 8.8% in the six months ended 30 June 2015, as compared to 15.0% in the first six months of 2014.

Net profit

For the foregoing reasons, Citadele Group's net profit for the period increased by EUR 0.5 million, or 3.5%, to EUR 14.9 million for the six months ended 30 June 2015 from EUR 14.4 million for six months ended 30 June 2014. Over the same periods, return on average total assets remained the same at 1.1%, and return on average total equity decreased to 15.8% from 19.2%.

Segment analysis

The following table sets out information on the financial results of Citadele Group's segments for the six months ended 30 June 2015 and 30 June 2014:

	For the six months ended 30 June (EUR thousands)													
	Banking													
	Retail & SME		Corporate		Private capital management		Lithuania		Estonia		Switzerland		Other	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	10,501	11,015	5,955	5,102	5,037	4,748	3,411	2,897	1,120	861	1,078	1,158	1,115	2,927
Net commission and fee income	3,479	4,055	1,520	1,159	5,394	4,869	1,103	1,082	209	126	1,165	924	1,713	1,596
Gain on transactions with financial instruments, net	458	401	112	125	1,988	2,912	2,004	1,585	194	173	239	95	1,433	1,953
Other income	202	52	499	3	30	21	154	68	3	3	–	–	365	2,417
Other expense	(31)	(50)	(4)	(3)	(10)	(19)	95	(59)	(2)	(1)	–	–	(137)	(163)
Administrative expenses	(13,553)	(13,120)	(1,984)	(1,755)	(4,317)	(4,228)	(4,232)	(4,330)	(1,042)	(824)	(2,128)	(1,835)	(3,851)	(3,062)
Amortisation and depreciation charge	(146)	(129)	(1)	–	(5)	(4)	(87)	(106)	(10)	(7)	(75)	(61)	(642)	(505)
Impairment charges and reversals, net	(1,262)	(758)	(2,098)	906	(106)	(83)	315	(72)	(98)	(257)	–	–	(816)	(3,879)
Segment result	**(352)**	**1,466**	**3,999**	**5,537**	**8,011**	**8,216**	**2,763**	**1,065**	**374**	**74**	**279**	**281**	**(820)**	**1,284**
of which internal transactions	(55)	(173)	(2,046)	(2,126)	6,361	5,662	(15)	(112)	479	128	184	47	(4,962)	(3,461)
Segment assets[1]	343,813	354,075	317,695	344,377	21,880	28,711	356,927	308,881	57,643	49,690	281,773	237,941	1,513,890	1,293,870
Segment liabilities	583,884	580,711	278,382	299,859	784,199	711,090	313,027	266,686	127,968	96,088	261,404	221,249	292,760	228,609

(1) Excludes fixed and intangible assets in the amount of EUR 44.6 million.

	For the six months ended 30 June (EUR thousands)									
	Other business lines						Eliminations and consolidation adjustments		Group, consolidated	
	Asset management		Leasing		Other					
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	44	54	1,945	1,505	(691)	(770)	28	30	**29,543**	**29,527**
Net commission and fee income	2,663	2,446	(9)	(4)	(1)	(1)	(23)	(18)	**17,213**	**16,234**
Gain on transactions with financial instruments, net	36	311	8	4	–	–	(186)	(659)	**6,286**	**6,900**
Other income	247	316	252	195	2,930	2,965	(3,149)	(4,689)	**1,533**	**1,351**
Other expense	(74)	(136)	(133)	(1)	–	(185)	(10)	33	**(306)**	**(584)**
Administrative expenses	(1,783)	(1,816)	(1,064)	(934)	(1,586)	(1,544)	2,740	2,682	**(32,800)**	**(30,766)**
Amortisation and depreciation charge	(12)	(12)	(58)	(38)	(1,274)	(1,961)	(5)	(5)	**(2,315)**	**(2,828)**
Impairment charges and reversals, net	(30)	(209)	(167)	(287)	1,245	–	228	1,796	**(2,789)**	**(2,843)**
Segment result	**1,091**	**954**	**774**	**440**	**623**	**(1,496)**	**(377)**	**(830)**	**16,365**	**16,991**
of which internal transactions	42	25	–	(1,148)	(624)	(701)	636	1,857	–	–
Segment assets[1]	46,747	36,358	120,559	104,131	7,792	7,126	(345,317)	(252,575)	**2,723,402**	**2,512,585**
Segment liabilities	31,158	21,633	113,917	97,535	55,497	56,785	(277,654)	(184,322)	**2,564,542**	**2,395,923**

(1) Excludes fixed and intangible assets in the amount of EUR 44.6 million.

The following review describes certain of Citadele Group's segment results for the periods indicated, without giving effect to any eliminations or consolidation adjustments.

Banking—Retail and SME

In the first half of 2015, the Retail and SME segment result changed to EUR (0.4) million from EUR 1.5 million in the first half of 2014, primarily due to the increase in impairment charges and reversals, net to a charge of EUR 1.3 million from EUR 0.8 million, resulting primarily from the deterioration in the medium term business prospects of certain customers, the decrease in net interest income to EUR 10.5 million from EUR 11.0 million, resulting primarily from decreases in the credit card portfolio, the decrease in net commission and fee income to EUR 3.5 million from EUR 4.1 million, resulting primarily from lower commission income for distribution of certain third party products through the Branch network, and an increase in administrative expenses to EUR 13.6 million from EUR 13.1 million primarily due to increased personnel and marketing expenses.

Banking—Corporate

In the first half of 2015, the Corporate segment result decreased by EUR 1.5 million, or 27.3%, to EUR 4.0 million from EUR 5.5 million in the first half of 2014, primarily due to the increase in impairment charges and reversals, net from a reversal of EUR 0.9 million in the first half of 2014 to a charge of EUR 2.1 million in the first half of 2015, resulting primarily from a reduction in reversals. This increase was partially offset by the increase in other income to EUR 0.5 million from EUR 0.0 million, resulting primarily from one-off income, and the increase in net interest income to EUR 6.0 million from EUR 5.1 million, resulting from a EUR 1.5 million one-off gain related to a non-performing exposure.

Banking—Private capital management

In the first half of 2015, the Private capital management segment result decreased by EUR 0.2 million, or 2.4%, to EUR 8.0 million from EUR 8.2 million in the first half of 2014, primarily due to the decrease in gain on transactions with financial instruments, net to EUR 2.0 million from EUR 2.9 million. This decrease was partially offset by the increase in net commission and fee income to EUR 5.4 million from EUR 4.9 million, resulting primarily from the increase in commission income from payment transfers, and the increase in net interest income to EUR 5.0 million from EUR 4.7 million, resulting from an increased deposit base.

Banking—Lithuania

In the first half of 2015, the Lithuania segment result increased by EUR 1.7 million, or 154.5%, to EUR 2.8 million from EUR 1.1 million in the first half of 2014, primarily due to the increase in net interest income to EUR 3.4 million from EUR 2.9 million, resulting primarily from increases in the loan portfolio, and the increase in gain on transactions with financial instruments to EUR 2.0 million from EUR 1.6 million, resulting primarily from realised profit from the sale of available for sale securities, as well as the change in impairment charges and reversals, net to a reversal of EUR 0.3 million from a charge of EUR 0.1 million, resulting primarily from the sale of non-performing portfolios and release of specific impairment due to improvement of real estate value indexes.

Banking—Estonia

In the first half of 2015, the Estonia segment result increased to EUR 0.4 million from EUR 0.1 million in the first half of 2014, primarily due to the increase in net interest income to EUR 1.1 million from EUR 0.9 million, resulting primarily from increases in the loan portfolio. This increase was partially offset by the increase in administrative expenses to EUR 1.0 million from

EUR 0.8 million, resulting primarily from increased personnel expense, which in turn was offset by the decrease in impairment charges and reversals, net to a charge of EUR 0.1 million from a charge of EUR 0.3 million, resulting primarily from an increased collective impairment.

Banking—Switzerland

In the first half of 2015, the Switzerland segment result remained unchanged at EUR 0.3 million. The increase in net commission and fee income to EUR 1.2 million from EUR 0.9 million in the first half of 2014, resulting primarily from changes in the mix of customer on- and off-balance sheet funds as well as revised tariffs, was partially offset by the increase in administrative expenses to EUR 2.1 million from EUR 1.8 million, resulting primarily from performance-based pay accruals.

Banking—Other

In the first half of 2015, the Other segment result changed to a loss of EUR 0.8 million from a gain of EUR 1.3 million in the first half of 2014, primarily due to the decrease in other income to EUR 0.4 million from EUR 2.4 million, resulting primarily from a decrease in dividend income from subsidiaries and the decrease in net interest income to EUR 1.1 million from EUR 2.9 million, resulting primarily from an increased deposit base. These decreases were partially offset by the decrease in impairment charges and reversals, net to a charge of EUR 0.8 million from a charge of EUR 3.9 million, resulting primarily from decreased impairment charges in relation to the legacy portfolio.

Other business lines—Asset management

In the first half of 2015, the Asset management segment result increased by EUR 0.1 million, or 10.0%, to EUR 1.1 million from EUR 1.0 million in the first half of 2014, primarily due to the increase in net commission and fee income to EUR 2.7 million from EUR 2.4 million, resulting primarily from lower commission expenses for distribution of the segment's products.

Other business lines—Leasing

In the first half of 2015, the Leasing segment result increased by EUR 0.4 million, or 100.0%, to EUR 0.8 million from EUR 0.4 million in the first half of 2014, primarily due to the increase in net interest income from EUR 1.5 million to EUR 1.9 million, resulting primarily from increases in the leasing portfolio.

Other business lines—Other

In the first half of 2015, the Other segment result changed to a gain of EUR 0.6 million from a loss of EUR 1.5 million in the first half of 2014, primarily due to the change in impairment charges and reversals, net to a charge of EUR 1.2 million from EUR 0.0 million, resulting primarily from the re-estimate of the fair value of Citadele's headquarters building at the end of 2014.

For further information regarding Citadele Group's segment reporting, see "*—Segment Information*" and Note 19 to the Reviewed Consolidated Interim Financial Statements.

Results of Operations for the Years ended 31 December 2014, 2013 and 2012

Consolidated results of operations

The following table sets out the main components of Citadele Group's income statement for the years indicated:

	For the year ended 31 December		
	2014	2013	2012
			(EUR thousands)
Interest income	80,707	74,810	84,526
Interest expense	(18,241)	(19,520)	(35,250)
Net interest income	**62,466**	**55,290**	**49,275**
Commission and fee income	47,796	45,099	41,969
Commission and fee expense	(14,413)	(12,930)	(11,481)
Net commission and fee income	**33,383**	**32,169**	**30,488**
Gain on transactions with financial instruments, net	13,471	17,141	14,296
Other income	2,589	2,911	3,476
Other expense	(1,457)	(2,021)	(423)
Administrative expenses	(61,420)	(62,550)	(59,224)
Amortisation and depreciation charge	(5,204)	(5,857)	(6,271)
Impairment charges and reversals, net	(8,569)	(20,144)	(13,335)
Profit before taxation	**35,259**	**16,939**	**18,282**
Corporate income tax	(2,854)	(3,342)	(5,532)
Net profit for the period	**32,405**	**13,597**	**12,750**

The following table sets out certain of Citadele Group's financial ratios for the years indicated:

	For the year ended 31 December		
	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
		(EUR thousands, except percentages)	
Financial Ratios:[1]			
Average total assets[2]	2,698,058	2,410,071	2,249,362
Average total equity[3]	160,079	139,211	122,655
Total equity/total assets	5.9%	5.8%	5.5%
Return on average total assets[4]	1.2%	0.6%	0.6%
Return on average total equity[5]	20.2%	9.8%	10.4%
Cost of risk based on average gross loans[6]	(1.2%)	(1.9%)	(0.8%)
Cost of risk based on average total assets[7]	(0.5%)	(0.9%)	(0.4%)
Net interest margin[8]	2.3%	2.3%	2.2%
Net interest margin (Citadele)[8]	2.3%	2.3%	2.0%
Loan-to-deposit ratio[9]	42.7%	47.0%	51.3%
Cost-to-income ratio[10]	60.8%	65.5%	67.6%
Cost-to-income ratio (Citadele)[10]	52.3%	54.9%	61.0%
Non-Performing Loans ratio[11]	12.1%	12.5%	14.2%
Coverage ratio[12]	63.0%	64.8%	56.5%
90 days past due ratio[13]	6.8%	8.4%	7.8%
90 days past due coverage ratio[14]	111%	96%	103%

(1) Return on average total assets, return on average total equity, loan to deposit ratio and cost to income ratio for the years ended 31 December 2014 and 2013 are included in the 2014 and 2013 Audited Consolidated Financial Statements. The other financial ratios set forth in this table have not been audited or reviewed.

(2) Average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total assets as at 31 December of the relevant period and as at 31 December of the prior year.

(3) Average total equity for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total equity as at 31 December of the relevant period and as at 31 December of the prior year.

(4) Return on average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as net profit for the relevant period divided by average total assets for such period.

(5) Return on average total equity for the years ended 31 December 2014, 2013 and 2012 is calculated as net profit for the relevant period divided by average total equity for such period.

(6) Cost of risk based on average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period. Average gross loans for the years ended 31 December 2014, 2013 and 2012 is calculated as the average of total gross loans and receivables as at 31 December of the relevant period and as at 31 December of the prior year.

(7) Cost of risk based on average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period.

(8) Net interest margin for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income for the relevant period divided by average total assets for such period. Net interest margin (Citadele) for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period.

(9) Loan-to-deposit ratio is calculated as total net loans and receivables from customers (after impairment allowance) divided by deposits from customers, each as at the end of the relevant period.

(10) Cost-to-income ratio is calculated as Citadele Group's operating expenses divided by operating income, each for the relevant period. Cost-to-income ratio (Citadele) is calculated as Citadele's operating expenses divided by operating income, each for the relevant period. Operating expenses are calculated as the sum of administrative expense, amortisation and depreciation charge and other expense for the relevant period. Operating income is calculated as the sum of net interest income, net commission and fee income, gain or transactions with financial instruments, net and other income for the relevant period.

(11) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(12) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

(13) 90 days past due ratio is defined as the percentage of total gross loans and receivables from customers that are 90 or more days overdue as at the end of the relevant period.

(14) 90 days past due coverage ratio is calculated as total allowance for impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

The following table sets out certain of Citadele Group's capital ratios for the years indicated:

	As at 31 December		
	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
	(EUR thousands, except percentages)		
Capital Ratios[1]			
Basel II/Basel III Transitional Basis[2]			
Total capital adequacy ratio[3]	11.0%	10.3%	10.5%
Common equity Tier 1 capital ratio[4]	9.3%	8.4%	7.8%
Net Stable Funding Ratio[5]	130.0%	–	–
Liquidity Coverage Ratio[6]	533.0%	–	–
Leverage Ratio[7]	5.7%	–	–
Risk weighted assets[8]	1,822,041	1,611,100	1,555,928
Risk weighted assets as percentage of total assets[9]	63.8%	63.4%	68.3%
Basel III Fully Loaded Basis[10]			
Total capital adequacy ratio[3]	9.5%	–	–
Common equity Tier 1 capital ratio[4]	7.8%	–	–
Leverage Ratio[7]	5.0%	–	–
Risk weighted assets[8]	1,811,326		
Risk weighted assets as percentage of total assets[9]	63.5%		

(1) The capital ratios for the year ended 31 December 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations as a result of the introduction of the Basel III requirements. Accordingly, Common equity Tier 1 capital ratio, Net Stable Funding Ratio and Liquidity Coverage Ratio have not been calculated for the years ended 31 December 2013 and 2012. AAS "Citadele Life" is not included in Citadele Group's consolidation group for capital adequacy purposes, and the value of Citadele's investment in AAS "Citadele Life" constitutes a risk exposure for capital adequacy purposes. See "*Asset, Liability and Risk Management—Capital Adequacy Management*", "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU*" and Note 33 to the 2014, 2013 and 2012 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 year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio on a Basel II basis for the years ended 31 December 2013 and 2012 are included in the 2013 Audited Consolidated Financial Statements and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed.

(2) The capital ratios set forth under the heading Basel II/Basel III Transitional Basis are calculated on a Basel II basis for 2012 and 2013, and on a Basel III transitional basis for 2014 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio.

(5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio.

(6) 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio.

(7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's Leverage Ratio.

(8) Risk weighted assets for the years ended 31 December 2014, 2013 and 2012 is calculated as total risk exposure amount for the relevant period.

(9) Risk weighted assets as a percentage of total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as total risk exposure amount divided by total assets.

(10) The capital ratios set forth under the heading Basel III Fully Loaded Basis are calculated on a Basel III Fully Loaded Basis for 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

Interest income

The following table sets out the principal components of Citadele Group's interest income for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
	(EUR thousands, except percentages)		
Interest income on:			
—Loans and receivables from customers	64,906	58,325	63,550
—Balances due from credit institutions and central banks	736	480	1,151
—Held to maturity securities	7,094	7,994	11,386
—Available for sale securities	6,020	6,035	7,020
—Held for trading securities	695	713	482
—Financial assets designated at fair value through profit or loss	1,256	1,263	837
—Other interest income	–	–	100
Total interest income	**80,707**	**74,810**	**84,526**
Yield on average total assets[1]	3.3%	3.4%	4.1%
Net interest margin[2]	2.3%	2.3%	2.2%

(1) Yield on average total assets for the years ended 31 December 2014, 2013 and 2012 is calculated as a total interest income as a percentage of average interest earning assets, each for the relevant period, and has been annualised.

(2) Net interest margin for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income for the relevant period divided by the average total assets for such period.

In 2014, total interest income increased by EUR 5.9 million, or 7.9%, to EUR 80.7 million from EUR 74.8 million in 2013, primarily due to an increase in interest income on loans and receivables from customers of EUR 6.6 million, or 11.3%, to EUR 64.9 million from EUR 58.3 million over the same periods. This increase was primarily driven by an increase in the yield of Citadele Group's customer loan portfolio resulting primarily from an additional EUR 2.7 million of interest income

recognised in 2014 in relation to the loan portfolio acquired from GE Bank in 2013. Approximately two-thirds of the additional interest income relate to the released deep discount applied at acquisition due to concerns over the credit risk of the specific exposures, which later turned out to perform better than expected. The increase in the average interest rate on total net loans and receivables from customers from 5.6% to 6.1% is also explained by an increase in the proportion of higher yielding loans to privately held companies and a decrease in lower yielding loans to private individuals. The average interest rate on securities available for sale decreased from 1.6% to 1.3% due to an overall decline in interest rates in the Eurozone. The average interest rate on held to maturity securities decreased from 3.3% to 3.0% due to the maturity of higher yielding Latvian government bond securities which were transferred to Citadele from AS "Parex Banka", and their replacement by new lower yielding securities due to the overall decline in interest rates in the Eurozone.

In 2013, total interest income decreased by EUR 9.7 million, or 11.5%, to EUR 74.8 million from EUR 84.5 million in 2012, primarily due to a decrease in interest on loans and receivables from customers of EUR 5.2 million, or 8.2%, to EUR 58.3 million from EUR 63.6 million as well as a decrease in interest income on held to maturity securities of EUR 3.4 million, or 29.8% and a decrease of EUR 1.0 million, or 14.0%, in interest income on available for sale securities. The decrease in interest income on loans and receivables from customers resulted primarily from a decrease in average interest rate on total net loans and receivables from customers from 6.2% to 5.6% due to an increasing percentage of new loans, as opposed to legacy loans, in Citadele Group's loan portfolio as new loans typically bore lower interest rates than legacy loans. The reduction due to lower interest rates for the loan portfolio was partially offset by an overall increase in loans and receivables from customers. The average interest rate on securities available for sale decreased from 2.3% to 1.6% due to an overall decline in interest rates in the Eurozone. The average interest rate on held to maturity securities decreased from 5.5% to 3.3% due to the maturity of higher yielding Latvian government bond securities which were transferred to Citadele from AS "Parex Banka", and their replacement by new lower yielding securities due to the overall decline in interest rates in the Eurozone.

Interest expense

The following table sets out the principal components of Citadele Group's interest expense for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
			(EUR thousands)
Interest expense on:			
—Deposits from customers	(12,325)	(13,611)	(26,379)
—Subordinated liabilities	(5,361)	(5,490)	(6,350)
—Issued debt securities	–	–	(182)
—Balances due to credit institutions and central banks	(81)	(33)	(92)
—Other interest expense	(234)	(245)	(2,147)
—Financial liabilities designated at fair value through profit or loss	(240)	(141)	(100)
Total interest expense	**(18,241)**	**(19,520)**	**(35,250)**

In 2014, total interest expense decreased by EUR 1.3 million, or 6.6%, to EUR 18.2 million from EUR 19.5 million in 2013, primarily due to a decrease in interest expense on deposits from customers of EUR 1.3 million, or 9.4%, to EUR 12.3 million from EUR 13.6 million. While the overall customer deposit portfolio increased during this period, this increase was more than offset by a decrease in the average interest rate on customer deposits from 0.7% to 0.5% which was driven by a declining interest rate environment.

In 2013, total interest expense decreased by EUR 15.7 million, or 44.6%, to EUR 19.5 million from EUR 35.3 million in 2012, primarily due to a decrease in interest expense on deposits from

customers of EUR 12.8 million, or 48.4%, to EUR 13.6 million from EUR 26.4 million over the same periods. While the overall customer deposit portfolio increased slightly during this period, the average interest rate on total deposits from customers decreased significantly from 1.5% to 0.7% due to the declining interest rate environment which led to a decrease in fixed-term deposits. In addition, interest expense on subordinated liabilities decreased by EUR 0.9 million, or 13.5%, to EUR 5.5 million from EUR 6.4 million, primarily due to the change in average interest rate on Citadele's total subordinated liabilities to 7.4% from 8.6% due to declines in the money market reference rates for Citadele's subordinated liabilities. Other interest expense decreased by EUR 1.9 million to EUR 0.2 million from EUR 2.1 million, primarily due to the repayment in 2012 of financing from the European Investment Bank.

Net interest income and net interest margin

In 2014, Citadele Group's net interest income increased by EUR 7.2 million, or 13.0%, to EUR 62.5 million from EUR 55.3 million in 2013. This increase was primarily driven by an increase in interest income driven by the impact of an increasing customer loan portfolio yield combined with a decrease in total interest expense due to the declining interest rate environment. In 2014, Citadele Group's net interest margin was unchanged at 2.3% as compared to 2.3% in 2013. Yield on average interest earning assets decreased slightly to 3.3% from 3.4%.

In 2013, Citadele Group's net interest income increased by EUR 6.0 million, or 12.2%, to EUR 55.3 million from EUR 49.3 million in 2012. The increase in net interest income margin was primarily driven by a substantial decrease in interest expense on customer deposits which outweighed a decrease in interest income due to decreased loans and receivables from customers. In 2013, Citadele Group's net interest margin has increased to 2.3% from 2.2% in 2012. Yield on average total assets decreased to 3.4% from 4.1%.

Commissions and fees

Commission and fee income

The following table sets out certain information on Citadele Group's commission and fee income, for the years indicated:

	For the year ended 31 December		
	2014	2013	2012
			(EUR thousands)
Commission and fee income on:			
—Transactions with settlement cards	20,808	19,909	18,060
—Payment transfer fees	9,594	8,943	7,453
—Custody, trust and asset management fees	7,973	6,630	6,320
—Service fees for account maintenance	2,480	2,007	1,760
—Cash collection	2,128	1,786	1,491
—Cash disbursement/transaction commissions	1,379	1,988	1,507
—Securities, financial instrument brokerage fees	819	890	1,257
—Review of loan applications and collateral evaluation	670	957	1,546
—Letters of credit and guarantees	545	637	844
—Other fees	1,400	1,352	1,730
Total commission and fee income	**47,796**	**45,099**	**41,969**

In 2014, commission and fee income increased by EUR 2.7 million, or 6.0%, to EUR 47.8 million from EUR 45.1 million in 2013, primarily due to increases in custody, trust and management fees, commissions and fees on transactions with settlement cards, payment transfer fees and service fees for account maintenance and cash collection. The increase in commissions and fees on transactions with settlement cards was mainly driven by an increase in customer activity, including an increase in the number of payment cards issued by Citadele Group in Latvia by 3%

and an increase in the share of purchases in Latvia paid for by payment cards issued by Citadele Group from 40% in 2013 to 42% in 2014. The increase in custody, trust and asset management fees was primarily driven by an increase in customer's portfolios resulting in an increase in commission fees of 6% as compared to 2013. Cash disbursement and transaction commissions decreased to EUR 1.4 million from EUR 2.0 million, primarily due to an increase in card and internet bank payments in relation to cash payments as well as increased fees from cash related transactions.

In 2013, commission and fee income increased by EUR 3.1 million, or 6.9%, to EUR 45.1 million from EUR 42.0 million in 2012, primarily due to the increase in commissions and fees on transactions with settlement cards, which was driven by an increase in customer activity, including an increase in the number of payment cards issued by Citadele Group in Latvia of almost 7%. The increase in custody, trust and asset management fees over the same periods was driven by increased customer pricing which resulted in higher margins. This increased pricing did not result in lower volumes as Citadele Group's prices generally remained lower than those of its competitors.

Commission and fee expense

The following table sets out information on Citadele Group's commission and fee expense, for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
			(EUR thousands)
Commission and fee expense:			
—Securities, financial instrument brokerage fees	(425)	(351)	(462)
—Custody, trust and asset management fees	(310)	(277)	(319)
—Fees related to settlement card operations	(11,491)	(9,948)	(8,500)
—Fees related to correspondent accounts	(1,319)	(1,415)	(1,615)
—*O*ther fees	(868)	(939)	(585)
Total commission and fee expense	**(14,413)**	**(12,930)**	**(11,481)**

In 2014, commission and fee expense increased by EUR 1.5 million, or 11.5%, to EUR 14.4 million from EUR 12.9 million in 2013, primarily due to an increase in fees related to settlement card operations, which outweighed a decrease in fees related to correspondent accounts. The increase in fees related to settlement card operations was mainly driven by the increase in the number of payment cards issued by Citadele Group in Latvia and the share of purchases made by payment cards issued by Citadele Group in Latvia. Commission and fee expense grew more rapidly in 2014 than commission and fee income due to the introduction of new loyalty programmes for payment cards and lower revenues in certain payment card-related areas (e.g., currency exchange fees) as a result of the introduction of the euro in Latvia as of 1 January 2014. Citadele does not anticipate that this trend will continue going forward and anticipates that commission and fee income will grow more rapidly than commission and fee expense in the short to medium term. See "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Net commission and fee income*" for more information.

In 2013, commission and fee expense increased by EUR 1.4 million, or 12.6%, to EUR 12.9 million from EUR 11.5 million in 2012, primarily due to an increase in fees related to settlement card operations, which was partially offset by decreased fees in nearly all other categories. The increase in fees related to settlement card operations was mainly driven by the increase in the number of payment cards issued by Citadele Group in Latvia and the share of purchases made by payment cards issued by Citadele Group in Latvia. The decrease in brokerage and custodian fees was primarily driven by a decrease in overall customer activity, including in the number of transactions.

Net commission and fee income

For the foregoing reasons, Citadele Group's net commission and fee income increased by EUR 1.2 million, or 3.8%, to EUR 33.4 million in 2014 from EUR 32.2 million in 2013. Citadele Group's net commission and fee income increased by EUR 1.7 million, or 5.5%, to EUR 32.2 million in 2013 from EUR 30.5 million in 2012.

Gain on transactions with financial instruments, net

The following table sets out certain information on Citadele Group's gain on transactions with financial instruments, net, for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
			(EUR thousands)
Gain from foreign exchange trading and revaluation of open positions, net	10,757	14,388	12,701
Gain / (loss) from disposal of available for sale securities, net	3,106	4,612	2,295
Gain / (loss) from trading and revaluation of securities held for trading purposes, net	88	(990)	(420)
Gain from trading and revaluation of other derivatives, net	7	5	38
Gain / (loss) on financial assets measured at amortised cost, net	(91)	–	3
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(396)	(874)	(322)
Gain on trading with financial instruments, net	**13,471**	**17,141**	**14,295**

In 2014, Citadele Group's gain on trading with financial instruments net decreased by EUR 3.7 million, or 21.4%, to EUR 13.5 million from EUR 17.1 million in 2013, partially due to the revaluation and trading loss on securities in Citadele Group's Swiss operations (see "*—Results of Operations for the Years ended 31 December 2014, 2013 and 2012—Segment Information—Banking—Switzerland*" for further information). Gain from foreign exchange trading and revaluation of open positions decreased by EUR 3.6 million, or 25.2%, from EUR 14.4 million to EUR 10.8 million, primarily due to the cessation of local currency (Latvian Lat) exchange transactions due to the adoption of the Euro in Latvia. Over the same period, gain from disposal of available for sale securities decreased by EUR 1.5 million to EUR 3.1 million from EUR 4.6 million, primarily due to a decreased rate of reduction in the benchmark interest rates in EUR and USD, which resulted in less non-cash revaluation gain from the portfolio. Gain from trading and revaluation of securities held for trading purposes increased by EUR 1.1 million to EUR 0.1 million, as compared to a loss of EUR 1.0 million in 2013, primarily due to declines in benchmark interest rates and credit default spreads which increased the value of securities held for trading purposes in Citadele Group's Swiss operations. Loss on financial assets or financial liabilities designated at fair value through profit and loss decreased by EUR 0.5 million to a loss of EUR 0.4 million from a loss of EUR 0.9 million, primarily due to cost control efforts as part of an overall focus on efficiency improvements.

In 2013, gain on trading with financial instruments net increased by EUR 2.8 million, or 19.9%, to EUR 17.1 million from EUR 14.3 million in 2012, primarily due to increases in gain from foreign exchange trading and gain from disposal of available for sale securities, which was partially offset by the increase in loss on trading with financial instruments in Citadele Group's Swiss operations (see "*—Results of Operations for the Years ended 31 December 2014, 2013 and 2012—Segment Information—Banking–Switzerland*" for further information). Gain from foreign exchange trading increased by EUR 1.7 million, or 13.3%, to EUR 14.4 million from EUR 12.7 million, primarily due to more favourable market conditions and client activity. Gain from disposal of available for sale securities increased by EUR 2.3 million to EUR 4.6 million from EUR 2.3 million, primarily due to declines in benchmark interest rates and credit default spreads which increased the value of securities held for trading purposes in Citadele Group's Swiss operations. Loss from trading and revaluation of securities held for trading purposes increased by

EUR 0.6 million to a loss of EUR 1.0 million from a loss of EUR 0.4 million, primarily due to negative market trends for short maturity and high quality securities included in this category. Loss on financial assets or financial liabilities designated at fair value through profit and loss increased by EUR 0.6 million, or 171.5%, to a loss of EUR 0.9 million from a loss of EUR 0.3 million, primarily due to negative revaluation of short maturity securities which were regularly replaced with similar new securities at maturity.

Other income and other expense

In 2014, other income decreased by EUR 0.3 million, or 11.1%, to EUR 2.6 million from EUR 2.9 million in 2013, primarily due to a decrease in income from the sale of repossessed leasing collateral. Other expense decreased by EUR 0.6 million, or 27.9%, to EUR 1.5 million from EUR 2.0 million, primarily due to a decrease in the transaction costs arising out of the sale of repossessed leasing collateral as result of a reduction in repossessions and sales of such collateral.

In 2013, other income decreased by EUR 0.6 million, or 17.1%, to EUR 2.9 million from EUR 2.6 million in 2012, primarily due to a decrease in income from sale of repossessed leasing collateral. Other expense increased by EUR 1.6 million to EUR 2.0 million from EUR 0.4 million, primarily due to review expenses and potential settlement payments in relation to the Swiss-US tax program affecting Citadele Group's Swiss operations.

Administrative expenses

The following table sets out certain information on Citadele Group's administrative expenses, for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
			(EUR thousands)
Administrative expenses:			
Personnel expense	(40,237)	(39,333)	(37,200)
Rent, utilities, maintenance	(3,905)	(4,271)	(5,171)
IT equipment and software related expense	(3,209)	(3,115)	(2,876)
Non-refundable value added tax	(2,924)	(3,159)	(3,342)
Consulting and professional fees	(2,343)	(2,881)	(1,704)
Advertising, marketing and sponsorship	(2,321)	(2,641)	(1,666)
Office administration expense	(723)	(712)	(652)
Communications	(662)	(683)	(732)
Other administrative expenses	(5,096)	(5,755)	(5,881)
Total administrative expenses	**(61,420)**	**(62,550)**	**(59,224)**

In 2014, total administrative expenses decreased by EUR 1.1 million, or 1.8%, to EUR 61.4 million from EUR 62.6 million in 2013, primarily due to decreases in other administrative expenses and nearly all other categories which outweighed increases in personnel expense and IT equipment and software related expense. The decrease in advertising, marketing and sponsorship expenses was primarily due to the completion of several brand marketing and sponsorship projects in 2013. The decrease in consulting and professional fees in 2014 resulted from reduced levels of legal services as compared to 2013 in connection with Citadele Group's commitments to the European Commission (see "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—European Commission commitments*" for more information). Personnel expense over the same periods increased by EUR 0.9 million, or 2.3%, to EUR 40.2 million from EUR 39.3 million, primarily due to increases in remuneration and other personnel expense, which were mainly driven by salary pressure in the Baltic States and the growth of Citadele Group's business. This increase in remuneration and other personnel expense outweighed a decrease in social security contributions.

In 2013, total administrative expenses increased by EUR 3.3 million, or 5.6%, to EUR 62.6 million from EUR 59.2 million in 2012, primarily due to increases in personnel expense, IT equipment and software related expense, consulting and professional fees and advertising, marketing and sponsorship, which outweighed decreases in rent, utilities, maintenance and non-refundable value added tax. The increases in IT equipment and software related expense resulted primarily from the payment of maintenance fees for the card loyalty programme platform. The increase in consulting and professional fees resulted primarily from additional legal advice in connection with the EC commitments and expenses related to Citadele's sale process. The decrease in rent, utilities, maintenance primarily resulted from more efficient use of office space and the renting out of certain office space. Personnel expense increased by EUR 2.1 million, or 5.7%, to EUR 39.3 million from EUR 37.2 million, primarily due to increases in remuneration and social security contributions. These changes resulted from an increase in salary pressure in the Baltic States and a significant increase in the amount of annual bonuses paid to Citadele's employees as compared to 2012 and the growth of Citadele Group's business.

Amortisation and depreciation charge

For the year ended 31 December 2014, amortisation and depreciation charge decreased by EUR 0.7 million, or 11.1%, to EUR 5.2 million from EUR 5.9 million for the year ended 31 December 2013, primarily due to the continued use of fully depreciated equipment.

For the year ended 31 December 2013, amortisation and depreciation charge decreased by EUR 0.4 million, or 6.6%, to EUR 5.9 million from EUR 6.3 million for the year ended 31 December 2012, primarily due to the continued use of fully depreciated equipment.

Impairment charges and reversals

The following table sets out certain information on Citadele Group's impairment charges and reversals, for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
	(EUR thousands, except percentages)		
Loans—specifically assessed impairment, net	(6,879)	(17,729)	(15,811)
Loans—collectively assessed impairment, net	(6,460)	(3,438)	6,616
Available for sale securities	(520)	(130)	(4,775)
Due from credit institutions	–	–	(33)
Other financial and non-financial assets, net	2,130	662	(384)
Recovered written-off assets	3,160	491	1,052
Total allowance and reversals charged to the statement of income, net	**(8,569)**	**(20,144)**	**(13,335)**
Non-Performing Loans ratio[1]	12.1%	12.5%	14.2%
Coverage ratio[2]	63.0%	64.8%	56.5%

(1) Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period. Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue and/or that are specifically impaired as at the end of the relevant period.

(2) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

In 2014, total allowances and reversals charged to the statement of income decreased by EUR 11.6 million, or 57.5%, to a charge of EUR 8.6 million from a charge of EUR 20.1 million in 2013. This decrease was primarily driven by a decrease in specifically assessed impairment for the loan portfolio combined with increases in recoveries of financial and non-financial assets as well as recoveries on previously written-off assets, which outweighed an increase in collectively assessed impairment for the loan portfolio. Specifically assessed impairment for loans decreased by EUR 10.9 million, or 61.2%, to a charge of EUR 6.9 million from a charge of EUR 17.7 million, primarily due to decreased impairment charges in relation to the legacy loan portfolio.

Collectively assessed impairment for loans increased by EUR 3.0 million to a charge of EUR 6.5 million from a charge of EUR 3.4 million, primarily due to an increase in LGD for loans backed by real estate collateral and an increase in the PD estimates for certain not overdue loans. Reversals of other impairment for other financial and non-financial assets increased by EUR 1.5 million to EUR 2.1 million from EUR 0.7 million, primarily due to the re-estimate of the fair value of Citadele's headquarter building. Recovered written-off assets increased by EUR 2.7 million to EUR 3.2 million from EUR 0.5 million, primarily due to the sale of certain fully written-off loans. See "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Impairment methodology*" for more information.

In 2013, total allowances and reversals charged to the statement of income increased by EUR 6.8 million, or 51.1%, to a charge of EUR 20.1 million from a charge of EUR 13.3 million in 2012, primarily due to an increase in specifically and collectively assessed impairment for loans. Specifically assessed impairment for loans increased by EUR 1.9 million, or 12.1%, to a charge of EUR 17.7 million from a charge of EUR 15.8 million, mainly due to the default of two large customers in the legacy loan portfolio. Collectively assessed impairment for loans increased to a charge of EUR 3.4 million from a reversal of EUR 6.6 million, primarily due to an increase in the PD ratio for not overdue, not restructured loans, and not overdue, restructured loans and an increase in PD ratio for both not overdue and overdue payment card and restructured payment card balances, as well as due to a change in the methodology for recognition of individual and collective impairment whereby Citadele Group reclassified collective impairment for consumer loans and credit card balances with overdue payments of more than 90 days to individual impairment in an amount of approximately EUR 5.2 million. Impairment of available for sale securities decreased to a net impairment charge of EUR 0.1 million from a charge of EUR 4.8 million, primarily due to the fact that was no material deterioration in the residual portfolio of available for sale securities estimated recoverable value during 2013.

Taxation

The following table sets out certain information on Citadele Group's income tax expense, for the years indicated:

	For the year ended 31 December		
	2014	**2013**	**2012**
			(EUR thousands)
Current corporate income tax	(251)	(40)	(538)
Deferred income tax	(2,512)	(3,684)	(4,535)
Tax withheld abroad	(128)	(132)	(457)
Prior year adjustments	37	514	(2)
Total corporate income tax expense	**(2,854)**	**(3,342)**	**(5,532)**

In 2014, Citadele Group's income tax expense decreased by EUR 0.5 million, or 14.6%, to EUR 2.9 million from EUR 3.3 million in 2013, primarily due to a decrease in deferred income tax by EUR 1.2 million, or 31.8%, to EUR 2.5 million from EUR 3.7 million. This decrease was primarily driven by changes in the Latvian tax regime, which exempted interest income on certain publicly traded securities issued by European Union member states from taxation in Latvia. Current corporate income tax increased by EUR 0.2 million to EUR 0.3 million from EUR 0.0 million, primarily due to changes in Latvian tax legislation which limited transfers of tax losses within Citadele Group. Prior year adjustments decreased by EUR 0.5 million to EUR 0.0 million from EUR 0.5 million, primarily due to the non-recurrence of certain one-off tax adjustments in 2013. In 2014, Citadele Group's effective tax rate (calculated as total corporate income tax expense as a percentage of profit before taxation) was 8.1%, as compared to 19.7% in 2013.

In 2013, Citadele Group's income tax expense decreased by EUR 2.2 million, or 39.6%, to EUR 3.3 million from EUR 5.5 million in 2012, primarily due a decrease in deferred income tax of EUR 0.9 million, or 18.8%, to EUR 3.6 million from EUR 4.5 million, resulting from decreased non-

deductible tax expenses and decreased net profit before tax. Current corporate income tax decreased by EUR 0.5 million to EUR 0.0 million from EUR 0.5 million, primarily due to a tax loss transfer within Citadele Group. Prior year adjustments changed to a charge of EUR 0.5 million from EUR 0.0 million, primarily due to the aforementioned tax loss transfer and changes in the amount of recognised tax loss carried forward for deferred tax asset purposes. In 2013, Citadele Group's effective tax rate (calculated as total corporate income tax expense as a percentage of profit before taxation) was 19.7%, as compared to 30.2% in 2012.

Net profit

For the foregoing reasons, Citadele Group's net profit for the year increased by EUR 18.8 million, or 138.3%, to EUR 32.4 million in 2014 from EUR 13.6 million in 2013, an increase of EUR 0.8 million, or 6.7%, from EUR 12.8 million in 2012. Citadele Group's return on average total assets was 1.23%, 0.58% and 0.57% in 2014, 2013 and 2012, and Citadele Group's return on average total equity was 20.2%, 9.8% and 10.4% over the same periods.

Segment analysis

The following tables set out information on the financial results of Citadele Group's segments for the years ended 31 December 2014 and 2013:

	For the years ended 31 December (unaudited, EUR thousands)													
	Banking													
	Retail & SME		Corporate		Private capital management		Estonia		Other		Lithuania		Switzerland	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net interest income	24,255	21,400	11,219	9,908	9,757	9,126	1,822	1,670	5,050	3,368	6,048	6,038	2,413	2,717
Net commission and fee income	8,040	8,491	2,764	2,907	10,174	9,773	300	226	3,161	2,518	2,461	2,404	1,718	1,375
Gain on transactions with financial instruments, net	890	2,675	263	861	5,251	4,456	391	336	3,608	5,657	3,082	4,180	(64)	(1,192)
Other income	87	76	10	2	50	47	5	23	3,031	4,865	(422)	316	–	–
Other expense	(117)	(193)	(4)	(4)	(79)	(32)	(2)	(0)	(321)	(363)	(299)	(1,454)	527	(1,218)
Administrative expenses	(25,805)	(27,269)	(3,637)	(3,518)	(8,575)	(8,395)	(1,606)	(1,536)	(5,611)	(5,835)	(9,028)	(9,602)	(3,729)	(3,116)
Amortisation and depreciation charge	(267)	(359)	(1)	(1)	(9)	(9)	(14)	(16)	(1,070)	(992)	(213)	(259)	(132)	(106)
Impairment charges and reversals, net	(1,274)	(12,056)	(1,090)	(7,901)	(2,187)	(353)	(807)	143	(5,258)	(1,530)	(1,853)	576	–	–
Segment result	**5,809**	**(7,234)**	**9,523**	**2,255**	**14,384**	**14,613**	**89**	**846**	**2,590**	**7,687**	**(225)**	**2,198**	**732**	**(1,541)**
Segment assets	344,509	345,826	327,009	316,565	24,482	25,345	53,859	44,938	1,580,803	1,408,554	398,213	288,797	283,679	206,814
Segment liabilities	569,596	569,069	321,387	378,318	811,472	702,077	130,261	87,806	324,650	260,363	353,562	242,850	266,100	190,269

	For the years ended 31 December (unaudited, EUR thousands)									
	Other business lines									
	Asset management		Leasing		Other		Eliminations and consolidation adjustments		Group, consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net interest income	118	150	3,238	2,418	(1,498)	(1,508)	44	4	62,465	55,291
Net commission and fee income	4,832	4,635	(45)	(21)	(1)	(1)	(21)	(138)	33,383	32,169
Gain on transactions with financial instruments, net	349	(220)	20	12	(0)	(8)	(320)	384	13,471	17,141
Other income	366	273	361	695	5,432	5,761	(7,343)	(9,147)	1,577	2,911
Other expense	(90)	(159)	(55)	(17)	(5)	(10)	0	1,428	(446)	(2,021)
Administrative expenses	(3,759)	(4,328)	(1,937)	(1,613)	(3,091)	(2,561)	5,357	5,223	(61,420)	(62,550)
Amortisation and depreciation charge	(23)	(46)	(83)	(148)	(3,380)	(3,912)	(11)	(10)	(5,204)	(5,857)
Impairment charges and reversals, net	(356)	(317)	(1,663)	10	3,021	1,969	2,900	(686)	(8,569)	(20,144)
Segment result	**1,438**	**(11)**	**(166)**	**1,336**	**477**	**(269)**	**607**	**(2,941)**	**35,259**	**16,939**
Segment assets	41,629	32,228	106,140	88,929	43,386	42,619	(349,113)	(259,092)	2,854,595	2,541,522
Segment liabilities	26,380	18,215	99,867	82,487	55,733	56,475	(281,122)	(189,854)	2,677,884	2,398,074

The following review describes certain of Citadele Group's segment results for the periods indicated, without giving effect to any eliminations or consolidation adjustments.

Banking—Retail and SME

In 2014, the Retail and SME segment result changed to a gain of EUR 5.8 million from a loss of EUR 7.2 million in 2013. The change was primarily due to the EUR 10.8 million decrease in impairment charges and reversals, net to a charge of EUR 1.3 million from a charge of EUR 12.1 million, resulting primarily from normalised performance of the portfolio, the increase in net interest income to EUR 24.3 million from EUR 21.4 million, resulting primarily from a one-off gain on the GE Money Bank portfolio acquired in 2013 (see "*Business Description—Principal investments made by Citadele since 2012*" for more information) as well as an increase in the size of the loan portfolio and a relative increase in the aggregate size of higher-yielding SME loans as compared to lower-yielding mortgages, and the decrease in administrative expenses to an expense of EUR 25.8 million from an expense of EUR 27.3 million.

Banking—Corporate

In 2014, the Corporate segment result increased by EUR 7.2 million, or 313.0%, to EUR 9.5 million from EUR 2.3 million in 2013, primarily due to the EUR 6.8 million decrease in impairment charges and reversals, net to a charge of EUR 1.1 million from a charge of EUR 7.9 million, resulting primarily from decreased impairment charges in relation to the legacy loan portfolio. This decrease was partially offset by the decrease in gains on transactions with financial instruments to a gain of EUR 0.3 million from a gain of EUR 0.9 million, resulting primarily from the cessation of local currency (Latvian Lat) exchange transactions due to the adoption of the Euro in Latvia.

Banking—Private capital management

In 2014, the Private capital management segment result decreased slightly to EUR 14.4 million from EUR 14.6 million in 2013. The increase in impairment charges and reversals, net to a charge of EUR 2.2 million in 2014 from a charge of EUR 0.4 million in 2013, which resulted primarily from the default of one large legacy customer, was largely offset by the positive changes in other lines.

Banking—Lithuania

In 2014, the Lithuania segment result changed to a loss of EUR 0.2 million from a gain of EUR 2.2 million in 2013, primarily due to the change in impairment charges and reversals, net to a charge of EUR 1.9 million from a reversal of EUR 0.6 million for certain not overdue loans, the decrease in gain on transactions with financial instruments to a gain of EUR 3.1 million from a gain of EUR 4.2 million and the change in other income to a loss of EUR 0.4 million from a gain of EUR 0.3 million.

Banking—Estonia

In 2014, the Estonia segment result decreased to EUR 0.1 million from EUR 0.8 million in 2013, primarily due to a change in impairment charges and reversals, net to a charge of EUR 0.8 million from a reversal of EUR 0.1 million, resulting primarily from an increase in LGD for loans backed by real estate collateral and an increase in the PD estimates for certain not overdue loans.

Banking—Switzerland

In 2014, the Switzerland segment result changed to a gain of EUR 0.7 million from a loss of EUR 1.5 million in 2013, primarily due to the decrease in the loss on transactions with financial instruments to a loss of EUR 0.1 million from a loss of EUR 1.2 million, resulting primarily from

declines in interest rates and credit default spreads which increased the value of securities held for trading purposes in Citadele Group's Swiss operations, and a change in other expense to a gain of EUR 0.5 million from an expense of EUR 1.2 million, resulting primarily from a partial reversal of the previously accrued expenses for review and potential settlements in relation to the Swiss-US tax program and Citadele Group's Swiss operations.

Banking—Other

In 2014, the Other segment result decreased by EUR 5.1 million, or 66.2%, to EUR 2.6 million from EUR 7.7 million in 2013, primarily due to the increase in impairment charges and reversals, net to a charge of EUR 5.3 million from a charge of EUR 1.5 million, resulting primarily from the default of one large legacy customer. The decrease in result was also affected by the decrease in gain on transactions with financial instruments to EUR 3.6 million from EUR 5.7 million, resulting primarily from the cessation of local currency (Latvian Lat) exchange transactions due to the adoption of the Euro in Latvia, and the decrease in other income to EUR 3.0 million from EUR 4.9 million, resulting primarily from lower intragroup dividends income, over the same period.

Other business lines—Asset management

In 2014, the Asset management segment result changed to a gain of EUR 1.4 million from EUR 0.0 million in 2013, primarily due to the decrease in administrative expenses to EUR 3.8 million from EUR 4.3 million, resulting primarily from a reduction in expenses related to residual operations in Ukraine.

Other business lines—Leasing

In 2014, the Leasing segment result changed to a loss of EUR 0.2 million from a gain of EUR 1.3 million in 2013, primarily due to the change in impairment charges and reversals, net to a charge of EUR 1.7 million from EUR 0.0 million, resulting primarily from the application of leasing-specific statistics in the calculation of PD and LGD ratios, which more than offset an increase in net interest income to EUR 3.2 million from EUR 2.4 million, resulting primarily from increases in the leasing portfolio.

Other business lines—Other

In 2014, the Other segment result changed to a gain of EUR 0.5 million from a loss of EUR 0.3 million in 2013, primarily due to the increase in net reversals to EUR 3.0 million from EUR 1.9 million, resulting primarily from impairment of non-financial assets, and the decrease in amortisation and depreciation charge to a charge of EUR 3.4 million from a charge of EUR 3.9 million, resulting primarily from the continued use of fully depreciated equipment. The increase in administrative expenses to EUR 3.1 million from EUR 2.6 million, resulting primarily from an increase in personnel expense and the decrease in other income to EUR 5.4 million from EUR 5.8 million, partially offset by the positive changes in other categories over the same period.

Analysis of Consolidated Financial Position

The following table sets out Citadele Group's balance sheet as at the dates indicated:

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
				(EUR thousands)
Assets				
Cash and deposits with central banks	324,554	225,399	361,485	271,712
Balances due from credit institutions	296,922	509,404	271,181	183,854
Securities held for trading:				
—fixed income	15,603	20,295	24,873	13,120
—shares and non-fixed income	5,439	3,655	2,941	1,672
Derivative financial instruments	2,003	5,929	3,548	1,406
Financial assets designated at fair value through profit or loss:				
—fixed income	85,139	84,851	54,012	41,646
—shares and other non-fixed income	17,147	12,598	8,324	8,877
Available for sale securities:				
—fixed income	542,325	541,591	389,013	378,155
—shares and other non-fixed income	17,499	16,605	12,725	4,613
Loans and receivables from customers, net	1,081,752	1,075,701	1,055,922	1,019,407
Held to maturity securities	251,024	229,252	244,423	236,187
Non-current assets classified as held for sale	–	–	373	376
Premises and equipment	42,773	42,525	42,826	44,137
Intangible assets	1,796	1,708	1,845	1,264
Investment property	403	409	748	1,283
Current income tax assets	272	437	341	293
Deferred income tax assets	29,010	30,073	32,534	35,831
Other assets	54,310	54,163	34,408	34,789
Total assets	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**
Liabilities				
Derivative financial instruments	2,859	1,647	3,931	3,873
Financial liabilities designated at fair value through profit and loss	30,052	24,594	16,626	14,752
Financial liabilities measured at amortised cost:				
balances due to credit institutions and central banks	30,799	25,036	25,755	36,251
deposits from customers	2,408,256	2,517,107	2,246,912	1,985,898
other financial liabilities	13,691	12,235	8,315	8,237
Current income tax liabilities	76	187	–	40
Other liabilities	24,833	23,482	22,960	20,588
Subordinated liabilities	53,976	73,596	73,575	74,009
Total liabilities	**2,564,542**	**2,677,884**	**2,398,074**	**2,143,647**
Equity				
Paid-in share capital	156,556	146,556	146,556	146,556
Reserves	2,323	545	174	5,104
Retained earnings / (accumulated losses)	44,550	29,610	(3,282)	(16,686)
Total equity	203,429	**176,711**	**143,448**	**134,974**
Total liabilities and equity	**2,767,971**	**2,854,595**	**2,541,522**	**2,278,621**

Total assets

Citadele Group had total assets of EUR 2,768.0 million as at 30 June 2015, as compared to total assets of EUR 2,854.6 million as at 31 December 2014. The EUR 86.6 million, or 3.0%, decrease was primarily due to the EUR 108.9 million, or 4.3%, decrease in deposits from customers in the first half of 2015, EUR 81.2 million of which resulted from the decision of several Swiss bank customers to transfer their funds from on- to off-balance sheet products partially due to the imposition of negative rates by the Swiss bank on large balances in customers' current accounts, which was offset in part by an increase of Citadele's share capital by EUR 10.0 million following the acquisition of Citadele's state-owned shares by RA Citadele Holdings LLC and a consortium of 12 co-investors (see Note 14 of the Reviewed Consolidated Interim Financial Statements for further information) and an increase of EUR 15.0 million in retained earnings for the first half of 2015.

Citadele Group had total assets of EUR 2,854.6 million as at 31 December 2014, as compared to total assets of EUR 2,541.5 million as at 31 December 2013. This EUR 313.1 million, or 12.3%, increase was primarily due to the EUR 238.2 million, or 87.8%, increase in balances due from credit institutions, the EUR 152.6 million, or 39.2%, increase in fixed income available for sale securities, the EUR 30.8 million, or 57.1%, increase in fixed income financial assets designated at fair value through profit or loss, the EUR 19.8 million, or 1.9%, increase in loans and receivables from customers and the EUR 19.4 million, or 55.7%, increase in other assets, which were partially offset by the EUR 136.1 million, or 37.6%, decrease in cash and deposits with central banks and the EUR 15.2 million, or 6.2%, decrease in held to maturity securities. The increase in balances due from credit institutions and decrease in cash and deposits with central banks were primarily due to a shift in the Group's liquidity funds from central banks to credit institutions due to low or negative central bank interest rates. The increase in fixed income available for sale securities and the increase in fixed income financial assets designated at fair value through profit or loss were primarily due to increases in customer deposits which were partially invested in Citadele Group's securities portfolio.

As at 31 December 2013, Citadele Group had total assets of EUR 2,541.5 million, as compared to total assets of EUR 2,278.6 million as at 31 December 2012. The EUR 262.9 million, or 11.5%, increase was primarily driven by the EUR 89.8 million, or 33.0%, increase in cash and deposits with central banks, the EUR 87.3 million, or 47.5%, increase in balances due from credit institutions, the EUR 36.5 million, or 3.6%, increase in loans and receivables from customers, the EUR 12.4 million, or 29.7%, increase in fixed income financial assets designated at fair value through profit or loss, the EUR 11.8 million, or 89.6%, increase in fixed income securities held for trading and the EUR 10.9 million, or 2.9%, increase in fixed income available for sale securities. The increase in cash and deposits with central banks was primarily due to increases in Citadele Group's customer deposits. The increase in balances due from credit institutions was primarily due to a shift in Citadele Group's liquidity funds from central banks to credit institutions due to low or negative interest rates. The increase in loans and receivables from customers was primarily due to the issuance of new loans as well as the incorporation of the loan portfolio from GE Money Bank in connection with its exit from the Latvian market.

See *"Selected Statistical and Other Information—Loan and Receivables Portfolio" and "—Investment Securities Portfolio*" for additional information regarding Citadele Group's loan and receivables and investment securities portfolios.

Total liabilities

As at 30 June 2015, Citadele Group had total liabilities of EUR 2,565.0 million, as compared to total liabilities of EUR 2,677.9 million as at 31 December 2014, of which EUR 2,408.2 million, or 93.3%, consisted of deposits from customers. This EUR 112.9 million, or 4.2%, decrease was primarily due to the EUR 108.9 million, or 4.3%, decrease in deposits from customers, which resulted from the decision of several Swiss bank customers to move their funds from on- to off-balance sheet products (see "*—Total assets"* for more information). In addition, Citadele Group's

subordinated liabilities decreased by EUR 20.0 million, or 27.0%, to EUR 54.0 million from EUR 74.0 million, due to the repayment of a portion of the liabilities owed to the Latvian Privatisation Agency. See "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Prudential regulation*" and Note 13 to the Reviewed Consolidated Interim Financial Statements for further information.

As at 31 December 2014, Citadele Group had total liabilities of EUR 2,677.9 million as compared to total liabilities of EUR 2,398.1 million as at 31 December 2013, of which EUR 2,517.1 million, or 94.0%, and EUR 2,246.9 million, or 93.7%, respectively, consisted of deposits from customers. The EUR 279.8 million, or 11.7%, increase in total liabilities was primarily due to the EUR 270.2 million, or 12.0%, increase in deposits from customers, which resulted from growth in the Lithuanian and PCM segments.

As at 31 December 2013, Citadele Group had total liabilities of EUR 2,398.1 million, as compared to EUR 2,143.6 million as at 31 December 2012, of which EUR 2,246.9 million, or 93.7%, and EUR 1,985.9 million, or 92.6%, respectively, consisted of deposits from customers. The EUR 254.4 million, or 11.9%, increase in total liabilities was primarily due to the EUR 261.0 million, or 13.1%, increase in deposits from customers, which was partially offset by the EUR 10.5 million, or 29.0%, decrease in balances due to credit institutions and central banks. The increase in deposits from customers was primarily due to increased activity of PCM and Switzerland segment customers.

Please see "*Selected Statistical and Other Information—Funding Sources*" for further information.

Total equity

As at 30 June 2015, Citadele Group had total equity of EUR 203.4 million, as compared to EUR 176.7 million as at 31 December 2014. This EUR 26.7 million, or 13.1%, increase resulted from Citadele Group's net profit and from the increase in Citadele's share capital by EUR 10.0 million after the acquisition of Citadele's state-owned shares by RA Citadele Holdings LLC and a consortium of 12 co-investors. See Note 14 of the Reviewed Consolidated Interim Financial Statements for further information. In 2014, Citadele Group's total equity increased by EUR 33.2 million, or 23.2%, to EUR 176.7 million from EUR 143.4 million as at 31 December 2013 as a result of Citadele Group's net profit. The EUR 8.5 million, or 6.3%, increase in 2013 from EUR 135.0 million as at December 2012 resulted from Citadele Group's net profit and a EUR 4.9 million, or 96.6%, decrease in reserves, driven by the transfer of an "asset relief fee" to the Latvian State Treasury in connection with Citadele Group's 2011 capital adequacy ratio exceeding the set ratio under its commitments to the European Commission". See "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—European Commission commitments*" and Note 3 to the 2012 Audited Consolidated Financial Statements for more information.

Liquidity and Capital Resources

Citadele Group does not currently have any material or planned commitments for capital expenditures. Citadele Group believes that it has sufficient working capital for its needs for at least the next 12 months from the date of this Prospectus.

Analysis of consolidated cash flows

The following table summarises Citadele Group's selected consolidated statements of cash flows for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
					(EUR thousands)
Net cash flow from operating activities	230,093	(52,996)	(119,748)	203,108	67,514
Net cash flow from investing activities	6,781	(41,163)	(117,187)	(24,051)	(201,854)
Net cash flow from financing activities	(8,400)	–	–	–	(29,327)
Net change in cash and cash equivalents	228,474	(94,159)	(236,935)	179,057	(163,667)
Cash and cash equivalents at the end of the period	**597,485**	**605,946**	**369,011**	**605,946**	**426,889**

Net cash flow from operating activities

Net cash flow from operating activities was a net cash inflow of EUR 230.1 million and a net cash outflow of EUR 52.3 million in the first halves of 2015 and 2014, respectively. This change primarily resulted from net cash inflows in the first half of 2015 of EUR 347.6 million from balances due from credit institutions, compared to a cash inflow of EUR 15.2 million in the first half of 2014, which resulted from a shift in some of Citadele Group's liquidity deposits from credit institutions to the ECB. This cash inflow offset a cash outflow in the first half of 2015 of EUR 110.0 million from deposits from customers, compared to a cash outflow of EUR 20.5 million in the first half of 2014, which resulted from the decision of several Swiss bank customers to move their funds from on- to off-balance sheet products. See "*—Total assets*" for more information.

Net cash flow from operating activities was a net cash outflow of EUR 119.7 million in 2014 and net cash inflows of EUR 203.1 million and EUR 67.5 million in 2013 and 2012, respectively. The change to a net cash outflow of EUR 119.7 million in 2014 from a net cash inflow of EUR 203.1 million in 2013 resulted from a change in balances due from credit institutions from a cash inflow of EUR 6.8 million in 2013 to a cash outflow of EUR 332.6 million in 2014. This change resulted from a shift in the Group's liquidity funds from central banks to credit institutions due to the low or negative interest rates available from central banks and increased purchases of securities in order to benefit from better yield on excess liquidity. The EUR 135.6 million change in net cash inflows from operating activities from 2012 to 2013 was primarily due to changes in operating assets, particularly a cash outflow of EUR 58.9 million in loans and receivables from customers in 2013, as compared to a EUR 12.3 million cash inflow in loans and receivables from customers in 2012, and a EUR 262.6 million cash inflow from deposits from customers in 2013, as compared to an EUR 112.3 million cash inflow from deposits from customers in 2012. The increase in loans and receivables from customers in 2013 reflected growth in Citadele Group's business, and the increase in deposits from customers in 2013 reflected growth mainly in the PCM and Switzerland segments.

Net cash flow from investing activities

Changes in Citadele Group's net cash flow from investing activities generally reflect Citadele Group's allocation of funds between its cash balances due from central banks or credit institutions and its securities, which is driven by the availability of funds and yield-enhancing opportunities for the securities investments.

Net cash flow from investing activities was a net cash inflow of EUR 6.8 million and a net cash outflow of EUR 41.1 million in the first halves of 2015 and 2014, respectively. This change was primarily driven by an increase in net cash inflows in the first half of 2015 as a result of a reduction in purchases of available for sale securities.

Net cash flow from investing activities was a net cash outflow of EUR 117.2 million, EUR 24.1 million and EUR 201.9 million in the years ended 31 December 2014, 2013 and 2012, respectively. The EUR 93.1 million increase in net cash outflows from investing activities from 2013 to 2014 was principally driven by an increase in cash outflows from purchase of available for sale securities from EUR 261.6 million in 2013 to EUR 433.8 million in 2014, which was offset by an increase in cash inflows from available for sale securities from EUR 248.8 million in 2013 to EUR 303.9 million in 2014.

The EUR 177.8 million decrease in net cash outflows from investing activities from 2012 to 2013 was primarily driven by a decrease in cash outflows from purchase of available for sale securities from EUR 415.0 million in 2012 to EUR 261.7 million in 2013 and a decrease in cash outflows from purchase of held to maturity securities from EUR 56.4 million to EUR 8.2 million.

Net cash flow from financing activities

In the first half of 2015, net cash flow from financing activities was a net cash outflow of EUR 8.4 million, compared to no net cash flow from financing activities in the first half of 2014. This change was due to a cash inflow of EUR 10.0 million from the issuance of new share capital in the first half of 2015 which was offset by a cash outflow of EUR 18.4 million resulting from repayment of subordinated liabilities (see "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Prudential regulation*" for more information).

In the years ended 31 December 2014 and 2013, there was no net cash flow from financing activities. In the year ended 31 December 2012, net cash flow from financing activities was a cash outflow of EUR 29.3 million, which was due to repayment of debt securities at maturity which were transferred to Citadele from AS "Parex Banka" in 2010.

Off-balance sheet items

Citadele Group's off-balance sheet items consist of contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments.

Citadele Group has contingent liabilities and financial commitments in respect of guarantees, letters of credit and other commitments on behalf of its customers. These instruments bear a credit risk similar to that of loans and receivables from customers. The following table sets out certain information with respect to Citadele Group's contingent liabilities and financial commitments, for the periods indicated:

	As at 30 June		As at 31 December		
	2015	2014	2014	2013	2012
					(EUR thousands)
Contingent liabilities:					
Outstanding guarantees	56,491	35,703	58,185	101,740	49,820
Outstanding letters of credit	885	1,717	32	169	869
Total contingent liabilities	**57,376**	**37,421**	**58,217**	**101,909**	**50,690**
Financial commitments:					
Loans granted, not fully drawn down	32,341	2,802	33,390	67,072	32,111
Unutilised credit lines and overdraft facilities	66,706	243,097	49,868	32,271	45,327
Credit card commitments	85,620	85,881	85,388	87,393	87,591
Total financial commitments	**184,667**	**331,780**	**168,646**	**186,736**	**165,029**

The following table sets out certain information with respect to Citadele Group's foreign exchange contracts and derivative financial instruments, for the periods indicated:

	As at 30 June		As at 31 December			As at 30 June				As at 31 December					
	2015 (unaudited)	2014 (unaudited)	2014	2013	2012	2015 (unaudited)		2014 (unaudited)		2014		2013		2012	
	Notional Amount					Fair Value									
														(EUR thousands)	
						Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:															
Forwards	1,640	807	47,142	37,439	17,615	8	(24)	4	(1)	534	(420)	60	(1,103)	50	(28)
Swaps	611,016	982,799	400,854	697,386	514,525	1,653	(2,835)	999	(50)	5,395	(1,227)	3,488	(2,828)	1,315	(3,808)
Total foreign exchange contracts	612,656	983,606	447,996	734,825	532,140	**1661**	**(2,859)**	**1,003**	**(51)**	5,929	(1,647)	3,548	(3,931)	1,365	(3,836)
Other derivatives (CDS)	34,000					342									
Derivative financial instruments	646,656	**983,606**	**447,996**	**734,825**	**532,140**	**2003**	**(2,859)**	**1,482**	**(785)**	**5,929**	**(1,647)**	**3,548**	**(3,931)**	**1,365**	**(3,836)**

As at 30 June 2015 and 31 December 2014, 2013 and 2012, 59%, 52%, 71% and 41% of the fair value assets on foreign exchange contracts were attributable to credit and finance institutions.

Funding

Citadele Group's principal source of funding has primarily been customer deposits. For a discussion of Citadele Group's funding sources, see "*Selected Statistical and Other Information—Funding Sources*".

Contractual Obligations

The following tables set forth the contractual maturity structure of Citadele Group's financial liabilities, as at the periods indicated.

	As at 30 June 2015						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(EUR thousands)						
Financial liabilities designated at fair value through profit or loss	12	41	168	1,403	23,571	4,857	30,052
Financial liabilities measured at amortised cost	1,934,932	57,214	137,800	165,296	174,632	36,848	2,506,722
Derivative financial instruments	1,912	662	285	–	–	–	2,859
Other liabilities	23,230	196	59	1,207	77	140	24,909
Total liabilities	**1,960,086**	**58,113**	**138,312**	**167,906**	**198,280**	**41,845**	**2,564,542**

	As at 30 June 2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(EUR thousands)						
Financial liabilities designated at fair value through profit or loss	13	44	271	528	17,174	2,426	20,456
Financial liabilities measured at amortised cost	1,627,541	96,428	141,506	189,476	155,192	135,992	2,346,135
Derivative financial instruments	738	25	9	13	–	–	785
Other liabilities	8,527	33	110	1,685	9	18,183	28,547
Total liabilities	**1,636,819**	**96,530**	**141,896**	**191,702**	**172,375**	**156,601**	**2,395,923**

	As at 31 December 2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(EUR thousands)						
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Financial liabilities measured at amortised cost	2,071,155	88,361	91,548	176,260	180,611	20,039	2,627,974
Derivative financial instruments	876	763	8	–	–	–	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**

	As at 31 December 2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							(EUR thousands)
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,320	2,282	16,626
Financial liabilities measured at amortised cost	1,846,551	95,198	96,340	174,415	140,282	1,771	2,354,557
Derivative financial instruments	2,094	1,195	575	67	–	–	3,931
Other liabilities	21,560	222	74	20	1,084	–	22,960
Total liabilities	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**4,053**	**2,398,074**

	As at 31 December 2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							(EUR thousands)
Financial liabilities designated at fair value through profit or loss	92	70	299	1,411	11,184	1,696	14,752
Financial liabilities measured at amortised cost	1,507,390	143,652	127,607	195,646	118,653	11,446	2,104,395
Derivative financial instruments	1,996	1,877	–	–	–	–	3,873
Other liabilities	17,651	741	63	233	–	1,939	20,627
Total liabilities	**1,527,130**	**146,340**	**127,969**	**197,291**	**129,837**	**15,081**	**2,143,647**

Quantitative and Qualitative Disclosures About Market Risk

For a discussion of Citadele Group's risk management framework and principal market risks, see "*Asset, Liability and Risk Management*".

Critical Accounting Estimates and Judgements

The notes to the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements, appearing elsewhere in this Prospectus, contain a summary of Citadele Group's significant accounting policies, including a discussion of changes in accounting policies resulting from adoption of new or revised standards. These policies, as well as estimates and judgements made by Management, are integral to the presentation of Citadele Group's operating and financial review. It is important to note that these accounting policies in certain cases require Management to make difficult, complex or subjective estimates and judgements, often regarding matters that are inherently uncertain. These estimates and judgements are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed by Management to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. For additional information about Citadele Group's critical accounting estimates and judgements in applying accounting policies, see Note 4 to the 2014 Audited Consolidated Financial Statements.

Fair values of financial assets and liabilities

Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These

include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants. Future events could cause the assumptions used in arriving at these estimates to change. Further, changes and movements in market conditions may affect the accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Changes in the estimates used by Management in preparing the financial statements could impact the reported results of Citadele Group.

Impairment of loans and receivables from customers

Citadele Group regularly reviews its loans and receivables to assess impairment. Citadele Group assesses at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables from customers is impaired. A loan or portfolio of loans and receivables from customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables from customers, and can be reliably estimated.

The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. Citadele Group uses its judgement to estimate the amount of any impairment loss, considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

In addition, Citadele Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio. Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using Citadele Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses.

Recognition of financial instruments

Citadele Group recognises a financial asset on its balance sheet when, and only when, Citadele Group becomes a party to the contractual provisions of the instrument. Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the

guidelines established by Management. See Note 33 to the 2014 Audited Consolidated Financial Statements for more detail. For financial asset classification in a particular category, Citadele Group has to determine at inception that the asset meets the relevant description and criteria. In certain cases, a financial asset may be reclassified under a different category. Please see "*—Results of Operations for the Six Months Ended 30 June 2015 and 30 June 2014—Gain on transactions with financial instruments, net*" for further information.

Impairment of available for sale or held to maturity securities

Evidence of impairment of available for sale or held to maturity securities is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. For securities that do not have direct observable market valuations, the fair value of the security is determined as described in "*—Fair values of financial assets and liabilities*" above. The determination of whether or not objective evidence of impairment is present requires the exercise of judgement by Management. If Citadele Group does not have market valuations in respect of a particular security, the evidence of impairment is assessed based on credit risk triggers (such as insolvency events, payment delays or debt restructuring) and individual credit risk analysis of the issuer.

Citadele Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss events have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and LGD rates. The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors.

Deferred tax asset

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of the deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by Management and extrapolated results thereafter. The forecast must indicate that Citadele Group will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. The financial forecast is based on Management expectations that are believed to be reasonable under the circumstances. The current Latvian and Lithuanian tax legislation allows for an indefinite carry forward of operating losses as deferred tax assets for losses suffered after 2007.

Accounting for restructuring/transfer of undertaking

Citadele's establishment and future operations were part of the restructuring plan of AS "Parex Banka" that was approved by the European Commission in 2010. AS "Citadele Banka" was established as a result of the implementation of the European Commission restructuring plan pursuant to which certain assets and liabilities and other items were to be transferred to AS "Citadele Banka" from AS "Parex Banka" pursuant to a transfer of undertaking.

When determining the assets and liabilities that were eligible for this transfer of undertaking, which took place on 1 August 2010, the composition of the assets and liabilities was determined based on the stand-alone accounts of the parent bank, AS "Parex Banka". Any differences in the carrying value of investments in subsidiaries that were transferred to AS "Citadele Banka" and their net equity as at the date of transfer were treated as restructuring reserve in the consolidated financial statements of AS "Citadele Banka". Citadele Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, 1 August 2010. The transfer transaction was accounted for using predecessor accounting, in which the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank and assessed for impairment as at the transfer date.

Segments

Citadele Group operates in eight main business segments, split into two groups: Banking and Other business lines. Citadele Group's operating segments reflect the internal reporting methodology of the Management Board. The Banking segments are Retail and SME, Corporate, Private Capital Management, Lithuania, Switzerland and Other segments. The Other business lines segments are the Asset Management, Leasing and Other segments.

The operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of Citadele. All transactions between business segments are carried on an arm's length basis. The calculation of the net interest income of each business is performed by applying the internal transfer rates to both the asset and liability entries. These internal transfer rates take into account various components: maturity, currency and timing of the transaction, as well as mandatory charges. These rates do not contain the cost of capital component. Income and expenses are reported in the segments by originating unit and at estimated market prices. Both direct and indirect expenses are allocated to the business segments, including non-recurring items and those items for which there is no clearly defined link to the business. Operating expenses are attributed to the individual segments on the basis of cost causation. The indirect expenses arising in connection with internal services are charged to the user of the service and credited to the segment performing the service. The provision of intra-group services is charged at estimated market prices or at full cost. There are no other material items of income or expense between the business segments. The inter-segment revenues are defined as internal interest income and expense related to the funding of the operating segments.

Consolidation Group

Citadele Group consolidates for accounting purposes all entities where it controls the investee. Citadele Group is deemed to control an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For a list of investees included in Citadele Group's consolidation group, see Note 17 to the 2014 Audited Consolidated Financial Statements. For investments in securities which are not consolidated, see Note 16 to the 2014 Audited Consolidated Financial Statements. Citadele Group's consolidation group for capital adequacy purposes is different from its consolidation group for accounting purposes. See "*Asset, Liability and Risk Management—Capital Adequacy Management", "Banking Regulation*" and Note 33 to the 2014, 2013 and 2012 Audited Consolidated Financial Statements for more information.

Consolidated group reporting includes coverage not only of Citadele's own activities but also those of its branches and subsidiaries, with any transactions and positions among the Citadele Group entities eliminated on consolidation. Consolidation is based on the concept of control by a parent over a group's other operating units. This approach is adopted by the BIS in its banking supervision to preserve the integrity of capital by eliminating double counting (gearing) of capital, and to avoid the double counting of income and assets arising from intra-group activity

and transactions. Due to such elimination of intra-group transactions, certain figures of Citadele Group's results of operations are smaller than Citadele's standalone figures.

In the ordinary course of business, Citadele Group's wholly-owned subsidiary IPAS CBL Asset Management ("**CBL AM**") provides management services to several funds in which its only interest held is the fees it receives from servicing such funds. As part of its securities portfolio, Citadele Group has made investments in funds managed by CBL AM. According to the prospectuses of these funds, investment decisions are made collectively by CBL AM's Investment Committee. Citadele Group has no intention to participate in the decision making process regarding the asset allocation of any of these funds, and any interference with CBL AM's Investment Committee's decision making process would be contrary to the corporate governance principles maintained by Citadele Group since its inception. As such, Citadele Group believes that it does not have control over these funds and that they should not be consolidated.

Life insurance contracts

Citadele Group currently conducts a small amount of life insurance business through its wholly-owned subsidiary AAS "CBL Life". Life insurance contracts may contain both financial and insurance risk. The parts of the contracts that do not contain significant insurance risk are accounted for as investment contracts. The corresponding liabilities to clients are accounted for at fair value and are shown in the financial statements as liabilities designated at fair value through profit and loss. Insurance reserves are included in other liabilities.

Citadele Group monitors the underlying assumptions in its calculations of insurance related risks and seeks risk mitigation measures, such as reinsurance, if it deems them appropriate. In the view of Management, Citadele Group's current insurance risk is not material to the financial results of Citadele Group.

Certain Definitions

The following sets forth certain terms used in the Operating and Financial Review section and elsewhere in this Prospectus. See "*Presentation of Financial and Other Information—Non-IFRS measures*" for more information.

Average Gross Loans

Average gross loans is calculated as (i) the average of total gross loans and receivables as at 30 June of the relevant period and as at 31 December of the prior year for the six months ended 30 June 2015 and 30 June 2014 and (ii) the average of total gross loans and receivables as at 31 December of the relevant period and as at 31 December of the prior year for the years ended 31 December 2014, 2013 and 2012.

Average Total Assets

Average total assets is calculated as (i) the average of total assets as at 30 June of the relevant period and as at 31 December of the prior year for the six months ended 30 June 2015 and 30 June 2014 and (ii) as the average of total assets as at 31 December of the relevant period and as at 31 December of the prior year for the years ended 31 December 2014, 2013 and 2012.

Average Total Equity

Average total equity is calculated as (i) the average of total equity as at 30 June of the relevant period and as at 31 December of the prior year for the six months ended 30 June 2015 and 30 June 2014 and (ii) the average of total equity as at 31 December of the relevant period and as at 31 December of the prior year for the years ended 31 December 2014, 2013 and 2012.

Average total interest earning assets

Average total interest earning assets is calculated as the average of (i) total interest earning assets at the end of the relevant period and (ii) total interest earning assets at the end of the prior period.

Cost of Risk in the Retail and SME Segment

Cost of Risk in the Retail and SME segment is calculated as loan impairment charge as a percentage of average gross loan portfolio of the respective segment for the relevant period, excluding recoveries of amounts written-off in prior periods and impairment on other assets.

Cost of Risk Based on Average Gross Loans

Cost of risk based on average gross loans for a period is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average gross loans for such period, and annualised where applicable.

Cost of Risk Based on Average Total Assets

Cost of risk based on average total assets for a period is calculated as the sum of (i) loans—specifically assessed impairment charged to the income statement and (ii) loans—collectively assessed impairment charged to the income statement, divided by the average total assets for such period, and annualised where applicable.

Cost-to-Income Ratio

Cost-to-income ratio is calculated as Citadele Group's operating expenses divided by operating income, each for the relevant period.

Cost-to-Income Ratio (Citadele)

Cost-to-income ratio (Citadele) is calculated as Citadele's operating expenses divided by operating income, each for the relevant period.

Coverage Ratio

Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

Loan-to-Deposit Ratio

Loan-to-deposit ratio is calculated as total net loans and receivables from customers (after impairment allowance) divided by deposits from customers, each as at the end of the relevant period.

Net Interest Margin

Net interest margin for a period is calculated as net interest income for the relevant period divided by average total assets for such period, and annualised where applicable.

Net Interest Margin (Citadele)

Net interest margin (Citadele) for a period is calculated as net interest income of Citadele for the relevant period divided by average total assets of Citadele for such period, and annualised where applicable.

90 Days Past Due Coverage Ratio

90 days past due coverage ratio is calculated as total allowance for impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

90 Days Past Due Ratio

90 days past due ratio is defined as the percentage of total gross loans and receivables from customers that are 90 or more days overdue as at the end of the relevant period.

Non-Performing Loans

Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue or that are specifically impaired as at the end of the relevant period.

Non-Performing Loans Ratio

Non-Performing Loans ratio is defined as Non-Performing Loans divided by total gross loans and receivables from customers, each as at the end of the relevant period.

Operating Expenses

Operating expenses is calculated as the sum of administrative expense, amortisation and depreciation charge and other expense for the relevant period.

Operating Income

Operating income is calculated as the sum of net interest income, net commission and fee income, gain or transactions with financial instruments, net and other income for the relevant period.

Return on Average Total Assets

Return on average total assets for a period is calculated as net profit for the relevant period divided by average total assets for such period.

Return on Average Total Equity

Return on average total equity for a period is calculated as net profit for the relevant period divided by average total equity for such period.

Risk Weighted Assets

Risk weighted assets for a period is calculated as total risk exposure amount for the relevant period.

Risk Weighted Assets as a Percentage of Total Assets

Risk weighted assets as a percentage of total assets for a period is calculated as total risk exposure amount divided by total assets.

Total Assets under Management

Total assets under management represents the financial assets which are managed by Citadele on behalf of itself and its clients.

Total interest earning assets

Total interest earning assets is calculated as the sum of loans and receivables from customers, balances due from credit institutions, balances due from central banks, available for sale securities, held to maturity securities, held for trading securities and financial assets designated at fair value through profit or loss, each as at the end of the relevant period.

Yield on average total interest earning assets

Yield on average total interest earning assets is calculated as total interest income as a percentage of average total interest earning assets, each for the relevant period, and has been annualised where applicable.

Selected Statistical and Other Information

The following discussion sets out certain selected statistical information, ratios and other data that have been derived from the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements which appear elsewhere in this Prospectus, and from the unaudited consolidated management accounts. Historical results may not indicate future performance. The forward-looking statements contained in this discussion are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Presentation of Financial and Other Information—Forward-Looking Statements" and "Risk Factors". The discussions and selected statistical information and other data set forth below should be read in conjunction with the Audited Consolidated Financial Statements and the Reviewed Consolidated Interim Financial Statements, as well as the information set forth under the captions "Operating and Financial Review" and "Presentation of Financial and Other Information", all included elsewhere in this Prospectus.

The Republics of Latvia and Lithuania adopted the Euro as their official currency on 1 January 2014 and 2015 respectively. For purposes of this Prospectus, unless otherwise indicated, financial information not originally reported in Euro has been recast in Euro using the official exchange rates. For more information, see "Presentation of Financial and Other Information".

Average Balances and Rates

The following tables set out the average balances of Citadele Group's interest-earning assets and interest-bearing liabilities, and their related interest income and expense, respectively, and average rates, for the periods indicated:

	For the six months ended 30 June						For the year ended 31 December								
	2015 (unaudited)			2014 (unaudited)			2014 (unaudited)			2013 (unaudited)			2012 (unaudited)		
	Average Balance[1]	Interest Income/ Expense	Average Rate[2]	Average Balance[1]	Interest Income/ Expense	Average Rate[2]	Average Balance[1]	Interest Income/ Expense	Average Rate[2]	Average Balance[1]	Interest Income/ Expense	Average Rate[2]	Average Balance[1]	Interest Income/ Expense	Average Rate[2]
															(EUR thousands, except percentages)
Interest-earning assets															
Loans and receivables from customers	1,078,725	31,748	5.9%	1,074,810	30,775	5.8%	1,065,811	64,905	6.1%	1,037,664	58,326	5.6%	1,019,904	63,651	6.2%
Balances due from credit institutions	403,163	493	0.2%	328,954	198	0.1%	390,292	522	0.1%	227,517	399	0.2%	243,050	819	0.3%
Balances due from central banks	217,439	6	0.0%	203,035	206	0.2%	232,986	214	0.1%	253,599	80	0.0%	243,764	332	0.1%
Available for sale securities	541,958	3,582	1.3%	406,032	2,933	1.5%	465,302	6,020	1.3%	383,584	6,035	1.6%	300,108	7,021	2.3%
Held to maturity securities	240,138	3,040	2.6%	247,473	3,602	2.9%	236,837	7,094	3.0%	240,305	7,994	3.3%	207,991	11,386	5.4%
Held for trading securities	17,949	204	2.3%	24,278	285	2.4%	22,584	695	3.1%	18,996	713	3.8%	6,674	482	7.1%
Financial assets designated at fair value through profit or loss	84,995	503	1.2%	66,423	587	1.8%	69,431	1,256	1.8%	47,829	1,263	2.6%	21,937	837	3.8%
Total interest-earning assets	**2,584,368**	**39,570**	**3.1%**	**2,351,005**	**38,585**	**3.3%**	**2,483,244**	**80,707**	**3.3%**	**2,209,495**	**74,810**	**3.4%**	**2,043,429**	**84,526**	**4.1%**
Interest-bearing liabilities															
Balances due to credit institutions and central banks	27,918	(677)	(4.9%)	31,507	(89)	(0.6%)	25,396	(81)	(0.3%)	31,003	(33)	(0.1%)	51,898	(92)	(0.2%)
Deposits from customers	2,462,682	(6,850)	(0.6%)	2,236,571	(6,192)	(0.6%)	2,382,010	(12,559)	(0.5%)	2,116,405	(13,855)	(0.7%)	1,930,601	(28,525)	(1.5%)
Financial liabilities designated at fair value through profit or loss	27,323	(141)	(1.0%)	18,541	(109)	(1.2%)	20,610	(240)	(1.2%)	15,689	(142)	(0.9%)	10,525	(100)	(1.0%)
Subordinated liabilities	63,786	(2,358)	(7.5%)	73,566	(2,668)	(7.3%)	73,586	(5,361)	(7.3%)	73,792	(5,490)	(7.4%)	73,962	(6,350)	(8.6%)
Issued debt securities	–	–	–	–	–	–	–	–	–	–	–	–	14,887	(182)	(1.2%)
Total interest-bearing liabilities	**2,581,708**	**(10,027)**	**(0.8%)**	**2,360,185**	**(9,058)**	**(0.8%)**	**2,501,601**	**(18,241)**	**(0.7%)**	**2,236,889**	**(19,520)**	**(0.9%)**	**2,081,873**	**(35,250)**	**(1.7%)**

(1) Average balance for the six months ended 30 June 2015 and 30 June 2014 is calculated as the average of the relevant period end balances as at 30 June for that period and as at 31 December for the prior year.

(2) Average rate is calculated as interest income or expense as at 30 June for that period (annualised) and as at 31 December for the prior year divided by relevant average balance.

Volume and Rate Analysis

The following table sets out certain information regarding changes in Citadele Group's interest income, interest expense and net interest income due to changes in volumes and interest rates, for the periods indicated:

	For the six months ended 30 June 2015/2014 (unaudited)			For the years ended 31 December 2014 and 2013 (unaudited)			For the years ended 31 December 2013 and 2012 (unaudited)		
	Increase/(Decrease) due to change in			Increase/(Decrease) due to change in			Increase/(Decrease) due to change in		
	Volume[1]	Rate[2]	Total[3]	Volume[1]	Rate[2]	Total[3]	Volume[1]	Rate[2]	Total[3]
									(EUR thousands)[4]
Interest income attributable to:									
Loans and receivables from customers	115	858	973	1,714	4,865	6,579	998	(6,323)	(5,324)
Balances due from credit institutions	90	200	290	218	(95)	123	(27)	(392)	(420)
Balances due from central banks	0	(201)	(200)	(19)	153	134	3	(255)	(251)
Available for sale securities	898	(250)	649	1,057	(1,072)	(15)	1,313	(2,299)	(986)
Held to maturity securities	(93)	(469)	(562)	(104)	(796)	(900)	1,075	(4,467)	(3,392)
Held for trading securities	(72)	(9)	(81)	110	(128)	(18)	463	(231)	231
Financial assets designated at fair value through profit or loss	110	(194)	(84)	391	(397)	(6)	684	(257)	426
Total interest income	**3,573**	**(2,588)**	**985**	**8,897**	**(3,001)**	**5,896**	**5,623**	**(15,338)**	**(9,716)**
Interest expenses attributable to:									
Balances due to credit institutions and central banks	(87)	675	588	(18)	66	48	22	37	59
Deposits from customers	629	29	658	1,400	(2,697)	(1,296)	1,216	15,886	14,669
Financial liabilities designated at fair value through profit or loss	45	(13)	33	57	41	99	47	5	(41)
Subordinated liabilities	(362)	51	(310)	(15)	(114)	(129)	13	847	860
Issued debt securities	–	–	–	–	–	–	–	182	182
Total interest expenses	**860**	**109**	**969**	**1,930**	**(3,209)**	**(1,279)**	**1,353**	**17,082**	**15,730**

(1) Changes in volume are calculated as changes in average outstanding balances multiplied by the prior's period average interest rate, calculated on a period end basis and annualised where applicable.

(2) Changes in rate are calculated as changes in average interest rate multiplied by the average outstanding balances at the end of the relevant period, calculated on a period end basis and annualised where applicable.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate at the ratio each component bears to the absolute value of their total.

Securities Portfolio

The following table sets out a breakdown of Citadele Group's securities portfolio for the periods indicated:

	As at 30 June		As at 31 December		
	2015	2014	2014	2013	2012
					(EUR thousands)
Total net fixed income securities	894,091	776,092	875,989	712,321	669,108
Total non-fixed income securities and shares, net	40,085	26,735	32,858	23,990	15,162
Total	**934,176**	802,827	**908,847**	**736,311**	**684,270**

Fixed income securities

The following tables set out a breakdown of Citadele Group's fixed income securities portfolio for the periods indicated:

	As at 30 June									
	2015					2014				
	Held to Maturity	Available for Sale	Financial Assets Designated at Fair Value Through Profit or Loss	Held for Trading	Total	Held to Maturity	Available for Sale	Financial Assets Designated at Fair Value through Profit or Loss	Held for Trading	Total
										(EUR thousands)
Government bonds	185,302	191,389	13,845	5,092	395,628	191,692	243,434	11,786	10,684	457,596
Municipality bonds	–	–	895	–	895	34,441	–	1,463	–	35,904
Credit institution bonds	38,358	136,696	26,813	1,419	203,286	2,468	93,471	25,690	2,628	124,257
Corporate bonds	27,364	214,240	43,586	9,092	294,282	21,922	86,146	39,895	10,372	158,335
Total net fixed income securities	**251,024**	**542,325**	**85,139**	**15,603**	**894,091**	**250,523**	**423,051**	**78,834**	**23,684**	**776,092**

	As at 31 December														
	2014					2013					2012				
	Held-to Maturity	Available for Sale	Financial Assets Designated at Fair Value Through Profit or Loss	Held for Trading	Total	Held-to Maturity	Available for Sale	Financial Assets Designated at Fair Value Through Profit or Loss	Held for Trading	Total	Held-to Maturity	Available for Sale	Financial Assets Designated at Fair Value Through Profit or Loss	Held for Trading	Total
															(EUR thousands)
Government bonds	161,988	228,426	11,749	9,545	411,708	188,560	226,852	9,743	9,362	434,517	191,346	250,185	4,347	4,602	450,480
Municipality bonds	34,455	–	1,634	–	36,089	36,570	1,394	–	–	37,964	35,192	2,126	260	–	37,578
Credit institution bonds	7,573	146,294	29,236	1,908	185,011	7,006	88,868	19,583	7,631	123,088	1,325	66,696	13,583	3,553	85,157
Corporate bonds	2,085	152,367	1,093	1,728	157,273	8,433	64,253	24,478	7,292	104,456	4,499	49,916	23,371	4,185	81,971
Other financial institution bonds	23,151	14,504	41,139	7,114	85,908	3,854	7,646	208	588	12,296	3,825	9,232	85	780	13,922
Total net fixed income securities	**229,252**	**541,591**	**84,851**	**20,295**	**875,989**	**244,423**	**389,013**	**54,012**	**24,873**	**712,321**	**236,187**	**378,155**	**41,646**	**13,120**	**669,108**

Fixed income securities by rating

The following table sets out a breakdown of Citadele Group's fixed income securities portfolio by rating as at 30 June 2015:

	As at 30 June 2015				
	Held for Trading	Financial Assets Designated at Fair Value Through Profit or Loss	Available for Sale	Held-to Maturity	Total
					(EUR thousands)
Investment grade					
AAA/Aaa	–	13,242	102,446	3,506	119,194
AA/Aa	1,591	28,045	127,807	3,072	160,515
A	7,459	33,364	231,761	228,271	500,855
BBB/Baa	6,553	9,277	69,833	14,720	100,383
BB/Ba	–	1,211	5,142	1,455	7,808
Not rated	–	–	5,336	–	5,336
Total net fixed income securities	**15,603**	**85,139**	**542,325**	**251,024**	**894,091**

Non-fixed income securities

The following tables set out a breakdown of Citadele Group's non-fixed income securities portfolio, for the periods indicated:

	As at 30 June							
	2015				2014			
	Foreign Equities	Latvian Equities	Mutual Investment Funds	Total	Foreign Equities	Latvian Equities	Mutual Investment Funds	Total
								(EUR thousands)
Held for trading	–	–	5,439	5,439	–	–	3,683	3,683
Financial assets designated at fair value through profit or loss	–	–	17,147	17,147	–	–	10,331	10,331
Available for sale	116	100	17,283	17,499	99	100	12,522	12,721
Total non-fixed income securities, net	**116**	**100**	**39,869**	**40,085**	**99**	**100**	**26,536**	**26,735**

	As at 31 December											
	2014				2013				2012			
	Foreign Equities	Latvian Equities	Mutual Investment Funds	Total	Foreign Equities	Latvian Equities	Mutual Investment Funds	Total	Foreign Equities	Latvian Equities	Mutual Investment Funds	Total
												(EUR thousands)
Held for trading	–	–	3,655	3,655	–	–	2,941	2,941	–	–	1,672	1,672
Financial assets designated at fair value through profit or loss	–	–	12,598	12,598	–	–	8,324	8,324	–	–	8,877	8,877
Available for sale	116	100	16,389	16,605	114	28	12,583	12,725	112	–	4,501	4,613
Total non-fixed income securities, net	**116**	**100**	**32,642**	**32,858**	**114**	**28**	**23,848**	**23,990**	**112**	**–**	**15,050**	**15,162**

Securities geographical profile

The following tables set out a breakdown of Citadele Group's fixed income, shares and other non-fixed income securities by issuer's country, net, for the periods indicated:

	As at 30 June					
	2015			2014		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
						(EUR thousands)
Latvia	274,881	4,773	297,654	286,726	50,628	324,665
Lithuania	58,340	–	58,340	98,497	–	98,497
Finland	14,123	11,379	25,502	17,752	4,760	22,512
United States	5,662	73,979	79,641	1,463	53,045	54,299
Netherlands	7,316	53,742	61,058	10,322	37,859	48,181
Sweden	7,367	20,942	28,309	1,016	8,008	9,024
Canada	3,599	24,374	27,973	3,703	22,290	25,993
Australia	699	32,864	33,563	–	19,569	19,569
Norway	–	27,701	27,701	–	15,201	15,201
Germany	–	64,508	64,508	–	21,060	20,994
Singapore	–	29,576	29,576	7,426	10,017	17,443
Other countries	23,641	154,841	178,482	30,691	89,222	119,913
Total fixed income securities and shares, net	**395,628**	**498,679**	**894,307**	**457,596**	**318,695**	**776,291**
Investments in managed funds	–	39,869	39,869	–	26,536	26,536
Total securities, net	**395,628**	**538,548**	**934,176**	**457,596**	**345,231**	**802,827**

	As at 31 December								
	2014			2013			2012 (unaudited)		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total	Government bonds	Other securities	Total
									(EUR thousands)
Latvia	253,751	37,978	291,729	290,350	37,714	328,064	305,653	35,193	340,846
Lithuania	86,375	–	86,375	74,015	-	74,015	72,757	-	72,757
Finland	13,246	16,312	29,558	17,735	8,002	25,737	12,552	2,227	14,779
United States	12,358	77,321	89,679	–	32,023	32,023	17,776	33,191	50,967
Netherlands	10,080	53,734	63,814	10,447	28,697	39,144	10,775	22,431	33,206
Sweden	5,376	21,342	26,718	–	7,291	7,291	1,299	54	1,353
Canada	3,308	24,023	27,331	3,745	19,834	23,579	3,937	9,777	13,714
Australia	693	32,946	33,639	–	17,854	17,854	468	3,652	4,120
Norway	–	26,638	26,638	–	13,999	13,999	–	13,051	13,051
Germany	–	24,479	24,479	1,150	24,866	26,016	2,927	28,463	31,390
Singapore	–	24,368	24,368	7,319	4,031	11,350	–	–	–
Other countries	26,521	125,356	151,877	29,756	83,635	113,391	22,336	70,701	93,037
Total fixed income securities and shares, net	**411,708**	**464,497**	**876,205**	**434,517**	**277,946**	**712,463**	**450,480**	**218,740**	**669,220**
Investments in managed funds	–	32,642	32,642	–	23,848	23,848	–	15,050	15,050
Total securities, net	**411,708**	**497,139**	**908,847**	**434,517**	**301,794**	**736,311**	**450,480**	**233,790**	**684,270**

Securities maturity profile

The following tables set out Citadele Group's securities by contractual maturity structure, as at the periods indicated:

	As at 30 June 2015						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
							(EUR thousands)
Securities held for trading	1,368	–	1,463	1,708	8,027	8,476	21,042
Financial assets designated at fair value through profit or loss	3,327	2,192	4,397	11,443	61,954	18,973	102,286
Available for sale securities	16,917	37,257	20,716	84,125	363,712	37,097	559,824
Held to maturity securities	14,372	10,181	65,598	38,101	112,205	10,567	251,024
Total	**35,984**	**49,630**	**92,174**	**135,377**	**545,898**	**75,113**	**934,176**

	As at 30 June 2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
							(EUR thousands)
Securities held for trading	–	686	1,061	4,749	13,157	7,714	27,367
Financial assets designated at fair value through profit or loss	297	1,558	1,254	8,100	63,919	14,073	89,201
Available for sale securities	8,716	27,049	24,511	45,540	291,482	38,474	435,772
Held to maturity securities	4,412	11,448	31,665	17,411	173,438	12,149	250,523
Total	**13,425**	**40,741**	**58,491**	**75,800**	**541,996**	**72,410**	**802,863**

	As at 31 December 2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
							(EUR thousands)
Securities held for trading	6,474	426	1,513	2,664	–	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	–	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Held to maturity securities	–	2,945	16,986	74,972	99,699	34,650	229,252
Total	**47,568**	**21,227**	**50,318**	**155,801**	**395,176**	**238,757**	**908,847**

	As at 31 December 2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
							(EUR thousands)
Securities held for trading	–	1,049	1,308	3,009	18,137	4,311	27,814
Financial assets designated at fair value through profit or loss	1,816	5,303	5,592	3,241	35,854	10,530	62,336
Available for sale securities	7,728	14,592	44,613	52,568	256,128	26,109	401,738
Held to maturity securities	–	898	33,408	42,531	166,024	1,562	244,423
Total	**9,544**	**21,842**	**84,921**	**101,349**	**476,143**	**42,512**	**736,311**

	As at 31 December 2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
							(EUR thousands)
Securities held for trading	–	521	101	1,215	9,859	3,096	14,792
Financial assets designated at fair value through profit or loss	–	2,526	7,193	3,930	27,749	9,126	50,523
Available for sale securities	13,059	30,710	24,690	33,258	218,012	63,039	382,768
Held to maturity securities	–	75,054	41,595	8,098	99,435	53,601	236,187
Total	**13,059**	**108,811**	**73,579**	**46,501**	**355,055**	**128,862**	**684,270**

Loan and Receivables Portfolio

Loans and receivables from customers by class

The following table sets out an analysis of Citadele Group's total net loans and receivables from customers, by class, as at the dates indicated:

	As 30 June						As at 31 December								
	2015 (unaudited)			2014 (unaudited)			2014			2013			2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
															(EUR thousands)
Regular loan	871,984	30,854	902,838	870,108	20,092	890,200	851,694	30,566	882,260	843,370	47,000	890,370	843,133	32,111	875,244
Utilised credit lines	91,957	3,687	95,644	131,045	39,182	170,227	132,114	32,233	164,347	131,502	32,717	164,219	101,956	29,303	131,259
Finance leases	117,502	–	117,502	99,847	–	99,847	103,138	36	103,174	92,737	–	92,737	69,529	–	69,529
Debit balances on settlement cards	55,512	85,620	141,132	65,137	110,800	175,937	57,312	85,388	142,700	67,098	87,393	154,491	80,651	87,591	168,242
Overdraft facilities	29,258	59,422	88,680	13,606	15,946	29,552	13,795	17,454	31,249	8,234	19,626	27,860	3,320	16,024	19,344
Factoring	2,000	2,610	4,610	1,115	–	1,115	1,635	2,969	4,604	454	–	454	1,113	–	1,113
Due from investment counterparties	4,374	–	4,374	6,675	–	6,675	4,720	–	4,720	5,576	–	5,576	8,879	–	8,879
Total loans and receivables from customers	**1,172,587**	**182,193**	**1,354,780**	**1,187,533**	**186,020**	**1,373,553**	**1,164,408**	**168,646**	**1,333,054**	**1,148,971**	**186,736**	**1,335,707**	**1,108,579**	**165,029**	**1,273,608**
Impairment allowance	(90,835)	–	(90,835)	(93,834)	–	(93,834)	(88,707)	–	(88,707)	(93,049)	–	(93,049)	(89,173)	–	(89,173)
Total net loans and receivables from customers	**1,081,752**	**182,193**	**1,263,945**	**1,093,699**	**186,020**	**1,279,719**	**1,075,701**	**168,646**	**1,244,347**	**1,055,922**	**186,736**	**1,242,658**	**1,019,407**	**165,029**	**1,184,435**

Loans and receivables from customers by customer profile

The following table sets out an analysis of Citadele Group's total net loans and receivables from customers, by customer profile, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015 (unaudited)		2014 (unaudited)		2014		2013		2012	
									(EUR thousands, except percentages)	
Privately held companies	685,490	58.5%	686,439	57.8%	678,373	58.3%	640,466	55.7%	576,735	52.0%
Private individuals	460,349	39.3%	468,019	39.4%	457,271	39.3%	474,918	41.3%	489,555	44.2%
State owned enterprises	10,198	0.9%	13,526	1.1%	11,645	1.0%	14,530	1.3%	20,788	1.9%
Public and religious institutions	6,794	0.6%	11,742	1.0%	7,025	0.6%	9,409	0.8%	11,589	1.0%
Local municipalities	2,136	0.2%	3,086	0.3%	2,635	0.2%	5,747	0.5%	3,634	0.3%
Municipality owned enterprises	7,601	0.6%	4,690	0.4%	7,373	0.6%	3,826	0.3%	6,221	0.6%
Government	20	0.0%	31	0.0%	86	0.0%	75	0.0%	57	0.0%
Total gross loans and receivables from customers	**1,172,587**	**100.0%**	**1,187,533**	**100%**	**1,164,408**	**100%**	**1,148,971**	**100%**	**1,108,579**	**100%**
Impairment allowance	(90,832)	–	(93,834)	–	(88,707)	–	(93,049)	–	(89,173)	–
Total net loans and receivables from customers	**1,081,752**	**–**	**1,093,699**	**–**	**1,075,701**	**–**	**1,055,922**	**–**	**1,019,407**	**–**

Loans and receivables from legal entities by industry

The following tables set out an analysis of Citadele Group's total gross and net loans and receivables from legal entities, by industry, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015 (unaudited)		2014 (unaudited)		2014		2013		2012	
	(EUR thousands, except percentages)									
Real estate purchase and management	151,105	21.2%	148,324	20.6%	150,455	21.3%	150,611	22.3%	159,594	25.8%
Manufacturing	127,773	17.9%	139,600	19.4%	129,546	18.3%	103,155	15.3%	84,887	13.7%
Trade	111,506	15.7%	109,182	15.2%	108,582	15.4%	106,259	15.8%	79,184	12.8%
Transport and communications	74,714	10.5%	89,868	12.5%	83,477	11.8%	92,888	13.8%	103,614	16.7%
Agriculture and forestry	84,970	11.9%	78,129	10.9%	76,306	10.8%	79,889	11.9%	55,246	8.9%
Electricity, gas and water supply	40,900	5.7%	38,742	5.4%	41,961	5.9%	31,319	4.6%	28,659	4.6%
Construction	41,984	5.9%	37,976	5.3%	39,118	5.5%	35,434	5.3%	24,685	4.0%
Financial intermediation	12,469	1.8%	13,260	1.8%	16,861	2.4%	13,587	2.0%	17,584	2.8%
Hotels, restaurants	12,729	1.8%	13,755	1.9%	12,620	1.8%	10,838	1.6%	19,064	3.1%
Other industries and government	54,087	7.6%	50,678	7.0%	48,211	6.8%	50,075	7.4%	46,508	7.5%
Total gross loans and receivables from legal entities[1]	**712,238**	**100.0%**	**719,521**	**100%**	**707,137**	**100%**	**674,054**	**100%**	**619,025**	**100%**

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014		2013	
	(EUR thousands, except percentages)							
Real estate purchase and management	132,284	20%	132,895	20%	150,455	21%	150,611	22%
Manufacturing	116,602	18%	130,251	20%	129,546	18%	106,259	16%
Trade	97,085	15%	96,302	14%	108,582	15%	92,888	14%
Transport and communications	72,118	11%	84,391	13%	83,477	12%	103,155	15%
Agriculture and forestry	81,948	12%	75,631	11%	76,306	11%	79,889	12%
Other industries and government	154,804	24%	147,811	22%	158,771	22%	141,251	21%
Total net loans and receivables from legal entities	**654,841**	**100%**	**667,281**	**100%**	**707,137**	**100%**	**674,053**	**100%**

Loans and receivables from customers by maturity

The following table sets out an analysis of net loans and receivables from customers, by maturity, as at the dates indicated based on the contractual maturity of discounted individual payments:

	As at 30 June				As at 31 December					
	2015		2014		2014		2013		2012	
	(EUR thousands, except percentages)									
On demand and less than 1 month	52,182	4.8%	18,108	1.7%	29,456	2.7%	10,691	1%	12,171	1%
Between 1 and 3 months	68,411	6.3%	33,888	3.1%	46,519	4.3%	32,531	2%	26,410	3%
Between 3 months and 1 year	164,139	15.2%	184,473	16.9%	191,571	17.8%	188,442	18%	140,923	14%
Between 1 and 5 years	560,785	51.8%	592,369	54.2%	581,871	54.1%	595,119	56%	579,682	57%
Over 5 years	**236,235**	21.8%	264,861	24.2%	226,284	21.0%	229,139	22%	260,221	25%
Total net loans and receivables from customers	**1,081,752**	**100%**	**1,093,699**	**100%**	**1,075,701**	**100%**	**1,055,922**	**100%**	**1,019,407**	**100%**

Loans and receivables by geographic location

The following table sets out an analysis of Citadele Group's total net loans and receivables from customers, based on information about the residence of the respective counterparty, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015 (unaudited)		2014 (unaudited)		2014		2013		2012	
	(EUR thousands, except percentages)									
Latvia	**696,699**	64.4%	**706,705**	64.6%	676,574	62.9%	679,716	64.4%	669,090	65.6%
Lithuania	**226,313**	20.9%	**234,596**	21.4%	228,733	21.3%	219,131	20.8%	198,341	19.5%
Other EU countries[1]	**104,070**	9.6%	**93,498**	8.5%	107,196	10.0%	88,447	8.4%	70,589	6.9%
CIS countries	**38,113**	3.5%	**39,000**	3.6%	42,380	3.9%	46,515	4.4%	55,267	5.4%
Other countries	**16,557**	1.5%	**19,900**	1.8%	20,818	1.9%	22,113	2.1%	26,120	2.6%
Total net loans and receivables from customers	**1,081,752**	**100%**	**1,093,699**	**100%**	**1,075,701**	**100%**	**1,055,922**	**100%**	**1,019,407**	**100%**

(1) As at 30 June 2015, 8% of net loans and receivables consisted of loans and receivables from customers in Estonia, all of which are included in the category Other EU Countries .

Impairment and loan loss experience

The following tables set out an analysis of Citadele Group's loan portfolio by category of loan which are accounted for a non-accrual basis and which are 90 or more days past overdue:

	As at 30 June 2015 (unaudited)								
	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total	% of total
	(EUR thousands, except percentages)								
Not delayed—not impaired	659,162	72,785	100,495	47,076	26,427	1,741	2,551	910,237	77.6%
Not delayed—specifically impaired	54,226	4,386	266	–	–	–	1,823	60,701	5.2%
Total not delayed loans	**713,388**	**77,171**	**100,761**	**47,076**	**26,427**	**1,741**	**4,374**	**970,938**	**82.8%**
Past due loans—not impaired									
Delayed days:									
=< 29	74,626	5,060	6,597	1,914	93	–	–	88,290	7.5%
30-59	27,723	287	3,759	372	2,495	–	–	34,636	3.0%
60-89	2,634	6	538	213	–	–	–	3,391	0.3%
90 and more	14,769	617	457	359	151	–	–	16,353	1.4%
Total past due loans—not impaired	**119,752**	**5,970**	**11,351**	**2,858**	**2,739**	**–**	**–**	**142,670**	**12.2%**
Total past due loans—specifically impaired	**38,844**	**8,816**	**5,390**	**5,578**	**92**	**259**	**–**	**58,979**	**5.0%**
Total gross loans and receivables from customers	**871,984**	**91,957**	**117,502**	**55,512**	**29,258**	**2,000**	**4,374**	**1,172,587**	**100%**
Impairment allowance	(59,652)	(12,041)	(7,953)	(8,083)	(1,326)	(260)	(1,520)	(90,835)	
Total net loans and receivables from customers	**812,332**	**79,916**	**109,549**	**47,429**	**27,932**	**1,740**	**2,854**	**1,081,752**	

	As at 30 June 2014 (unaudited)								
	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total	% of total
							(EUR thousands, except percentages)		
Not delayed—not impaired	695,777	96,335	77,942	49,669	13,226	856	5,206	939,011	79.1%
Not delayed—specifically impaired	27,679	1,873	5,216	–	175	–	1,469	36,412	3.1%
Total not delayed loans	723,456	98,208	83,158	49,669	13,401	856	6,675	975,423	**82.1%**
Past due loans—not impaired									
Delayed days:									
=< 29	68,977	6,903	5,511	2,104	89	–	–	83,584	7.0%
30-59	17,114	513	2,040	372	–	–	–	20,039	1.7%
60-89	3,006	–	639	291	–	–	–	3,936	0.3%
90 and more	8,533	–	1,871	645	116	–	–	11,165	0.9%
Total past due loans—not impaired	**97,630**	**7,416**	**10,061**	**3,412**	**205**	**–**	**–**	**118,724**	**10.0%**
Total past due loans—specifically impaired	**49,022**	**25,421**	**6,628**	**12,056**	**–**	**259**	**–**	**93,386**	**7.9%**
Total gross loans and receivables from customers	**870,108**	**131,045**	**99,847**	**65,137**	**13,606**	**1,115**	**6,675**	**1,187,533**	**100%**
Impairment allowance	(53,943)	(16,109)	(7,654)	(14,611)	(170)	(259)	(1,088)	(93,834)	
Total net loans and receivables from customers	**816,165**	**114,936**	**92,193**	**50,526**	**13,436**	**856**	**5,587**	**1,093,699**	

	As at 31 December 2014								
	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total	% of total
							(EUR thousands, except percentages)		
Not delayed—not impaired	715,768	106,090	88,590	48,194	13,597	1,376	3,055	976,670	83.9%
Not delayed—specifically impaired	39,065	1,704	885	–	71	–	1,665	43,390	3.7%
Total not delayed loans	**754,833**	**107,794**	**89,475**	**48,194**	**13,668**	**1,376**	**4,720**	**1,020,060**	**87.6%**
Past due loans—not impaired									
Delayed days:									
=< 29	23,761	482	4,742	1,538	1	–	–	30,524	2.6%
30-59	8,330	572	2,943	473	–	–	–	12,318	1.1%
60-89	3,294	–	565	212	–	–	–	4,071	0.3%
90 and more	14,982	–	290	415	–	–	–	15,687	1.3%
Total past due loans—not impaired	**50,367**	**1,054**	**8,540**	**2,638**	**1**	**–**	**–**	**62,600**	**5.4%**
Total past due loans—specifically impaired	**46,494**	**23,266**	**5,123**	**6,480**	**126**	**259**	**–**	**81,748**	**7.0%**
Total gross loans and receivables from customers	**851,694**	**132,114**	**103,138**	**57,312**	**13,795**	**1,635**	**4,720**	**1,164,408**	**100%**
Impairment allowance	(55,392)	(14,357)	(8,016)	(8,875)	(471)	(261)	(1,335)	(88,707)	
Total net loans and receivables from customers	**796,302**	**117,757**	**95,122**	**48,437**	**13,324**	**1,374**	**3,385**	**1,075,701**	

	As at 31 December 2013								
	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total	% of total
							(EUR thousands, except percentages)		
Not delayed—not impaired	698,526	86,380	64,438	52,212	7,948	195	3,722	913,421	79.5%
Not delayed—specifically impaired	27,609	1,791	5,255	–	130	–	1,854	36,639	3.2%
Total not delayed loans	**726,135**	**88,171**	**69,693**	**52,212**	**8,078**	**195**	**5,576**	**950,060**	**82.7%**
Past due loans—not impaired									
Delayed days:									
=< 29	45,693	18,833	8,394	1,729	18	–	–	74,667	6.5%
30-59	7,636	–	2,615	458	1	–	–	10,710	0.9%
60-89	6,116	–	188	274	84	–	–	6,662	0.6%
90 and more	9,866	949	253	461	53	–	–	11,582	1.0%
Total past due loans—not impaired	**69,311**	**19,782**	**11,450**	**2,922**	**156**	**–**	**–**	**103,621**	**9.0%**
Total past due loans—specifically impaired	**47,924**	**23,549**	**11,594**	**11,964**	**–**	**259**	**–**	**95,290**	**8.3%**
Total gross loans and receivables from customers	**843,370**	**131,502**	**92,737**	**67,098**	**8,234**	**454**	**5,576**	**1,148,971**	**100%**
Impairment allowance	(53,683)	(13,310)	(10,146)	(14,098)	(132)	(256)	(1,424)	(93,049)	
Total net loans and receivables from customers	**789,687**	**118,192**	**82,591**	**53,000**	**8,102**	**198**	**4,152**	**1,055,922**	

	As at 31 December 2012								
	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total	% of total
							(EUR thousands, except percentages)		
Not delayed—not impaired	669,954	94,826	51,107	56,630	2,550	764	2,984	878,814	79.3%
Not delayed—specifically impaired	58,016	174	874	–	101	–	5,895	65,059	5.9%
Total not delayed loans	**727,970**	**94,999**	**51,980**	**56,630**	**2,651**	**764**	**8,879**	**943,873**	**85.1%**
Past due loans—not impaired									
Delayed days:									
=< 29	36,038	201	7,002	1,474	9	–	–	44,724	4.0%
30-59	15,004	–	1,453	495	–	–	–	16,952	1.5%
60-89	9,959	–	169	252	–	–	–	10,380	0.9%
90 and more	8,174	–	232	447	–	90	–	8,943	0.8%
Total past due loans—not impaired	**69,176**	**201**	**8,856**	**2,668**	**9**	**90**	**–**	**80,998**	**7.3%**
Total past due loans—specifically impaired	**45,987**	**6,756**	**8,692**	**21,353**	**660**	**259**	**–**	**83,708**	**7.6%**
Total gross loans and receivables from customers	**843,133**	**101,956**	**69,529**	**80,651**	**3,320**	**1,113**	**8,879**	**1,108,579**	**100%**
Impairment allowance	(51,736)	(2,331)	(9,371)	(22,655)	(763)	(334)	(1,983)	(89,173)	
Total net loans and receivables from customers	**791,397**	**99,625**	**60,158**	**57,996**	**2,557**	**778**	**6,895**	**1,019,407**	

The following table sets forth a summary of Citadele Group's specific impairment allowances and changes in specific impairment allowances as at the period indicated:

	Regular Loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counter-parties	Total
							(EUR thousands)	
Outstanding specific impairment as at 31/12/2012	**42,259**	**2,301**	**9,139**	**21,339**	**761**	**259**	**1,981**	**78,039**
Impairment charge for the reported period—specific	12,984	9,626	1,945	74	209	–	78	24,916
Release of previously established impairment allowance—specific	(5,424)	(47)	(388)	(770)	–	–	(558)	(7,187)
Impairment charged to the statement of income, net	**7,560**	**9,579**	**1,557**	**(696)**	**209**	**–**	**(480)**	**17,729**
Change of impairment allowance due to write-offs, net	(7,582)	–	(879)	(8,608)	(757)	–	–	(17,826)
Increase/(decrease) in impairment allowance due to currency fluctuations	775	(1)	16	(87)	(84)	(4)	(80)	535
Outstanding specific impairment as at 31/12/2013	**43,012**	**11,879**	**9,833**	**11,948**	**129**	**255**	**1,421**	**78,477**
Impairment charge for the reported period—specific	12,691	2,997	1,193	401	52	–	180	17,514
Release of previously established impairment allowance—specific	(8,520)	(1,642)	(351)	(69)	(30)	–	(23)	(10,635)
Impairment charged to the statement of income, net	**4,171**	**1,355**	**842**	**332**	**22**	**–**	**157**	**6,879**
Change of impairment allowance due to write-offs, net	(7,722)	(248)	(3,605)	(5,823)	(108)	–	(376)	(17,882)
Increase/ (decrease) in impairment allowance due to currency fluctuations	74	(17)	(7)	11	9	–	132	202
Outstanding specific impairment as at 31/12/2014	**39,535**	**12,969**	**7,063**	**6,468**	**52**	**255**	**1,334**	**67,676**
Impairment charge for the reported period—specific	3,444	–	205	484	–	–	73	4,206
Release of previously established impairment allowance—specific	(375)	(2,210)	(128)	(294)	–	–	–	(3,007)
Impairment charged to the statement of income, net	3,069	(2,210)	77	190	–	–	73	1,199
Change of impairment allowance due to write-offs, net	(1,304)	–	(380)	(1,097)	–	–	–	(2,781)
Increase/ (decrease) in impairment allowance due to currency fluctuations	196	(63)	–	5	–	–	106	244
Outstanding specific impairment as at 30/06/2015(1)	**41,496**	**10,696**	**6,760**	**5,566**	**52**	**255**	**1,513**	**66,338**

(1) Citadele Group's specific impairment allowance as at 30 June 2015 and changes in specific impairment allowance for the first half of 2015 are unaudited.

Loan-to-value analysis

The following tables set out the loan-to-value ("**LTV**") analysis of Citadele Group's loan portfolio. In the tables below, estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed the carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

In the first half of 2015, Citadele Group changed the methodology used for determining the value of collateral securing its loans. As a result, comparative data for the LTV analysis as at 31 December 2014 has been restated using the updated methodology. See "*Operating and Financial Review—Key Factors Affecting Citadele Group's Results of Operation—Collateral valuation*" and Note 21 to the Reviewed Interim Consolidated Financial Statements for more information. Due to the change in methodology in the first half of 2015, the LTV analyses presented for 2013 and 2012 are not comparable with the LTV analysis for the first half of 2015 and the restated LTV analysis for 2014.

	As at 30 June 2015					
	LTV < 100%		LTV ≥ 100%			
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Total carrying value of assets	Total estimated fair value of collateral
						(EUR thousands)
Regular loans	650,233	1,365,860	161,484	113,666	811,717	1,479,526
Utilised credit lines	85,176	256,040	8,176	6,824	93,352	262,864
Finance leases	93,744	99,859	15,805	15,307	109,549	115,166
Debit balances on settlement cards	295	1,718	47,133	10	47,428	1,728
Overdraft facilities	2,917	10,165	12,194	2,095	15,111	12,260
Factoring	1,413	1,505	327	–	1,740	1,505
Due from investment counterparties	–	–	2,855	–	2,855	–
Total net loans	**833,778**	**1,735,147**	**247,974**	**137,902**	**1,081,752**	**1,873,049**

	As at 31 December 2014 (restated)					
	LTV < 100%		LTV ≥ 100%			
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Total carrying value of assets	Total estimated fair value of collateral
						(EUR thousands)
Regular loans	597,070	1,139,362	199,232	132,224	796,302	1,271,586
Utilised credit lines	105,834	257,600	11,923	9,055	117,757	266,655
Finance leases	94,285	100,822	837	523	95,122	101,345
Debit balances on settlement cards	285	1,363	48,152	1	48,437	1,364
Overdraft facilities	4,035	11,257	9,289	1,799	13,324	13,056
Factoring	1,369	1,389	5	–	1,374	1,389
Due from investment counterparties	–	–	3,385	–	3,385	–
Total net loans	**802,878**	**1,511,793**	**272,823**	**143,602**	**1,075,701**	**1,655,395**

Due to the change in methodology in the first half of 2015, the LTV analyses presented for 2013 and 2012 are not comparable with the LTV analysis for the first half of 2015 and the restated LTV analysis for 2014.

	As at 31 December 2013					
	LTV < 100%		LTV ≥ 100%			
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Total carrying value of assets	Total estimated fair value of collateral
						(EUR thousands)
Regular loans	455,520	997,429	334,167	217,550	789,687	1,214,979
Utilised credit lines	80,766	207,823	37,426	19,086	118,192	226,909
Finance leases	81,136	85,237	1,455	748	82,591	85,985
Debit balances on settlement cards	36	36	52,964	–	53,000	36
Overdraft facilities	243	1,554	7,859	57	8,102	1,611
Factoring	195	195	3	–	198	195
Due from investment counterparties	–	–	4,152	–	4,152	–
Total net loans	**617,896**	**1,292,274**	**438,026**	**237,442**	**1,055,922**	**1,529,715**

	As at 31 December 2012					
	LTV < 100%		LTV ≥ 100%			
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Total carrying value of assets	Total estimated fair value of collateral
						(EUR thousands)
Regular loans	381,839	833,959	409,558	275,191	791,397	1,109,150
Utilised credit lines	47,532	109,259	52,093	31,465	99,625	140,725
Finance leases	57,234	59,210	2,924	2,143	60,158	61,353
Debit balances on settlement cards	18	64	57,978	–	57,996	64
Overdraft facilities	91	169	2,466	28	2,557	198
Factoring	–	–	778	764	778	764
Due from investment counterparties	–	–	6,895	–	6,895	–
Total net loans	**486,715**	**1,002,662**	**532,692**	**309,591**	**1,019,407**	**1,312,253**

Breakdown of LTV > 100% Loans

The following table sets out a breakdown of Citadele Group's net loans with an LTV greater than 100% as at 30 June 2015:

	As at 30 June 2015 (unaudited)	
LTV	*(EUR thousands, except percentages)*	
100% – 105%	53.8	21.7%
105% – 110%	35.6	14.4%
110% – 120%	18.6	7.5%
120% or more	140.0	56.5%
Total	**248.0**	**100%**

As at 30 June 2015, net loans with LTV greater than 120% were comprised of EUR 69.4 million in unsecured credit cards, overdrafts and consumer loans, EUR 31.7 million in negative equity mortgages, EUR 7.4 million in the two largest exposures within Citadele Group of net loans with LTV greater than 120% where one of them was recently restructured, EUR 7.1 million in loans to energy companies (electricity and heat), EUR 4.1 million in loans to municipalities and municipality companies and EUR 20.3 million in other loans. Out of the EUR 248 million net loans with an LTV greater than 100%, EUR 11 million were 90 or more days overdue.

Loans by segment

The following table sets forth Citadele Group's loans by segment, as at the dates indicated:

	As at 30 June		As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
					(EUR thousands)
Retail	263.6	274.4	264.4	274.1	278.5
Residential mortgages	155.7	152.4	154.0	149.4	140.2
Credit cards	46.7	54	47.2	55.7	67.4
Consumer loans	6.9	5	6.2	3.4	1.0
Mortgages (other)	14.4	16.9	15.2	17.6	16.1
Other	39.8	46.2	41.8	48.0	53.9
SME	109.5	110.6	107.8	108.5	90.7
Corporate	346.9	366.4	353.8	341.8	319
Estonia	59.4	50.5	55.5	45.8	40.0
PCM	27.7	31.7	30.0	28.7	34
Other	177	197.4	199.5	198.1	199.7
Leasing	120.9	102.9	106.7	95.2	73.7
Lithuania	225.9	198.0	190.9	190.9	188.2
Switzerland	9.1	5.9	9.8	3.9	0.3
Eliminations	(167.5)	(150.7)	(154.1)	(138.4)	(115.7)
Total group gross loans	**1,172.4**	**1,187.5**	**1,164.3**	**1,148.6**	**1,108.5**

The following table sets forth Citadele Group's loans in the Retail and SME segment per type, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
								(EUR thousands, except percentages)
Regular loans	307,462	82%	315,304	82%	308,404	83%	312,316	82%
Cards debit balances	46,934	13%	54,285	14%	47,428	13%	55,919	15%
Utilised credit lines	17,976	5%	14,962	4%	15,902	4%	13,351	3%
Others	650	0%	513	0%	419	0%	1,021	0%
Total gross loans	**373,022**	**100%**	**385,064**	**100%**	**372,153**	**100%**	**382,607**	**100%**

The following table sets forth Citadele Group's loans in the Corporate segment per industry, as at the dates indicated:

	As at the six months ended 30 June				As at the year ended 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
								(EUR thousands, except percentages)
Real estate	102,378	29.5%	104,345	28.5%	106,349	30.1%	106,300	31.1%
Manufacturing	77,148	22.2%	86,859	23.7%	81,946	23.2%	70,710	20.7%
Trade	46,865	13.5%	44,367	12.1%	41,619	11.8%	32,058	9.4%
Transport and communications	37,614	10.8%	51,418	14.0%	48,268	13.6%	63,687	18.6%
Utilities	29,337	8.5%	29,953	8.2%	29,513	8.3%	23,494	6.9%
Agriculture	21,067	6.1%	18,890	5.2%	17,948	5.1%	20,056	5.9%
Construction	14,029	4.0%	11,055	3.0%	11,516	3.3%	7,365	2.2%
Other industries	18,479	5.3%	19,501	5.3%	16,668	4.7%	18,179	5.3%
Total gross loans	**346,917**	**100%**	**366,388**	**100%**	**353,827**	**100%**	**341,850**	**100%**

The following table sets forth Citadele Group's loans in the Lithuania segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Legal entities	121,995	54%	86,233	44%	82,533	43%	74,719	39%
Private individuals	103,948	46%	111,795	56%	108,381	57%	116,172	61%
Total gross loans	**225,943**	**100%**	198,028	**100%**	190,394	**100%**	190,891	**100%**

The following table sets forth Citadele Group's loans in the Estonia segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Legal entities	31,779	54%	30,355	60%	32,411	58%	28,051	61%
Private individuals	27,573	46%	20,178	40%	23,060	42%	17,709	39%
Total gross loans	**59,353**	**100%**	**50,533**	**100%**	**55,471**	**100%**	**45,760**	**100%**

Funding Sources

The following tables set out information relating to Citadele Group's funding sources, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015		2014		2014		2013		2012	
	(EUR thousands, except percentages)									
Demand Deposits	1,790,771	71.8%	1,602,864	68.6%	1,897,101	72.5%	1,679,094	71.6%	1,359,207	64.8%
Term Deposits	617,485	24.8%	623,366	26.7%	620,006	23.7%	567,818	24.2%	626,691	29.9%
Amounts due to credit institutions	30,799	1.2%	37,259	1.6%	25,036	1.0%	25,755	1.1%	36,251	1.7%
Subordinated debt	53,976	2.2%	73,556	3.1%	73,596	2.8%	73,575	3.1%	74,009	3.5%
Total liabilities	**2,493,885**	**100%**	**2,337,045**	**100%**	**2,615,739**	**100%**	**2,346,242**	**100%**	**2,096,158**	**100%**
Customer accounts	2,408,256	–	2,226,230	–	2,517,107	–	2,246,912	–	1,985,898	–

Customer deposits

The following table set out information regarding Citadele Group's customer deposits by type of customer, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015		2014		2014		2013		2012	
	(EUR thousands, except percentages)									
Privately held companies	1,112,150	46.2%	984,764	44.2%	1,198,017	47.6%	977,360	43.5%	896,441	45.1%
Private individuals	1,040,921	43.2%	949,144	42.6%	1,005,630	40.0%	877,595	39.1%	782,878	39.4%
Financial institutions	112,613	4.7%	102,762	4.6%	144,406	5.7%	141,748	6.3%	115,187	5.8%
State and municipality owned enterprises	105,810	4.4%	142,919	6.4%	127,939	5.1%	156,146	6.9%	100,897	5.1%
Municipalities	15,203	0.6%	27,154	1.2%	20,303	0.8%	37,979	1.7%	44,301	2.2%
Public and religious institutions	15,309	0.6%	10,645	0.5%	12,620	0.5%	9,129	0.4%	37,696	1.9%
Government	6,250	0.3%	8,842	0.5%	8,192	0.3%	46,955	2.1%	8,498	0.5%
Total deposits from customers	**2,408,256**	**100%**	**2,226,230**	**100%**	**2,517,107**	**100%**	**2,246,912**	**100%**	**1,985,898**	**100%**

The following table sets out a breakdown of Citadele Group's customer deposits by demand and term deposits, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015		2014		2014		2013		2012	
	(EUR thousands, except percentages)									
Demand deposits	1,790,771	74.4%	1,602,864	72.0%	1,897,101	75.4%	1,679,094	74.7%	1,359,207	68.4%
Term deposits:										
due within 1 month	113,748	4.7%	118,624	5.3%	149,450	5.9%	141,837	6.3%	124,625	6.3%
due within 1-3 months	55,972	2.3%	92,860	4.2%	85,732	3.4%	94,506	4.2%	143,111	7.2%
due within 3-6 months	137,800	5.7%	135,641	6.1%	91,548	3.6%	96,081	4.3%	126,648	6.4%
due within 6-12 months	165,153	6.9%	184,254	8.3%	176,260	7.0%	170,722	7.6%	188,015	9.5%
due within 1-5 years	139,869	5.8%	83,621	3.8%	108,885	4.3%	63,127	2.8%	42,043	2.1%
due in more than 5 years	4,943	0.2%	8,366	0.3%	8,131	0.4%	1,545	0.1%	2,248	0.1%
Total term deposits	**617,485**	**25.6%**	**623,366**	**28.0%**	**620,006**	**24.6%**	**567,818**	**25.3%**	**626,691**	**31.6%**
Total deposits from customers	**2,408,256**	**100%**	**2,226,230**	**100%**	**2,517,107**	**100%**	**2,246,912**	**100%**	**1,985,898**	**100%**

The following table sets forth Citadele Group's customer deposits by geography, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015		2014		2014		2013		2012	
	(EUR thousands, except percentages)									
Latvia	1,111,805	46.2%	1,064,288	47.8%	1,131,932	45.0%	1,155,777	51.4%	957,345	48.2%
Lithuania	185,792	7.7%	164,271	7.4%	201,849	8.0%	128,366	5.7%	108,586	5.5%
Other EU countries	379.094	15.7%	294.784	13.2%	387,256	15.4%	292,784	13.1%	270,580	13.6%
CIS countries	192,490	8.0%	167,143	7.5%	184,848	7.3%	179,616	8.0%	145,319	7.3%
Other countries	539,075	22.4%	535,744	24.1%	611,222	24.3%	490,369	21.8%	504,068	25.4%
Total customer deposits	**2,408,256**	**100.0%**	**2,226,230**	**100.0%**	**2,517,107**	**100.0%**	**2,246,912**	**100.0%**	**1,985,898**	**100.0%**

Customers deposits by segment

The following table sets out information regarding Citadele Group's customer deposits by segment, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015		2014		2014 (unaudited)		2013 (unaudited)		2012 (unaudited)	
	(EUR thousands, except percentages)									
Retail & SME	583,884	24%	579,367	26%	569,596	23%	569,069	25%	495,330	25%
Corporate	278,382	12%	299,859	13%	321,387	13%	378,318	17%	296,196	15%
Private Capital Management	784,199	33%	711,089	32%	811,472	32%	702,077	31%	617,401	31%
Lithuania	289,840	12%	238,347	11%	293,636	12%	199,197	9%	212,129	11%
Estonia	127,968	5%	96,090	4%	130,261	5%	87,806	4%	108,792	6%
Switzerland	183,894	8%	219,731	10%	265,124	11%	188,423	8%	144,598	7%
Other	160,089	6%	81,747	4%	125,631	4%	122,022	6%	111,452	5%
Total customer deposits	**2,408,256**	**100%**	**2,226,230**	**100%**	**2,517,107**	**100%**	**2,246,912**	**100%**	**1,985,897**	**100%**

The following table sets out customer deposits in the Retail and SME segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015		2014		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Retail	501,946	86%	500,067	86%	486,458	85%	487,357	86%
SME	81,937	14%	79,300	14%	83,138	15%	81,712	14%
Total customer deposits	**583,884**	**100%**	**579,367**	**100%**	**569,596**	**100%**	**569,069**	**100%**

The following table sets out customer deposits in the Corporate segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Corporate	153,539	55%	114,352	38%	144,952	45%	129,150	34%
Institutional	124,843	45%	185,506	62%	176,435	55%	249,168	66%
Total customer deposits	**278,382**	**100%**	**299,858**	**100%**	**321,387**	**100%**	**378,318**	**100%**

The following table sets out customer deposits in the Lithuania segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Legal entities	145,681	50%	117,902	49%	155,363	53%	107,039	54%
Private individuals	144,159	50%	120,445	51%	138,723	47%	92,158	46%
Total customer deposits	**289,840**	**100%**	**238,347**	**100%**	**293,636**	**100%**	**199,197**	**100%**

The following table sets out customer deposits in the Estonia segment, as at the dates indicated:

	As at 30 June				As at 31 December			
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)	
	(EUR thousands, except percentages)							
Legal entities	90,400	71%	61,354	64%	88,564	68%	55,999	64%
Private individuals	37,568	29%	34,736	36%	41,696	32%	31,807	36%
Total customer deposits	**127,968**	**100%**	**96,090**	**100%**	**130,261**	**100%**	**87,806**	**100%**

Amounts due to credit institutions

The following table sets forth information regarding Citadele Group's amounts due to credit institutions, as at the dates indicated:

	As at 30 June		As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2014	2013	2012
					(EUR thousands)
Due to credit institutions registered in OECD countries	50	120	–	48	24
Due to credit institutions registered in Latvia	30,085	36,939	24,434	25,366	25,512
Due to credit institutions registered in other non-OECD countries	664	200	602	341	10,714
Total balances due to credit institutions and central banks	**30,799**	**37,259**	**25,036**	**25,755**	**36,251**

Subordinated debt

The following tables set forth the amounts outstanding and certain other information regarding Citadele Group's subordinated debt, as at the dates indicated:

			As at 30 June					
			2015			2014		
						(EUR thousands, except percentages)		
Counterparty (Country of Residence)	Agreement Date	Maturity Date	Issue Size	Amortised Cost	Interest Rate	Issue Size	Amortised Cost	Interest Rate
Privatisation Agency (Latvia)	22/05/2009	20/12/2017	34,728	35,223	7.13%	53,128	54,686	7.385%
Privatisation Agency (Latvia)	02/08/2010	08/08/2016	–	–	–	11,205	11,534	7.385%
EBRD (UK)	11/09/2009	08/08/2020	18,400	18,753	7.85%	7,195	7,336	7.385%
Total			**53,128**	**53,976**		**71,529**	**73,556**	

	As at 31 December								
	2014			2013			2012		
							(EUR thousands, except percentages)		
Counterparty (Country of Residence)	Issue Size	Amortised Cost	Interest Rate	Issue Size	Amortised Cost	Interest Rate	Issue Size	Amortised Cost	Interest Rate
Privatisation Agency (Latvia)	53,128	54,686	7.31%	53,128	54,709	7.342%	53,128	55,151	9.393%
Privatisation Agency (Latvia)	11,208	11,534	7.31%	11,205	11,538	7.342%	11,205	11,554	7.658%
EBRD (UK)	7,195	7,336	7.31%	7,195	7,328	7.342%	7,195	7,305	7.658%
Total	**71,531**	**73,556**		**71,529**	**73,575**		**71,529**	**74,009**	

Other Information

IPAS CBL Asset Management assets under management

The following table sets forth the assets under management of IPAS CBL Asset Management, Citadele's asset management subsidiary, as at the dates indicated:

	As at 30 June		As at 31 December	
	2015 (unaudited)	2014 (unaudited)	2014	2013
				(EUR thousands)
Total assets under management[(1)]	630,583	598,824	594,144	555,329

(1) Total assets under management is defined as the financial assets which are managed by Citadele on behalf of itself and its clients.

Leasing segment leased portfolio

The following table sets forth the total leased portfolio of the Leasing segment, as at the dates indicated:

	As at 30 June		As at 31 December	
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)
				(EUR thousands)
Total leased portfolio	113,958	96,379	99,659	86,202

Loans "90 days past due" ratio

The following table sets out certain "90 days past due" ratios, as a percentage of Citadele Group's gross loan portfolio, as at the dates indicated:

	As at 30 June	As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
Citadele Group 90 days past due impaired and not impaired, less than 90 days past due impaired and not overdue impaired	11.6%	12.1%	12.5%	14.2%
Latvian banking sector 90 days past due ratio	6.8%	6.9%	8.3%	11.1%
Citadele Group 90 days past due impaired and not impaired	5.6%	6.9%	8.3%	7.8%
Citadele 90 days past due impaired and not impaired	5.0%	6.3%	7.6%	6.4%

Movement in total impairment allowance for loans and receivables

The following table sets out Citadele Group's movement in total impairment allowance for loans and receivables, as at the dates indicated:

	Movement in Total Impairment Allowance for Loans and Receivables
	EUR thousands
2011 End of Period Provisions	**86,751**
Charge	25,093
Release	(15,898)
Write-offs/sales	(7,040)
FX	267
2012 End of Period Provisions	**89,173**
Charge	31,823
Release	(10,656)
Write-offs/sales	(17,826)
FX	535
2013 End of Period Provisions	**93,049**
Charge	24,848
Release	(11,509)
Write-offs/sales	17,882
FX	201
2014 End of Period Provisions	**88,707**
Charge	8,860
Release	(4,197)
Write-offs/sales	(2,781)
FX	246
1H2015 End of Period Provisions	**90,835**

Cost of Risk in Retail and SME segment

The following table sets out a breakdown of cost of risk in the Retail and SME segment as at the dates indicated:

Cost of Risk in the Retail and SME Segment[1]	As at 30 June 2015 (unaudited)	As at 31 December 2014 (unaudited)	2013 (unaudited)
		(EUR millions, except percentages)	
SMEs	0.2%	1.4%	4.7%
Retail	0.6%	0.9%	2.5%

(1) Calculated as loan impairment charge as a percentage of average gross loan portfolio of the respective segment for the relevant period. Excludes recoveries of amounts written-off in prior periods and impairment on other assets.

Breakdown of Non-Performing Loans

The following table sets out a breakdown of Non-Performing Loans, as at the dates indicated:

	As at 30 June				As at 31 December					
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)		2012 (unaudited)	
							(EUR thousands, except percentages)			
Less than 90 days or more past due—impaired	10,209	0.9%	8,853	0.7%	17,778	1.5%	10,265	0.9%	6,437	0.6%
90 days past due—impaired	48,770	4.1%	84,553	7.2%	63,970	5.5%	85,025	7.4%	77,271	6.9%
Not past due—impaired	60,701	5.2%	36,412	3.1%	43,390	3.7%	36,639	3.2%	65,059	5.9%
90 days or more past due—not impaired	16,353	1.4%	11,165	0.9%	15,687	1.4%	11,582	1.0%	8,943	0.8%
Total Non Performing Loans	**136,033**	**11.6%**	**140,963**	**11.9%**	**140,821**	**12.1%**	**143,511**	**12.5%**	**157,710**	**14.2%**
Performing Loans	1,036,553	88.4%	1,046,570	88.1%	1,023,587	87.9%	1,005,460	87.5%	950,869	85.8%
Total Gross Loans	**1,172,586**	**100%**	**1,187,533**	**100%**	**1,164,408**	**100%**	**1,148,971**	**100%**	**1,108,579**	**100%**

Non-Performing Loans by Segment

The following table sets out a breakdown of Non-Performing Loans by segment, as at the dates indicated:

	As at 30 June 2015 (unaudited)		As at 31 December 2014 (unaudited)
		(EUR millions, except percentages)	
Retail	21.9	8.3%	8.1%
Residential mortgages	8.5	5.5%	5.5%
Credit cards	5.0	10.7%	9.9%
Consumer loans	0.4	5.3%	3.5%
Mortgages (other)	1.6	11.4%	9.7%
Other	6.4	16.0%	15.6%
SME	10.6	9.7%	10.5%
Corporate	63.5	18.3%	19.2%
Estonia	1.1	1.8%	2.0%
PCM	10.1	36.3%	25.6%
Other	13.0	7.4%	7.4%

(1) Non-Performing Loans is defined as total gross loans and receivables from customers that are 90 days or more overdue or that are specifically impaired as at the end of the relevant period.

Coverage Ratio by Segment

The following table sets out a breakdown of Coverage Ratio by segment, as at the dates indicated:

	As at 30 June 2015		As at 31 December 2014
	(EUR millions, except percentages)[1]		
Retail	(22.5)	102.5%	98.0%
Residential mortgages	(8.3)	96.8%	89.9%
Credit cards	(7.0)	140.3%	139.4%
Consumer loans	(0.7)	194.4%	264.4%
Mortgages (other)	(1.1)	67.8%	68.6%
Other	(5.4)	84.3%	80.0%
SME	(6.7)	63.9%	59.4%
Corporate	(29.2)	46.0%	39.5%
Estonia	(1.7)	160.3%	143.3%
PCM	(5.8)	57.6%	71.7%
Other	(9.0)	69.0%	69.0%

(1) Coverage ratio is calculated as total allowance for impairment of loans and receivables from customers at the end of the period, net divided by Non-Performing Loans, each as at the end of the relevant period.

90 days Overdue Loans by Segment

The following table sets out a breakdown of loans that are 90 days or more overdue by segment, as at the dates indicated:

	As at 30 June 2015 (unaudited)		As at 31 December 2014 (unaudited)
	(EUR millions, except percentages)		
Retail	19.9	7.5%	7.3%
Residential mortgages	7.9	5.1%	5.1%
Credit cards	5.0	10.7%	9.9%
Consumer loans	0.4	5.3%	3.5%
Mortgages (other)	0.9	5.9%	5.4%
Other	5.7	14.4%	14.1%
SME	3.6	3.3%	3.3%
Corporate	14.1	4.1%	8.4%
Estonia	1.0	1.6%	1.9%
PCM	3.1	11.2%	7.1%
Other	7.5	4.2%	3.7%

Net Interest Margin of Lithuania and Estonia Segments

The following table sets out the net interest margin for the Lithuania and Estonia segments as at the dates indicated:

	As at 30 June		As at 31 December	
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)
Lithuania	1.8%	1.9%	1.8%	2.1%
Estonia	4.0%	3.6%	3.7%	4.0%

(1) Net interest margin for the six months ended 30 June 2015 and 30 June 2014 is calculated as net interest income for the relevant period divided by average total assets for such period, and has been annualised. Net interest margin for the years ended 31 December 2014, 2013 and 2012 is calculated as net interest income for the relevant period divided by average total assets for such period.

Business Description

Overview

Citadele Group is a leading universal banking group and the largest non-Nordic owned universal bank in Latvia. As at 30 June 2015, Citadele has the third highest number of active customers (approx. 273,000), the third highest number of internet banking users (approx. 114,000 active users) and the third largest Branch network in Latvia, according to the ACBL. Furthermore, as at the same date, Citadele had a total market share in Latvia of 6.8% in total loans, 8.4% in deposits and 7.6% in total assets, according to data published by the ACBL.

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

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 2014 Commerzbank STP Award for excellence in quality of delivery of commercial payments and financial institution transfers, 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 2015, Citadele employed 1,764 people. Its distribution network comprises 34 Branches in Latvia, 8 Branches in Lithuania and 1 customer service centre in Estonia and 1 Branch in Switzerland as well as its online and mobile banking platform as at 30 June 2015, the latter of which is only available in Latvia.

Citadele's operations in Latvia account for 81.7% of total assets, 84.0% of total loans and 68.5% of total profit before tax as at and for the period ended 30 June 2015. In Latvia, Citadele Group operates through three main segments according to customer profile:

- the Retail and SME segment provides a wide range of daily banking products and services, current and deposit accounts, debit and credit cards, mortgages and consumer loans to private individuals, as well as card acquiring services for small merchants, short and long term credit facilities to legal entities with an annual turnover of up to EUR 7 million;
- the Corporate segment serves corporate customers with an annual turnover in excess of EUR 7 million, a loan exposure of more than EUR 2 million, or total assets comprising more than EUR 5 million. Core products include business development loans, short term credit lines, trade finance products, card acquiring services and general deposit and cash management services; and
- the Private Capital Management segment provides a wide range of private banking, wealth management and transaction services to 12,160 high net-worth local and international customers through dedicated relationship managers.

During the financial period under review in this 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 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 the relatively more profitable 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.

The following table sets out the allocation of Citadele Group's operating income before intragroup eliminations for the six month periods ended 30 June 2015 and 2014 and years ended 31 December 2014 and 2013 across its principal geographical segments:

	For the six months ended 30 June		For the year ended 31 December	
	2015	2014	2014 (unaudited)	2013 (unaudited)
				(EUR thousands)
Latvia	46.0	49.3	98.7	96.5
Lithuania	7.1	6.1	12.0	13.8
Estonia	2.3	1.8	3.8	3.2
Switzerland	2.5	2.2	4.1	2.9
Total	**57.9**	**59.3**	**118.5**	**116.4**

As at 30 June 2015, Citadele Group had total assets of EUR 2.8 billion, net loans of EUR 1.1 billion, customer deposits of EUR 2.4 billion and total equity of EUR 203 million. Since its incorporation in 2010, Citadele Group has demonstrated robust improvement in the quality of its balance sheet, with a loan to deposits ratio of 44.9% and a Non-Performing Loan Ratio of 11.6% (reduced from 14.2% in 2012) (being the total gross loans and receivables to customers that are 90 days or more overdue or that are specifically impaired as at the relevant date to the gross loans and receivables) as of 30 June 2015. In the period ending 30 June 2015, Citadele generated net profit of EUR 14.9 million, representing a 15.8% return on average equity.

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

History of Citadele

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

Parex, which was one of the first commercial banks in Latvia, was founded in 1992 and was the second largest bank in Latvia in 2008, with total assets of EUR 4.9 billion and significant market shares in lending and deposits. In 2000 Parex registered its Lithuanian subsidiary AB Citadele Bankas, and in 2003 it established a branch in Tallinn, Estonia. As a result of its size, Parex was regarded as being of systemic importance to the financial system by the Latvian authorities. From 2008 to 2010, Latvia's real GDP declined by approximately 20%, alongside significant increases in

the national unemployment rate and fiscal deficit. Although Parex was historically a profitable institution with strong banking operations in Latvia, the effect of the global financial crisis of 2008-2009 adversely affected the bank's stability. During 2008, Parex suffered consolidated losses of EUR 185 million, leading to a 65% decline in shareholders' equity and a resulting capital adequacy ratio calculated at the time for the Parex group of 3.3%. Parex was, therefore, no longer able to meet its regulatory solvency requirements. Parex sought Latvian state assistance in early November 2008. On 10 November 2008, Latvia notified the EC of a package of measures in favour of Parex, designed to support the stability of the financial system, which was approved by the EC on 24 November 2008. As a result, Parex was nationalised through the acquisition by the Latvian Government (acting through the Latvian Privatisation Agency) of the entire ownership interests of its former shareholders.

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

In order to enable the EC to provide restructuring aid to Citadele and Parex in a manner that did not distort the Latvian market, Latvia provided commitments to the EC designed to limit the competitive impact of a state-owned bank operating in the Latvian market, which included caps on lending and deposit taking in the Baltic States, restrictions on market share, a restriction on any increase in the number of Branches 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. See *"Operating and Financial Review—Key Factors Affecting Citadele Group's Results of Operation—European Commission commitments"* for more information on the caps imposed on Citadele.

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

A full auction and tender process was held by the Latvian Privatisation Agency during 2014 for the sale of its stake, i.e. 75% less one share of the share capital of Citadele. Following the

completion of the auction and tender process, RA Citadele Holdings, LLC and a number of persons co-investing alongside RA Citadele Holdings, LLC, were selected as the preferred bidder. A sale and purchase agreement was entered into among the parties on 5 November 2014 and a customary set of warranties was provided by the Latvian Privatisation Agency to RA Citadele Holdings, LLC and its co-investors.

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

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 4.8%, 4.2% and 2.4% in 2012, 2013 and 2014 respectively) consistently outpacing the EU average (of -0.5%, 0.1% and 1.3% in 2012, 2013 and 2014, respectively), placing Latvia among the top 10 growth markets in the EU for each of these three years. According to data from the IMF, this growth trend is expected to continue in the short- to mid-term, bolstered by the structural economic reforms implemented by the Latvian Government following the financial crisis of 2008-2009, including improvements in the absorption of EU funds and simplification of certain regulatory procedures for businesses, together with a rise in exports as a result of Latvia having diversified its trading partner base across the EU. Latvia's current economic position, including low levels of public debt (40% of GDP as at 31 December 2014, according to EC), healthy fiscal balance, stable and relatively low unemployment (of 10.8% as at 31 December 2014 which is significantly below the 2010 peak of 19.5% and broadly in line with the EU average of 10.2% as at 31 December 2014, 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 6.9% as at 31 December 2014) and an increase in the net interest margin (which rose from 1.1% in 2010 to 1.7% in 2014). Citadele Group has experienced profitable growth during this period, and with the removal of the EC restrictions (described more fully in the section *'History of Citadele'* 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 128% as at 31 December 2014 well below the EU average of 307%. Citadele Group believes that the overall banking sector backdrop therefore offers additional attractive and significant growth opportunities for Citadele Group.

In addition to the favourable economic conditions in Latvia, both Lithuania and Estonia are undergoing a period of sustained growth and their banking sectors, like that of Latvia, are well

positioned for continued growth and increased market penetration of banking services. According to the World Bank, in 2014, 90% of all adults in Latvia, 98% in Estonia and 78% in Lithuania, had bank accounts. GDP growth in Lithuania was 3.8%, 3.3% and 2.9% in 2012, 2013 and 2014, respectively, and in Estonia, the GDP growth rate was 4.7%, 1.6% and 2.1% 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 111% in Estonia and 65% in Lithuania as at 31 December 2014, 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 Group is the largest non-Nordic owned universal bank in Latvia by total loans, with a total portfolio of EUR 1.08 billion as at 30 June 2015. It also has the third largest customer base (totalling approx. 273,000 active customers), the third highest number of online banking users in Latvia and the second largest customer term deposit base in terms of total value in Latvia (EUR 490 million) (behind Swedbank with EUR 646 million), which it believes places it in a strong competitive position. In addition, following a period of rapid growth in recognition since its creation, the 'Citadele' brand has become one of the most recognised, well-known and trusted brands in Latvia, despite its relatively recent introduction. The brand, built upon high quality customer service, governance and corporate social responsibility initiatives, together with Citadele's customer-focussed approach, has fostered a high degree of customer loyalty, with 67% of its customers having been customers for five years or more (including customers who were previously customers of Parex). According to research performed in April 2015 on the "Image of commercial banks and the usage of their services in Latvia", Citadele was ranked third in terms of public awareness of Latvian commercial banks (with 74.9% of those surveyed being aware of Citadele), after AS Swedbank (95.9%) and AS SEB banka (91.1%) and ahead of AS DNB banka (70.7%), Nordea Bank AB Latvia branch (56.4%), among others. Citadele believes it is therefore well positioned to become the "go-to" bank for customers in Latvia and the Baltic States, particularly those in the retail and SME segment by: (i) using the scale of its already formidable customer base and infrastructure to sustain its competitive position and gain market share from foreign-based competitors; and (ii) leveraging its 'locality', cultural awareness and understanding of its customer base (including through the regular engagement with local customers by senior management at Citadele), which Citadele Group management believes sets Citadele Group apart from its competitors and enables Citadele Group to offer more responsive and market-tailored products and services to new and existing customers. Citadele has received positive feedback from customers for its level of responsiveness, for example, customers have noted that they are very pleased with Citadele's quick decision making.

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

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

Citadele Group's extensive and well established distribution capabilities offer significant opportunities for Citadele Group to attract new customers and gain additional revenue from its existing customer base. Citadele has a range of distribution channels in Latvia through which it can offer its products and services, including: (i) a network of 34 Branches, 22 of which have been refurbished in the last 3 years; (ii) a well-utilised, functional and reliable online and mobile banking platform with approx. 114,000 active users of its online banking service at 30 June 2015, 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 Branches in Lithuania and one Branch 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 204,000 debit cards and 170,000 credit cards as at 30 June 2015.

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 rapidly in the 12 months prior to the date of this Prospectus; 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 Branches 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 Branch network 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.

As a result of the restrictions imposed by the EC in connection with the restructuring of Parex, Citadele Group was historically unable to utilise its operational platform to its full potential. In

spite of these restrictions, however, Citadele Group was still able to deliver strong profitability of EUR 32 million, EUR 14 million and EUR 13 million in 2014, 2013 and 2012 respectively. With the removal of the EC restrictions, Citadele Group believes it is well placed to fully utilise its operational systems, distribution network and infrastructure and to focus upon a strategy of growth. Citadele's operational excellence was recognised by the Latvian Government in January 2014 when the ATM in its head office was selected to dispense the first Euro notes to the Latvian Prime Minister, Minister of Finance and Governor of the Bank of Latvia during a symbolic commemorative ceremony. Citadele Group's successful transition to the Euro in Latvia has been acknowledged by the Bank of Latvia as having been well organised.

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 2015), to support its operations, the majority of which are retail deposits. As a result of its growing deposit base, which has grown by 13% annually in the past 3 years, 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 56.3% of the asset base and deposits accounting for 97% of funding, which is defined as the sum of deposits due to banks and subordinated debt as at 30 June 2015. The net loan to deposit ratio stands at 44.9% as at 30 June 2015.

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 (58% of the net loans of EUR 1,082 million, as at 30 June 2015, was attributable to customers who are private legal entities, 39% to private individuals and the remaining 3% to other legal entities) and across major economic and industry sectors in the Baltic States (of the EUR 655 million, as at 30 June 2015, net loans to legal entities, real estate accounted for 20% of such loans, manufacturing for 18%, the trade sector for 15%, the transport sector for 11%, agriculture for 12% and other sectors accounted for 24%). 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 13 years experience in the banking and financial services industry. This Management Board has established a strong track record by successfully leading Citadele Group from its inception in 2010 to the successful banking organisation that it is today with increased customer numbers, revenues and profits, despite the challenging economic environment, the launch and establishment of a new brand and the EC operating restrictions within which they operated.

Experienced shareholders with an established track record of delivering results

The current shareholders of Citadele are experienced banking sector participants and have a proven track record in driving value creation and delivering growth in their investments. They are actively involved in shaping and delivering Citadele's strategy. Ripplewood Advisors LLC and its

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

In 2006, a consortium led by Ripplewood Holdings, LLC acquired a significant minority stake in CIB in Egypt for approx. USD 240 million. Post-acquisition, CIB introduced operating enhancements in financial reporting, customer service centre processes and product offerings. It also implemented an equity incentive compensation plan, which was a first in the region. The consortium exited in 2009, at which point CIB's assets had doubled and earnings and book value had almost trebled. Additionally, co-investing shareholders James L. Balsillie and Dhananjaya Dvivedi (who are both members of Citadele's Supervisory Board) have, between them, extensive experience in the technology, IT and financial sectors. They intend to continue to deploy their experience and expertise alongside the management team, to enhance the development and growth of Citadele Group, through improving and developing new and innovative products, services and systems, as well as developing and improving upon Citadele Group's existing products, services and systems. Finally, the continued ownership of the EBRD brings its experience in instilling best practice governance structures and in fostering progress towards market orientated economies. For example, the EBRD invested EUR 1.1 billion in projects in central Europe and the Baltic States in 2014, and holds 28% of its portfolio in investments in financial institutions. To date, the EBRD has made EUR 585 million of investments in Latvia; in particular, it is involved in several development projects, including in relation to housing renovation and efficiency improvement programmes. Citadele Group is regularly invited to act as its proxy to ensure the successful implementation of these programmes.

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

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 will be 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. Following the privatisation of Citadele and the removal of the former EC restrictions upon its business, Citadele's management believes that it is now in a position to implement a focussed growth strategy that fully utilises its established Branch 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 affluent retail customers in the Baltic States

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

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

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

Citadele Group believes that ongoing growth in the Baltic State 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. Citadele Group intends to build upon its strong relationships with retailers of white goods and electronics, service providers and travel agencies to become the consumer lending provider of choice for retailers to provide their customers with the option to finance higher cost products and services. Growth of its consumer lending platform will also expose Citadele Group to a greater number of potential retail banking customers. Citadele Group intends to expand its consumer loan offering across the Baltic States by leveraging and improving its information technology and risk management systems to increase automation in the consumer loan approval process and facilitate on-boarding of new customers as well as the consumer loan approval process, while maintaining accurate risk based pricing. Citadele Group will also seek to expand the number of its retail customers using card products, such as by leveraging its relationships with retailers, to further drive commission and fee income. Citadele Group will also focus upon providing additional sales-based training for its relationship managers in order to increase cross-selling of its consumer lending products. Citadele Group intends to replicate strategies that are successful in Latvia in the other Baltic States, with a focus on retail and SME customers.

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

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

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

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

Citadele aims to significantly increase its activities in the profitable private capital management segment in the Baltic States and to increase its customer base by expanding its focus on private individuals with a view to cross-selling products from its Swiss private banking operations more efficiently. Citadele aims to maintain its existing base of international customers (who predominantly use Citadele Group for transactional purposes) while enhancing the range of retail products available to these international customers, and to expand its base of customers in the Baltic States. 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.

Key targets

Citadele Group has set itself the following targets which it aspires to meet in the mid-term:

- Returns: to achieve a return on average equity in the mid-teens on the new capital base following the Offer, and to achieve a return on average assets of between 1.0 and 1.5%;
- Costs: to achieve a cost to income ratio of 50% to 55%;
- Loan growth: to achieve low double digit annual growth;
- Asset quality: to achieve a cost of risk target of approximately 1.0% in the medium term, reflecting the evolving business mix; and
- Capital: to achieve a fully loaded Basel III Tier 1 ratio greater than 14%.

These targets are derived from Citadele Group's strategic planning process and were updated as part of Citadele Group's preparation for the Offer. The targets were not prepared with a view towards complying with the published guidelines of the U.S. Securities and Exchange Commission regarding financial projections or IFRS, and do not constitute profit forecasts or estimates under the UK Prospectus Rules. However, in the view of the Management Board, these targets have been prepared on a reasonable basis, and reflect the best estimates and judgments available to the Management Board at the time. These targets, however, are not facts and should not be relied upon as being necessarily indicative of future results. None of Citadele Group, the Management Board, the Depositary, the Managers or their respective affiliates, advisers, officers, directors or representatives can give any assurance that the targets will be achieved or that measures underlying targets will not vary significantly from the targets.

The Management Board will periodically review and revise the strategic plan in light of business, financial, regulatory and other conditions at the time it is reviewed and revised, which may involve changes to the targets. Citadele Group does not currently intend to continue to publically disclose these targets or any adjustments thereto resulting from such review and revision or otherwise, except as required by applicable law.

None of Citadele Group's independent auditors, the Managers, nor any other independent accountants, compiled, examined or performed any procedures with respect to the targets, nor have they expressed any opinion or any other form of assurance on the targets or their achievability, and such parties assume no responsibility for, and disclaim any association with, the targets.

The targets, while presented with numerical specificity, necessarily reflect numerous estimates and assumptions made by Citadele Group with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to Citadele Group's business, all of which are difficult or impossible to predict and many of which are beyond Citadele Group's control. The targets reflect subjective judgment in many respects and thus are susceptible to multiple interpretations and periodic revisions based on

actual experience and business, economic, regulatory, financial and other developments. As such, the targets constitute forward-looking information and are subject to risks and uncertainties as set out in this Prospectus. The inclusion in this Prospectus of the targets should not be deemed an admission or representation by Citadele Group, the Management Board, the Supervisory Board, the Depositary, the Managers or their respective affiliates that such information is viewed by Citadele Group, the Management Board, the Supervisory Board, the Depositary or their respective affiliates as material information of Citadele Group. Such information should be evaluated, if at all, in conjunction with the information contained in "*Risk Factors*", "*Operating and Financial Review*", "*Selected Statistical and Other Information*", "*Presentation of Financial and Other Information*" and "*Business Description*", as well as the Audited Consolidated Financial Statements, the Reviewed Consolidated Interim Financial Statements and all other financial data appearing elsewhere in this Prospectus. See the section entitled "*Formal Looking Statements*".

In the light of the foregoing factors and the uncertainties inherent in the information provided above, investors are cautioned not to place undue reliance on the targets.

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.

The following table sets out the allocation of Citadele Group's total loans and deposits as at 30 June 2015 and 31 December 2014 across its retail and SME, corporate and private capital management segments.

	As at 30 June 2015		
Metric	**Retail and SME**	**Corporate**	**Private Capital Management**
			(EUR thousands)
Segment Assets	343,813	317,695	21,880
Segment Liability	583,884	278,832	784,199
Net Business Income*	13,980	7,475	10,431

	As at 31 December 2014 (unaudited)		
Metric	**Retail and SME**	**Corporate**	**Private Capital Management**
			(EUR thousands)
Segment Assets	344,509	327,009	24,482
Segment Liability	569,596	321,387	811,472
Net Business Income*	32,395	13,983	19,932

* Net business income equals the sum of net interest income and net fee and commission income.

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

Distribution channels

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

- Branches: Citadele Group has an extensive Branch network 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 Prospectus, Citadele Group currently

has 34 Branches in Latvia, 8 Branches in Lithuania, 1 Branch in Estonia and 1 Branch in Switzerland. Of its Branches located in Latvia, 13 of these Branches are located in Riga and 21 of these Branches are located outside of Riga. Citadele Group has refurbished 9 of its Branches located in Riga and 13 of its Branches outside of Riga and has also refurbished 2 of its Branches in Lithuania, while an additional Branch in Lithuania is undergoing refurbishment. Retail and corporate customers are served by specialised individuals within each such Branch and each Branch in Latvia and Lithuania has a queue distribution system in operation to prioritise servicing customers by the importance and profitability of the products they are enquiring about. Whilst Citadele aims to deliver a personalised service for its customers in its Branches, customers are sometimes redirected towards automated cash operations if required to enable sales managers to focus on advisory services for revenue generation. This extensive Branch network 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 Branch network;

- 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. Citadele Group encourages a sales-driven culture (within the operational and risk parameters set up by management) for its relationship managers and a significant portion of the remuneration they receive is linked to the number of products they sell and the revenue that they generate;
- 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. For example, updating customer information (a mandatory legal requirement) will be possible online as opposed to only in Branch, saving time for those customers who prefer to update information remotely. Citadele has also implemented enhanced security through the introduction of Mobilescan™ software on banking authorisation devices, thus customers can use their mobile phones for 2-factor authorisation on Citadele's online banking platform. In Latvia, Citadele offers a mobile banking application to its customers, enabling mobile access and management of their funds and payments, as well as ATMs, branches and retail stores with special offers for Citadele's customers. The online banking offering, including Citadele Group's mobile banking and SMS banking platforms, also provides customers with easier access to Citadele Group's products, and enables customers to apply for these products directly and more efficiently online. Additionally with its enhanced online functionality, as at 30 June 2015, more than 90% of all banking transfers effected by or through Citadele Group were made online by its customers and 77% of customers use online banking on a regular basis as at 30 June 2015. Citadele Group intends to improve online banking as an important transactional channel as well as developing it as a key sales channel;
- ATMs: Citadele Group has the third largest ATM network in Latvia and these ATMs are located across all regions of the country. The total number of ATMs in Latvia is 166 and consists of 129 cash-out ATMs and 37 cash-in/cash-out ATMs (enabling both deposits and withdrawals). ATMs provide the main cash-out transactions channel for Citadele Group, with more than 96% of all

bank cash-out transactions being made through ATMs. Citadele Group intends to maintain the total number of ATMs and to renew and modernise its existing ATM network by focusing upon converting more of its ATMs to have cash-in as well as cash-out functionality;

- leasing sales team: Citadele Group has a dedicated leasing sales team which promotes and manages Citadele Group's leasing activities in addition to the leasing activity undertaken by Citadele Group's corporate segment. Each leasing manager has a specific area of responsibility, such as the Branch network, commercial partners (such as car dealers and resellers), the agricultural and forestry sector and the commercial transport sector. Citadele Group's main focus for its leasing business is the automotive sector with a particular focus upon the used car market, which has above average margins. Citadele Group is currently developing retailer software for its leasing business. Once this new IT platform is operational, it is expected to enable Citadele Group to process leasing transactions more quickly and efficiently which should enable more leasing products to be taken out by customers;
- 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 has introduced an online scoring process which allows for decision making with tailored pricing in relation to these products. As at 30 June 2015, approximately 20,000 retailers were using Citadele as their primary acquiring bank or had installed a Citadele American Express servicing line. Additionally, Citadele Group has also developed an extensive discount and rewards programme with retailers for its customers when using Citadele Group's products, which differentiates Citadele Group from its competitors and further encourages customers to use Citadele Group's products; and
- call centre team: As at 30 June 2015, Citadele Group had 35 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 or relationship manager. Second, as part of the business strategy, the call centre will begin to proactively call new and existing customers to offer new products or initiatives and thereby develop into a key sales channel, as well as to proactively identify and solve common customer issues, such as blocked cards. By doing so, Citadele Group believes that the call centres serve as a platform for loan origination, particularly in the SME segment. The number of employees working in the call centre is expected to rise gradually over the coming years.

Retail and SME in Latvia

Overview

Citadele's retail segment caters primarily to private individuals. Citadele's SME segment caters to entities with annual turnover of up to EUR 7 million (including a micro SME customer base comprised of entities with an annual turnover of up to EUR 0.4 million). A typical SME customer for Citadele has annual revenues of EUR 1 million and outstanding loans with Citadele of EUR 200,000. Citadele Group's retail and SME customers share similar characteristics in relation to their size, the type of services required and the frequency of access to Branches, which is why they are addressed together. Citadele does, however, have separate strategies for each of these customer groups (see—*Strategy*). As at 30 June 2015, Citadele had c.235,000 retail customers and c.14,700 SME customers.

Key products for retail customers in Latvia

Card products

Citadele Group offers a wide range of card products to its customers including credit cards with American Express, MasterCard and Visa and debit cards with MasterCard and Maestro. Using

information provided by each customer and verified by Citadele in accordance with its systems and operational controls, Citadele assigns appropriate credit limits on the majority of the credit cards issued. As at 30 June 2015, the typical credit limit on its credit cards issued to retail customers during the first half of 2015 ranges from EUR 300 to EUR 1,000.

Citadele Group has the exclusive right to issue American Express cards in Latvia and Lithuania until 9 December 2015. Following this date, Regulation (EU) 2015/751 prohibits exclusivity arrangements with respect to the issuance of any credit cards within the EU, including American Express credit cards. Citadele Group also relies on the ongoing success and growth of the American Express brand, products and services in the Baltic States in order to drive use of Citadele Group's American Express cards. Whilst Citadele will lose its own exclusivity after this date, Citadele Group believes that this is an opportunity for Citadele Group to build upon its network of existing American Express customers and further develop its reward programme for its American Express member customers, in which such members accumulate points for payments and can exchange these points for reward items as well as benefit from discounts on certain products. Citadele believes that it would be time consuming and costly for a competitor to create a similar offering (including the rewards programme) of American Express products to customers, resulting in Citadele being likely to maintain its market leading position in relation to issuing American Express cards in Latvia and Lithuania. Notwithstanding the level of investment in time and costs which would be required for a competitor to take Citadele's market leading position, the loss of exclusivity does widen the scope for competition in the American Express card market. During 2014, the number of participants in Citadele Group's membership reward plan increased by 32% in Latvia. Citadele is also now able to extend its American Express offering into new markets, such as Estonia, where Swedbank will cease to have exclusivity on 9 December 2015.

In the first half of 2015, Citadele issued 20% more cards than in the same period in 2014. As at 30 June 2015, the number of cards issued by Bastion was approximately 330,000. Moreover, in July 2015, Citadele launched a unique card product in the market—two of Citadele's cards have an integrated public transport ticket chip.

Deposit products

Citadele offers a wide range of deposit products to its retail customers, including deposits that can be accessed on demand and fixed term deposit products where the amount deposited is inaccessible for up to 5 years. Interest that accrues on deposits can be paid to customers in a number of ways, including directly to the customer's current account or by accumulating the interest onto the amount initially deposited. 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. As at 30 June 2015, 72% of deposits were accessible on demand as compared to 77% and 75% of deposits being accessible on demand as at 31 December 2014 and 2013, respectively.

Mortgages

Mortgages are primarily taken out by customers in order to acquire, build, improve and/or repair residential homes. Before any amounts are provided to a customer pursuant to a mortgage, Citadele evaluates such customer's solvency, regular income, previous credit history and requires adequate security to be provided by such customer in the form of a charge over the property itself, but from time to time Citadele also requires guarantees to be provided where available. The minimum value of mortgages offered by Citadele is EUR 10,000 (although a new initiative will see a lower limit of EUR 7,000 applicable to properties in some rural areas) and the largest retail mortgage outstanding as at 30 June 2015 is EUR 1.1 million. Citadele permits the repayment period to run for up to 30 years (with the average standing at between 15 and 20 years). Citadele will approve mortgages with a loan to value ratio of up to 85%, and the average

ratio as at 30 June 2015 was approximately 80%. The average rate of interest charged by Citadele on its mortgage products issued during the first half of 2015 ranged from 3.5% to 4% plus the prevailing rate of 6 month EURIBOR as at 30 June 2015. Citadele also charges its customers a fee for providing and setting up the mortgage which averaged approximately EUR 650, for the mortgage loans issued during the 6 month period ended 30 June 2015. Citadele is the first commercial bank in Latvia to offer state-guaranteed mortgages to Latvian families with favourable conditions (74 such mortgages were issued as at 30 June 2015). The guarantee amount provided by the Latvian State and which became available at the start of 2015 was approximately EUR 1 million as just 15-20% of the first instalment of the mortgage is guaranteed by the state. Citadele expects the state-guaranteed mortgage program to have limited impact upon Citadele's mortgage portfolio.

Consumer loans

Citadele Group also offers consumer loans to its customers. The size, rates and terms of such loans are set by Citadele and based on the salary income that the customer is able to adequately evidence to Citadele. Loans are available in amounts of up to EUR 10,000 per customer and are repayable for a maximum period of 5 years but have a typical maturity of 2 years.

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. This security may be in the form of a charge over fixed assets, such as real estate or machinery, as well as additional personal guarantees from key individuals who own or manage the relevant SME. As at 30 June 2015, the rates of interest charged by Citadele on business development loans issued to SME customers during the first half of 2015 ranged from 4 to 6.5% plus the prevailing rate of 6 month EURIBOR. Citadele also charges its customers a fee for providing and setting up a business development loan which, as at 30 June 2015, averaged approximately EUR 1,650 for those loans issued to SME customers during the first half of 2015.

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. This security may be in the form of a charge over fixed assets, (such as real-estate or machinery), charges over floating assets, (such as stock or raw materials), as well as additional personal guarantees from owners or executive management of the relevant SME customer. Citadele Group typically issues credit lines for a period of no more than 2 years, with approximately 70% of the total number of credit lines issued being equal to or below EUR 100,000 in value, and only approximately 4% being equal to or above EUR 500,000 in value as at 30 June 2015. As at 30 June 2015, the average interest rate for credit lines issued to SME customers during the first half of 2015 ranged from 4.5% to 6% plus the prevailing rate of 6 month EURIBOR. In addition, a reservation fee is charged in respect of all credit lines which is typically a 1% fixed interest rate on unutilised credit line amounts.

Retail and SME statistics

In 2014, the total gross value of residential mortgages, credit card receivables, consumer and other loans provided by Citadele to retail customers in Latvia equalled EUR 154.0 million,

EUR 47.2 million, EUR 6.2 million and EUR 56.9 million, respectively. The total loans provided by Citadele to SMEs in Latvia equalled EUR 107.8 million in 2014 (on a gross basis).

As at 30 June 2015:

- deposits from retail and SME customers were split in the following way: 86% of deposits were provided to Citadele by retail customers with the remaining 14% being provided by SMEs; and
- 71% of the value of all retail and SME loans provided by Citadele was to retail customers and 29% was to SME customers.

The following table sets out the breakdown of the value of the most significant types of gross retail loans held by Citadele by product as at 30 June 2015 and 31 December 2014, 2013 and 2012.

	As at 30 June		As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
					(EUR thousands)
Residential Mortgages	155,728	152,364	154,039	149,438	140,248
Consumer loans	6,930	5,002	6,224	3,450	1,038
Credit card receivables	46,711	54,015	47,217	55,677	67,392
Other loans	54,198	63,030	56,877	65,578	69,850
SME loans	109,455	110,653	107,796	108,465	90,749
Deposits	583,878	579,367	569,069	569,069	495,330

Corporate in Latvia

Overview

Citadele has targeted mid-sized corporate customers (being companies with annual turnover of EUR 7 to 20 million) who operate in a wide range of industries including manufacturing, retail, wholesale trade and transport. Consequently, Citadele has acquired a corporate customer base of profitable long-term customers, which consist primarily of entities within the top 300 to 1,200 largest companies in Latvia (based on gross revenue) and institutional customers including state-owned entities and government departments. Citadele does not focus on the top 300 largest companies on the basis that this is a crowded, over-served segment of the Latvian market. A typical corporate segment customer is an entity or a group of entities in the manufacturing, retail/wholesale, transport or commercial real estate sectors with annual turnover above EUR 7 million, total liabilities to Citadele Group in excess of EUR 2 million or total assets exceeding EUR 5 million. Citadele has been able to achieve this strong position with Latvian corporate customers through the involvement of its dedicated relationship managers from the origination of opportunities until the signing and closing of corporate banking transactions. Citadele believes that the wide retail Branch network 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 and a cash collection service 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. Citadele uses its American Express card acquiring services together with other cash management operations to cross-sell further credit and leasing products to its customers.

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). Citadele's largest exposure to a group or related customers as at 30 June 2015 was EUR 28.5 million. These loans are typically issued with rates of between 3.0% to 5.0% plus the prevailing 6 month EURIBOR. These loans are provided primarily to Citadele's corporate customers to enable them to expand their business and help them to finance, where applicable, fixed assets and other significant capital expenditure, development or investment. Prior to entering into any loan with a corporate customer, Citadele assesses whether the cash flows of the customer are sufficient and ensures that adequate security is provided to mitigate the risk of a default. Such security is typically in the form of a charge over real estate or fixed assets, as well as personal guarantees from key shareholders of the corporate customer. To improve the diversification of Citadele Group's loan portfolio and to expand its customer base, Citadele Group offers syndicated loans to its customers by cooperating with other leading banks in Latvia.

Credit lines

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

Guarantees

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

Letters of credit

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

Credit and debit cards

Citadele offers corporate credit and debit cards, including American Express, MasterCard, Visa and Maestro. Subject to Citadele verifying the financial status of the relevant corporate customer, Citadele offers a credit limit on the corporate credit cards issued. Corporate customers who use corporate American Express cards are also eligible for certain membership rewards and benefits (as described above).

Corporate statistics

As at 30 June 2015 in relation to:

- operating income in Citadele's corporate segment, 74% related to net interest income, 19% related to net commission income and 7% related to ancillary income; and
- Citadele's corporate segment, total deposits equalled EUR 278 million and total profit equalled EUR 4.0 million.

Citadele has a diversified corporate portfolio across a wide range of market sectors as set out in the table below. As at 30 June 2015 and 31 December 2014, loans to corporate customers equalled EUR 347 million and EUR 354 million, respectively (on a gross basis).

The following table sets out an analysis of Citadele Group's total gross loans and receivables from corporate customers, by industry, as at the dates indicated.

	As at 30 June				As at 31 December					
	2015 (unaudited)		2014 (unaudited)		2014 (unaudited)		2013 (unaudited)		2012 (unaudited)	
	(EUR thousands, except percentages)									
Real estate purchase and management	102.4	29.5%	104.3	28.5%	106.3	30.1%	106.3	31.1%	104.6	32.8%
Manufacturing	77.1	22.2%	86.9	23.7%	81.9	23.2%	70.7	20.7%	62.8	19.7%
Trade	46.9	13.5%	44.4	12.1%	41.6	11.8%	32.1	9.4%	30.5	9.6%
Transport and communications	37.6	10.8%	51.4	14.0%	48.3	13.6%	63.7	18.6%	57.4	18.0%
Agriculture and forestry	21.1	6.1%	18.9	5.2%	17.9	5.1%	20.1	5.9%	12.7	4.0%
Electricity, gas and water supply	29.3	8.4%	30.0	8.2%	29.5	8.3%	23.5	6.9%	22.9	7.2%
Construction	14.0	4.0%	11.1	3.0%	11.5	3.3%	7.4	2.2%	2.1	0.7%
Financial intermediation	2.2	0.6%	2.9	0.8%	4.9	1.4%	-0.0	0.0%	0.7	0.2%
Hotels, restaurants	0.5	0.1%	2.1	0.6%	0.5	0.1%	3.8	1.1%	2.7	0.8%
Other industries	15.8	4.6%	14.6	4.0%	11.3	3.2%	14.4	4.2%	22.4	7.0%
Total gross loans and receivables from corporate customers	346.9	**100.0%**	**366.4**	**100%**	**353.8**	**100%**	**341.8**	**100%**	**318.7**	**100%**

Private capital management

Overview

Citadele Group provides a wide range of private banking services to 12,100 active (meaning at least one transaction has been made in the previous 12 months) affluent customers of which 9,600 (79%) are international customers primarily located in CIS countries (of which 6,500 are individuals and 3,100 are corporates) and the remaining 2,500 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 (and who may also be serviced by the retail segment) as at 30 June 2015. 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 (including the American Express Platinum Program in Latvia, which offers such customers enhanced benefits and customer service), savings and investment products and lifestyle services, while the international customers who are individuals are predominantly offered current account and ordinary payment cards. These individuals often have an interest in brokerage transaction services and asset management services as well. The international corporate customers are typically cross-border businesses involved in trading, transportation or logistics. They typically have a high sensitivity to cross-border payments and Citadele therefore processes a significant volume of demand deposits. Citadele Group also seeks to provide or highlight opportunities for its private capital management customers to invest in projects, funds or other ventures in Latvia. Citadele management believes these clients value our relationship highly. The key products for Citadele Group in the private capital management segment are (i) payment cards, where significant

commission and fee revenue is derived from transactions both within Latvia and internationally, (ii) international payment transfers where Citadele Group receives transfers fees and (iii) fees from wealth management, custody and brokerage activities.

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

Citadele Group provides its private banking services through, as at 30 June 2015, 72 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.

Revenue derived from the private capital management segment is obtained by Citadele Group primarily through commission income, as well as through fees arising from payment services from local Latvian customers. As at 30 June 2015 and 31 December 2014, total operating income for the private capital management segment was EUR 8.0 million and EUR 14.4 million respectively.

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 31 December 2014. 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 177,000 individuals, representing 14.3% of the Latvian market as at 30 June 2015. As at 30 June 2015, Citadele Group has 36 investment professionals operating its asset management business out of a total of 65 employees involved in the operation of the asset management business.

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 Branch network in Latvia as the key distribution channel to capture as much of the "Pillar II" pension value as possible;
- affluent, high net worth customers: these are primarily international customers from the private capital management segment and Latvia resident customers from the retail segment, seeking to invest a portion of their funds in segregated portfolios; and

- "Pillar 3" pension customers: these are Latvian resident customers contributing voluntarily to their pensions into Citadele's subsidiary, AS CBL Atklātais pensiju fonds.

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

Asset management statistics

The total value of assets under management in the asset management segment before intragroup eliminations at 30 June 2015, 31 December 2014 and 31 December 2013, was EUR 670 million, EUR 631 million and EUR 589 million, respectively. These assets comprise pension funds, corporate portfolios, individual portfolios and investment funds, with investments primarily focused on globally diversified assets.

Citadele changed the name of its asset management subsidiary from IPAS Citadele Asset Management to IPAS CBL Asset Management in 2014 in order to attract broader international interest, while still maintaining the link with Citadele Group. Morningstar has awarded its highest five-star rating to Citadele's CBL Eastern European Bond Fund—USD, whilst Citywireglobal.com has classed Citadele Group as a top class fund manager.

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 Branch network 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, having introduced successful small-ticket SME leasing products.

The total value of the leased portfolio equalled EUR 121 million as at 30 June 2015 and was EUR 107 million as at 31 December 2014 (on a gross basis).

Cash collection

Citadele provides a cash collection service for its Latvian operations as well as its customers including SMEs, corporates and other financial institutions in Latvia. Citadele utilises its extensive network of Branches to provide this service. Citadele is currently exploring opportunities to divest this cash collection business.

Operations in Lithuania

Citadele Group (and prior to its establishment, Parex) has been present in the Lithuanian market since the acquisition of Industrijos Bankas in 2000 by Parex. Today, Citadele conducts operations

in Lithuania through its wholly owned subsidiary, AB Citadele. Citadele Group's Lithuanian operations offer products and services across the Retail and SME and Corporate segments through a network of 8 Branches (out of a total of 357 in Lithuania as a whole according to the Association of Lithuanian Banks as at 30 June 2015), 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's customers in Lithuania have access to 216 outsourced ATMs.

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 (by using an e-signature).

As at 30 June 2015, Citadele Group had 265 employees primarily located in Lithuania responsible for servicing the banking requirements of 33,000 active customers in Lithuania.

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 2015 was EUR 226 million and as at 31 December 2014 was EUR 191 million (on a gross basis). The deposits from Lithuanian customers provide sufficient funding for Citadele Group's Lithuanian operations, but Citadele Group's Latvian operations provide, from time to time where required, funds in order for Citadele Group's Lithuanian operations to comply with its liquidity requirements in Lithuania.

As at 30 June 2015, in relation to loans in Lithuania, 46% of loans are issued to private individuals and 54% of loans are issued to SME and corporate entities. Citadele Group also had a 6% share of the credit card market in Lithuania and had issued a total of approximately 44,000 debit and credit cards as at 30 June 2015.

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 (see the sections above in this Business Description—"*Key products for retail (including SME) customers—Key products for corporate customers*)". 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.

As at 30 June 2015, Citadele Group has 56 employees, located in Estonian branch and leasing entities who are responsible for servicing the banking services of 7,100 customers in Estonia, with a particular focus upon SME customers.

The total value of loans provided to customers in Estonia as at 30 June 2015 was EUR 59.4 million and as at 31 December 2014 was EUR 55.5 million (on a gross basis).

As at 30 June 2015, in relation to:

- depositors in Estonia, 71% are corporate entities customers and 29% are private individuals; and
- loans issued in Estonia, 54% are issued to corporate entities and 46% are issued to private individuals.

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 2015 equalled EUR 398 million of which EUR 184 relates to deposits held in current or deposit accounts and EUR 214 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.

Competition

According to data published by the ACBL, as at 31 December 2014, there were 26 credit institutions operating in Latvia with total collective assets amounting to EUR 30.8 billion for the banking system. The Latvian market is relatively concentrated, with the five largest banks by total assets accounting for 63.6% of the total assets, 76.2% of total loans, and 64.7% of total deposits (as at 31 December 2014). The Latvian banking sector has 14 foreign banks, which are present in the country either through a subsidiary or a branch. The Scandinavian-owned banks currently dominate the Latvian market, with the four largest of these by total assets (AS Swedbank, AS SEB banka, Nordea Bank AB Latvia branch and AS DNB banka) accounting for 46.1% of the total Latvian banking assets. Citadele is the largest non-Nordic-owned universal bank* in Latvia measured by the number of customers.

* A universal bank is a financial institution which has broad diversification in its products, services and customer base across retail, SME and corporate sectors

The following tables set out information (for the relevant banks' Latvian operations only), as reported by the ACBL, the Bank of Latvia and the FCMC, on selected financial highlights of the largest banks in Latvia as at 30 June 2015 and 31 December 2014:

	As at 30 June 2015								As at 31 December 2014							
	Total Customers		Total Assets		Customer Loans		Customer Deposits		Total Customers		Total Assets		Customer Loans		Customer Deposits	
	(thousand)	*(% of total)*	*(EUR millions)*	*(% of total)*	*(EUR millions)*	*(% of total)*	*(EUR millions)*	*(% of total)*	*(thousand)*	*(% of total)*	*(EUR millions)*	*(% of total)*	*(EUR millions)*	*(% of total)*	*(EUR millions)*	*(% of total)*
Swedbank	949.0	42.5%	5,145.1	16.4%	3,182.8	21.6%	3,781.6	16.9%	948.0	41.5%	5,195.7	16.9%	3,208.8	21.9%	3,833.3	17.3%
SEB banka	477.6	21.4%	3,604.3	11.5%	2,501.5	17.0%	1,980.1	8.8%	485.2	21.2%	3,684.3	12.0%	2,572.8	17.5%	2,092.9	9.4%
Citadele banka	272.8	12.2%	2,394.7	7.6%	998.5	6.8%	1,888.4	8.4%	272.9	11.9%	2,458.0	8.0%	1,024.6	7.0%	1,971.5	8.9%
DNB banka	168.6	7.6%	2,437.5	7.8%	1,648.3	11.2%	1,160.0	5.2%	183.7	8.0%	2,388.4	7.8%	1,704.9	11.6%	1,083.5	4.9%
NORVIK BANKA	63.2	2.8%	1,044.7	3.3%	239.3	1.6%	834.2	3.7%	86.3	3.8%	1,036.5	3.4%	250.0	1.7%	855.4	3.9%
Nordea Latvia Branch	85.0	3.8%	2,865.2	9.1%	2,426.2	16.5%	1,454.6	6.5%	85.8	3.8%	2,898.7	9.4%	2,426.9	16.5%	1,475.1	6.6%
BIGBANK Latvia Branch	63.6	2.8%	97.7	0.3%	78.1	0.5%	69.1	0.3%	64.0	2.8%	97.5	0.3%	76.4	0.5%	70.9	0.3%
PrivatBank	37.3	1.7%	737.5	2.3%	279.5	1.9%	640.8	2.9%	37.5	1.6%	701.4	2.3%	220.8	1.5%	606.5	2.7%
Rietumu Banka	29.0	1.3%	3,747.3	11.9%	1,356.4	9.2%	3,115.7	13.9%	37.2	1.6%	3,587.1	11.6%	1,277.9	8.7%	3,064.4	13.8%
Meridian Trade Bank	31.0	1.4%	279.9	0.9%	121.7	0.8%	238.7	1.1%	31.1	1.4%	258.1	0.8%	126.4	0.9%	217.3	1.0%
ABLV Bank	25.8	1.2%	4,581.4	14.6%	859.9	5.8%	3,661.6	16.4%	26.3	1.2%	4,212.7	13.7%	819.3	5.6%	3,394.6	15.3%
Other	28.6	1.3%	4,475.1	14.2%	1,051.6	7.1%	3,558.5	15.9%	27.7	1.2%	4,296.5	13.9%	957.5	6.5%	3,526.0	15.9%
Total (for all financial institutions)	**2,231.6**	**100.0%**	**31,410.3**	**100.0%**	**14,744.0**	**100.0%**	**22,383.4**	**100.0%**	**2,285.8**	**100.0%**	**30,814.9**	**100.0%**	**14,666.3**	**100.0%**	**22,191.5**	**100.0%**

	As at 30 June 2015							As at December 2014						
	Shareholders' equity		Net income	Tier 1 ratio	NIM[1]	ROAE	ROAA	Shareholders' equity		Net income	Tier 1 ratio	NIM[2]	ROAE	ROAA
	(EUR millions)	*(% of total)*	*(EUR millions)*	*(%)*	*(bps)*	*(%)*	*(%)*	*(EUR millions)*	*(% of total)*	*(EUR millions)*	*(%)*	*(bps)*	*(%)*	*(%)*
Swedbank	1120.2	35.8%	55.7	36.5%	211	9.9%	2.2%	1,137.0	37.4%	118.39	33.9%	214	10.7%	2.3%
SEB banka	427.3	13.7%	17.5	20.3%	160	8.1%	1.0%	435.1	14.3%	24.7	19.2%	177	5.6%	0.7%
Citadele banka	192.4	6.1%	9.3	12.2%	207	11.0%	0.9%	172.4	5.7%	28.3	10.4%	242	17.9%	1.3%
DNB banka	264.6	8.5%	8.0	15.5%	171	6.2%	0.7%	257.5	8.5%	19.3	15.3%	192	7.8%	0.8%
NORVIK BANKA	98.9	3.2%	5.8	9.1%	186	11.5%	1.1%	101.0	3.3%	(5.6)	10.3%	84	-8.6%	-0.6%
Nordea Latvia Branch	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BIGBANK Latvia Branch	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PrivatBank	62.9	2.0%	5.3	13.9%	135	17.5%	1.5%	58.5	1.9%	6.4	16.2%	42	11.5%	0.9%
Rietumu Banka	362.1	11.6%	37.3	12.3%	209	21.9%	2.1%	324.1	10.7%	53.6	12.4%	218	22.8%	2.3%
Meridian Trade Bank	24.2	0.8%	(0.0)	12%	145	(0.4)%	(0.0)%	24.8	0.8%	0.2	11.9%	121	0.9%	0.1%
ABLV Bank	249.3	8.0%	43.5	10.7%	134	38.1%	1.9%	234.2	7.7%	66.2	11.9%	137	28.7%	1.6%
Other	327.1	10.5%	41.6	N/A	N/A	N/A	N/A	294.4	9.7%	0.6	N/A	N/A	N/A	N/A
Total (for all financial institutions)	3,129.0	**100.0%**	219.9	**18.4%**	167	**13.3%**	**1.4%**	**3,038.9**	**100.0%**	**311.4**	18.3%	173	11.1%	1.1%

1 Calculated based on quarterly data by banks reported by the FCMC as at 30 June 2015

2 Calculated based on quarterly data by banks reported by the FCMC as at 31 December 2014

According to data from the ACBL, Citadele had the third highest number of active customers (273,000) as at 31 December 2014 after Swedbank (949,000) and SEB (478,000) (and ahead of DNB with 169,000, Nordea with 85,000 and BIGBANK with 64,000), and was also ranked third by the number of online banking users (114,000) at the same date, behind Swedbank (739,000) and SEB (291,000), and ahead of DNB (107,000), Nordea (54,000) and Norvik (25,000). With 36 Branches as at 30 June 2015, Citadele operated the third largest Branch network in Latvia after Norvik and Swedbank, and was also the fifth largest bank in terms of total deposits (with 8.9% market share), fourth largest for households deposits (with 11.0% market share), sixth largest for total loans (with 6.7% market share) and seventh largest for total assets (with 7.6% market share). Citadele was also ranked second by term deposits (with a 13.4% market share) with EUR 490 million as term deposits, behind Swedbank (EUR 646 million) and ahead of Rietumu banka (EUR 421 million), DNB (EUR 406 million), SEB (EUR 352 million) and Nordea (EUR 347 million). Citadele is also ranked sixth in terms of loans per branch in Latvia as at 30 June 2015 (with EUR 27.7 million per Branch, compared to EUR 202.2 million for Nordea, EUR 78.2 million for SEB, EUR 67.7 million for Swedbank, EUR 61.0 million for DNB, EUR 39.1 million for BIGBANK and EUR 3.4 million for Norvik, each as at 30 June 2015).

Despite a market-wide deleveraging process in recent years, Citadele Group's loan portfolio has remained resilient compared to several of its competitors, having declined only 1% per annum over the period 2010-2014 compared to an average 6% contraction of Citadele's key Nordic-owned competitors (including Swedbank, SEB, Nordea and DNB).

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

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

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 2015, Citadele leased 35 other premises in total for its Branches in Latvia, customer service centres and storage and archive centres in Latvia. All such leases expire by 2020 and the relevant member of the Citadele Group is able to terminate such leases on giving notice. Citadele Group also leases locations in premises for 153 ATMs as at 30 June 2015.

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.

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, which Citadele Group upgraded to in January 2015. Over 2,000 firms across the globe, including 38 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers as well as over USD 5 trillion in assets. The T24 system's functionality enables it to support a range of Citadele Group's products and services, including credit risk management processes, payment mechanics, cash operations and the processing of deposits, loans, securities and other financial instruments. The T24 system is fully integrated with the additional satellite IT systems set out below. Citadele Group's technology is designed using a modular and highly adaptable architecture to ensure a robust operating environment for cards, internet and mobile banking systems. Citadele's technology is designed such that its internet and card transaction processing ability is preserved even if the core banking system is unavailable. Using the T24 system enables Citadele Group to implement technology updates more efficiently, thereby allowing Citadele Group to respond quickly to the latest market trends and customer expectations.

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

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

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

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

Citadele Group also utilises internet banking and mobile banking solutions. The internet banking platform provides a full spectrum of banking services to customers, including access to payments, account statements, card blocking, deposits, loan balances, investment funds, life insurance, pension funds and other product applications. Customers are also able to set up SMS notifications in connection with card authorisations, balance enquiries and payments. The internet banking system supports different two-factor authentication devices, thereby promoting high levels of security for online transactions. Citadele has also recently implemented a new, modern internet banking authorisation system which enables login and payment confirmations to be processed using a smart phone application rather than a separate authentication device. Citadele Group's mobile platform, meanwhile, enables customers to view special offers from partners as well as the locations of the nearest Citadele ATMs and Branches. It also enables customers to access account balances and 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 0.0002% level of unplanned downtime (excluding planned maintenance and upgrades) for the 12 months preceding the date of this Prospectus. In 2012, 2013 and 2014 and first half of 2015 Citadele's expenses related to upgrading IT systems amounted to EUR 1.7 million, EUR 1.7 million, EUR 0.8 million and EUR 1.5 million, respectively.

Citadele Group has several other systems in place, including a modern data warehouse system (which contains a large volume of customer data and can be used for extensive customer and product data analysis), specialised card fraud prevention systems, and advanced customer loyalty management solutions. As at the date of this Prospectus, Citadele is implementing a comprehensive review and upgrade to its call centre platform (called "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 Branches in Lithuania and Switzerland. This enables such data to be retrieved in the event that an emergency occurs and core systems to remain operational.

Employees

As at 30 June 2015, Citadele Group had 1,764 employees compared with 1,752 employees as at 31 December 2014, 1,795 employees as at 31 December 2013 and 1,812 employees as at 31 December 2012. The number of full time employees excluding those on maternity leave was 1,603 as at 30 June 2015 and 1,583 as at 31 December 2014, 1,637 as at 31 December 2013 and 1,640 as at 31 December 2012. Employees are provided with a fixed salary, are eligible for bonuses, are eligible to acquire health insurance at favourable rates and have the choice to obtain or use Citadele Group's products at special prices or rates.

The average age of Citadele Group's employees is 38 years old, with over 70% of employees being aged between 18 and 44 years old. Citadele Group's employees have been with Citadele Group for an average of 7 years (4% having been at Citadele Group or Parex for more than 20 years, 23% for between 10 and 20 years, 25% for between 5 and 10 years, 11% for between 3 and 5 years, 21% between 1 and 3 years and 16% for less than 1 year). 70% of employees are female and 30% of employees are male. Turnover of employees varies between the various business segments, but across Citadele Group there was employee turnover in 2014, 2013 and 2012 of 243, 264 and 246 employees, respectively, with the highest rates of employee turnover occurring in relation to employees in the retail and corporate segments. During 2014, Citadele recruited for 33 positions per month on average and, for each position, there were on average 16 applicants. Citadele has a highly qualified workforce, with 50% of employees having a bachelors degree and 23% having a masters degree from a university (of the remainder, 4% are university students, 22% achieved secondary level education only, and 1% achieved primary level education only).

Citadele Group aims to continually focus on and improve employee loyalty and motivation, as well as to provide opportunities for professional growth to its employees. In 2014, Citadele commissioned an employee commitment survey by the research agency TNS Latvia, which showed an improvement in the employment commitment index in 2014 as compared with the position in 2013. Citadele Group closely monitors the market trends to offer a competitive remuneration to its employees. Also, as Citadele Group has a clear growth strategy, it is able to attract and retain talented employees. Citadele Group aims to be the most desirable employer in Latvia, based on a new culture and set of values, which reflects the performance based nature of the organisation and the focus on strong profitability.

The tables below set out the split of Citadele Group employees by (i) function; and (ii) geographical location as at 30 June 2015:

Segment	Number of employees
Retail (including SME)	637
Private capital management	118
Corporate	94
Cash collection	142
Back office and administrative support	144
IT	124
Risk and compliance	103
Other functions	402
Total	**1764**

Location	Number of employees
Latvia	1,412
Lithuania	265
Estonia	56
Switzerland	23
Other	8

Age of male employees in years	Percentage of total employees
18-30	18%
30-44	54%
45-72	26%

Age of female employees in years	Percentage of total employees
18-30	30%
30-44	47%
45-72	24%

During 2014, Citadele employed an average of 45 temporary employees per month, and Citadele Group employed an average of 54 temporary employees per month.

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 *Material Contracts—Co-existence agreement*.

Material Legal Proceedings

Callidus Capital SIA ("**Callidus**") has alleged that the acquisition of Citadele by Ripplewood Advisors LLC through its wholly owned subsidiary, RA Citadele Holdings, LLC, along with a consortium of 12 other co-investors which did not include Callidus, which was completed in April 2015, violated an alleged partnership agreement between Callidus and Ripplewood Advisors LLC to jointly acquire from the Latvian Privatisation Agency a 75% less one share stake in Citadele. On 25 June 2015, Callidus filed suit against Ripplewood Advisors LLC in the City of Riga Vidzeme District Court. Callidus' suit seeks to have the district court declare that the indicative term sheet

entered into by Ripplewood Advisors LLC and Callidus in April 2014 in connection with a proposed joint acquisition of a 75% less one share stake in Citadele from the Latvian Privatisation Agency constitutes a legally binding partnership agreement under Latvian law. Callidus is also seeking damages of EUR 32,700 in connection with its contribution to the alleged partnership. Callidus states in its suit that Ripplewood Advisors LLC's actions have caused damage to Callidus that exceeds the amounts sought in Callidus' present claim and that separate claims may be brought against Ripplewood Advisors LLC. It is unclear what additional claims Callidus might bring, but such claims could include additional claims for compensation, damages or a portion of Ripplewood Advisors LLC's stake in Citadele (held through its wholly-owned subsidiary, RA Citadele Holdings, LLC).

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 security 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. Citadele does not believe the claims have any merit nor will be successful.

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

Principal investments made by Citadele since 2012

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

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

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.

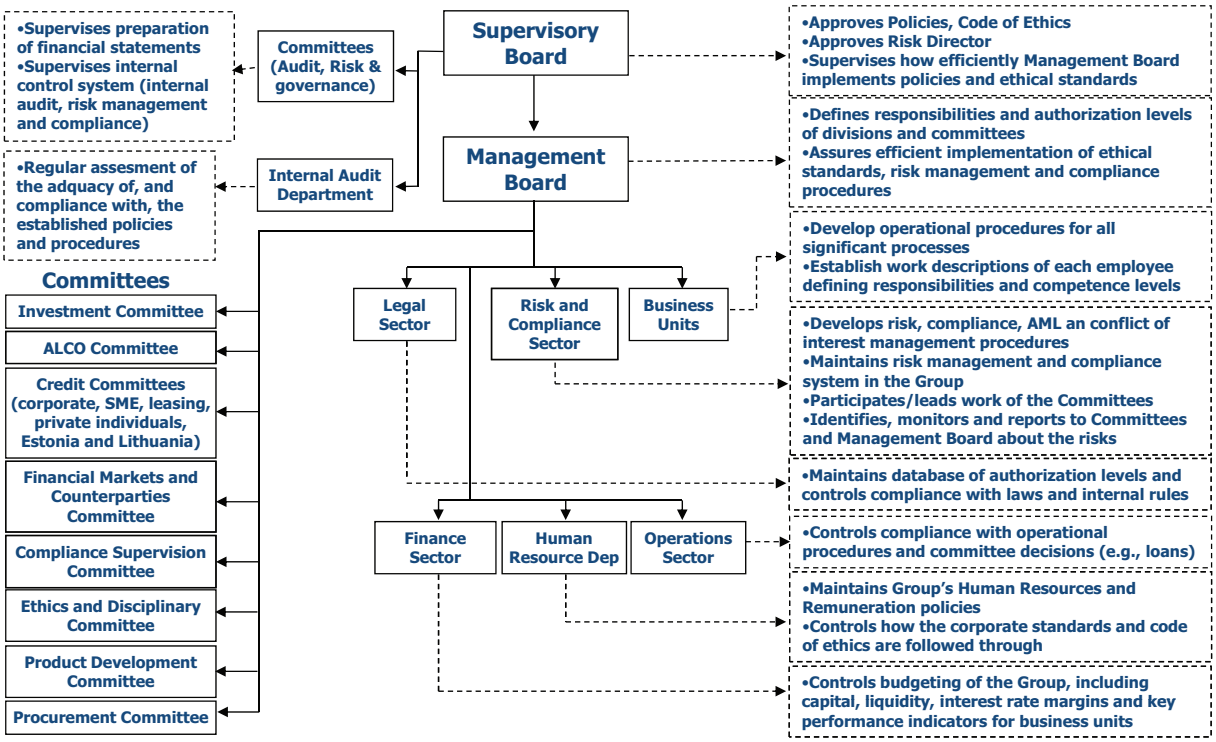
In order to assess and monitor complex risk exposures, Citadele Group applies a wide range of risk management tools in conjunction with risk committees, which include as its members a variety of employees across Citadele Group's various operations, in order to balance business and risk orientation across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

Risk and Compliance Department

The Risk and Compliance Department is a separate unit within Citadele Group that has oversight of Citadele Group's risk management. The Risk and Compliance Department is responsible for: (i) credit risk identification, monitoring and reporting; (ii) measuring, monitoring and reporting on market risk; (iii) ensuring proper oversight of interest rate risk management, together with preparing analytical reports to be submitted to the Asset and Liabilities Management Committee

("**ALCO**") and the Management Board; (iv) currency risk monitoring and reporting; and (v) coordinating liquidity risk management and reporting. This body also maintains Citadele Group's AML and compliance systems.

Risk Director

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

Risk and Governance Committee

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

Audit Committee

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

Internal Audit Division

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

Group Investment Committee

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

Assets and Liabilities Management Committee

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

Financial Market and Counterparty Risk Committee

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

Credit Committee

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

SME Credit Committee and Private Individuals Credit Committee

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

Group Leasing Committee

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

Compliance Committee

The Compliance Committee is responsible for reviewing compliance risk monitoring and coordination as well as fulfilment of Citadele Group's AML and counter-terrorist financing policies. It is tasked with: (i) preventing money laundering and terrorist financing; (ii) protecting investors' interests by ensuring compliance with the requirements of Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**") (as implemented by Latvian legislation);

(iii) preventing market abuse; (iv) developing Citadele Group's corporate governance policies, including the evaluation of conflicts of interest, as well as compliance management systems for Citadele Group; (v) supervising the protection of confidential information and personal data; and (vi) supervising the introduction of Unified Compliance Monitoring requirements across the overseas subsidiaries, branches and representative offices of Citadele Group. The decisions of the Compliance Committee are approved by the Management Board.

Treasury Department

The Treasury Department 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 Department is responsible for conducting investments in securities in Latvia, Lithuania and Switzerland and supervising Citadele Group's bond investment activities in Lithuania and Switzerland.

Credit Risk Management

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

- Citadele Group provides products and enters into transactions which carry a degree of risk due to dependence on customer creditworthiness, which, according to Citadele Group's assessment, have acceptable probability of occurrence. The assessment of a customer's creditworthiness is supported by the evaluation of customer's ability to repay the loan and provide collateral to mitigate or eliminate the risk of losses to Citadele Group;
- Citadele Group assumes risks which it believes can be assessed and managed. Citadele Group believes that it does not assume unacceptably high levels of risk; and
- Citadele Group assumes risks in economic fields and geographic regions in relation to which it has sufficient knowledge. Citadele Group constantly monitors different industry sectors, particularly those in which it has a significant concentration of customers, in order to be able to assess such sector risks and potential development trends.

Credit risk management is based on an adequate assessment of a credit risk and the decision-making in relation to such risk. In cases when significant risk is to be taken, the credit risk analysis is performed by an independent structural unit of Citadele Group's Risk and Compliance department. The credit risk analysis consists of assessment of the customer's creditworthiness, pledged collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates as well as an analysis of its current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income history, income projections and income against liabilities analysis, as well as an analysis of applicable social and demographic factors. In cases where exposures, in aggregate, above EUR 0.3 million (or EUR 0.7 million in aggregate in the case of a restructuring) are being contemplated, the decision for Citadele Group to provide the loan to the relevant customer is taken by the Credit Committee and approved by the Management Board. 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.

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 more than:

(i) EUR 0.3 million in the case of the CEO, Chief Business Officer, Head of Corporate Division, Head of Retail Division and Head of PCM for any new lending or amendments to existing deals;

(ii) EUR 0.3 million in the case of the Head of SME Division and the Heads of mortgage lending units for amendments to existing deals (or EUR 0.15 million for any new lending); and

(iii) EUR 15,000 in the case of heads of business units acting together with the Head of Risk Analysis Division in relation to issuing payment cards to SME and corporate customers (or EUR 7,000 acting without the input of the Head of Risk Analysis Division),

in each case aggregated with all existing lending to any single customer or customer's corporate group. There is an independent department within Citadele Group that checks all loan agreements before releasing the funds to the customer in order to ensure that they are consistent with the requirements set out in the decision made by the relevant committee or individual with the approval rights described above. The various credit committees retain the approval decision making authority for all higher risk credit decisions or higher value exposures, as described more fully below.

For new lending of up to EUR 0.3 million (or EUR 0.7 million in the case of a restructuring) for private individuals or SMEs, approval is required from the Private Individuals Committee and the SME Credit Committee, respectively. For new lending, in aggregate, over EUR 0.3 million (or, in aggregate, EUR 0.7 million in the case of a restructuring) approval is required from the Credit Committee with further review and approval by the Management Board.

In relation to the acquisition of corporate bonds, Citadele Group analyses factors such as but not only the business profile and financial performance of the issuer, the credit ratings assigned to it by international rating agencies, and market-based indicators such as credit spreads and liquidity. Sovereign bonds are assessed in a similar fashion, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, the financial strength of the government, political risks and other similar factors. The FMCRC is responsible for approving limits for different types of capital markets activities and its decisions are approved by the Management Board. The Risk and Compliance Department (which is an independent structural unit of Citadele Group) carries out the counterparty risk analysis before the decision is taken by the FMCRC. All lending to non-financial institutions which is not in the form of bonds must be approved by the Credit Committee.

Credit cards to private individuals are issued according to the procedure which is approved by the Risk and Compliance Department and Credit Committee. The procedure defines specific criteria for the borrower, which includes income level and credit history, and the respective credit limit that can be issued based on those criteria. Depending on the amount of the credit limit being requested, the limits can be approved by an employee of a business department (for amounts up to EUR 4,000), the head of a business department (for amounts up to EUR 7,000) or the heads of business departments acting together with the Head of the Risk Analysis Division (for amounts up to EUR 15,000).

Monitoring

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuer's risk indicators, such as credit ratings changes, 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 flow 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. The heads of Citadele Group's business units meet with the Head of the Loan Monitoring and Restructuring Division on a regular basis to review loans which are more than 30 days overdue. In the period between a loan being 30 days overdue and 60 days overdue, loan managers are charged with either submitting restructuring proposals to the Credit Committee or transferring the loan to the Loan Monitoring and Restructuring Division in order to devise more complex restructuring plans. In cases where loans are overdue for more than 60 days, proactive restructuring of loans is undertaken and, if no reasonable evidence exists to show that the borrower will be able to restart repayment in the foreseeable future, the loan is transferred to the Legal Department to initiate enforcement. Specific impairment assessment for large exposures is undertaken in cases where loans are overdue for more than 90 days and, where the probability of default is 100%, specific impairments are updated. Responsibility for monitoring the fixed-income securities portfolio is placed on the Risk and Compliance Department, which closely follows rating and outlook changes relating to issuers of fixed-income securities in Citadele Group's portfolio. The Risk and Compliance Department prepares credit profile reviews for, and offers recommendations about exposure limits to, the FMCRC.

In addition, there are individual quality assessments by personnel within Citadele Group's risk function of all loans in excess of EUR 0.7 million on a quarterly basis and assessments on a portfolio basis for all other loans. This means that approximately 60% of the loans in Citadele Group's credit portfolio are assessed individually. Key impairment indicators include: (a) more than 30 days' delinquency; (b) capitalisation of interest, postponement of interest payments or principal repayments and loan payment grace periods; (c) loss of employment, weakened market position or negative changes in other economic or competitive indicators; (d) utilisation of borrowed funds otherwise than as agreed; and (e) the loan being transferred to the legal proceedings department. The Risk and Compliance Department also performs collective quality assessment for small exposures and those where the individual assessment resulted in no impairment.

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

Citadele Group manages country risk wherever possible based on the country of origin of the exposure rather than the customer's country of domicile or registration, meaning that Citadele Group focuses on where the customer performs its economic activity, derives profit or where its assets are situated. Citadele Group does not hedge risk transactions with the Republic of Latvia or with its residents. Management of country risk is coordinated by the Risk and Compliance Department, while risk assessment and decision making in relation to country risk takes place at the ALCO level.

Citadele Group assesses a number of sources of country risk, which generally relate to the country's economic and financial position, political environment, social environment and the occurrence of natural disasters and calamities. One of the core elements of the country risk management system is the restriction of risk concentration. The ALCO sets an overall cap applicable to all types of exposure in a particular country, including investment, lending, and liquidity management related activities. This limit sits above the secondary thresholds which different departments have in place to manage concentration risk in their specific areas. The concentration limits are reviewed by the ALCO at least once per year.

In addition to the credit risk which Citadele Group is exposed to as a result of its loan portfolio and fixed-income securities portfolio, Citadele Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. Citadele Group also places certain of its liquid funds with other market participants for different terms. Citadele Group therefore manages its exposure to commercial banks and brokerage companies on a daily basis by monitoring the credit ratings of such institutions 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 interest and foreign exchange risks through short term derivatives that do not expose it to material credit risk. As at the date of this Prospectus, none of Citadele Group's derivative exposures was overdue.

Market Risk Management

Citadele Group recognises two major types of market risk: position risk and foreign exchange risk. Position risk is the risk that Citadele Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in interest rates, asset values and other factors. General interest rate risk and specific interest rate risk are the main risks which Citadele Group is exposed to as a result of its fair valued bond portfolio. 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. Citadele Group places significant emphasis on concentration risk and applies a framework under which limits are set based on risk weighted exposures for every country and sector combination. Concentration risk monitoring and reporting is executed by the Risk and Compliance Department. Citadele Group uses a "4-level-limit" system to assess concentration risk. Exposures are limited at the following levels: (1) country limits as set by the ALCO; (2) economic sector and country combination limits applicable to the securities portfolio as set by the GIC; (3) related party limits as set by the FMCRC; and (4) specific issuer limits as set by the FMCRC. To assess position risk Citadele Group uses sensitivity analysis, which identifies and quantifies the negative impact of adverse events on the portfolio, taking into consideration regional, sector and credit rating risk profiles. Furthermore, Citadele Group takes steps to minimise the percentage of its capital which could be affected by one or more shock scenarios. See *"Asset, liability and risk management—Changes to risk management that are known or anticipated to come into effect in the future".*

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 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 Department, while management is performed by the Treasury Division. Interest rate risk is managed by using repricing gap analysis of the risk sensitive assets and liabilities of Citadele Group, duration analysis and sensitivity analysis of assets and liabilities to interest rate fluctuations as well as stress testing interest rate risk. 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.

The following table represents, all other things being equal, the impact of a parallel change in all interest rates and security yields by 1.0% (but not below 0%) on Citadele Group's pre-tax profit (in 12 months time) and available for sale securities' fair value revaluation reserve in equity as at 30 June 2014 and 2015, and at 31 December 2014, 2013 and 2012.

	As at 30 June		As at 31 December		
	2015 (unaudited)	2014 (unaudited)	2014	2013	2012
					(EUR thousands)
Scenario: +1%					
Pre-tax profit / (loss)	5,914	6,651	7,472	5,417	3,288
Securities fair value revaluation reserve	(8,232)	(8,205)	(8,955)	(5,221)	(8,126)
Total pre-tax effect on equity	(2,318)	(1,554)	**(1,483)**	**196**	**(4,838)**
Estimated net effect on equity	(1,970)	(1,321)	**(1,261)**	**167**	**(4,112)**
Scenario: -1%, but not below 0%					
Pre-tax profit / (loss)	(3,096)	(3,379)	(3,594)	(2,978)	(2,647)
Securities fair value revaluation reserve	5,105	5,357	(3,594)	(2,978)	5,387
Total pre-tax effect on equity	**2,009**	**1,978**	**1,779**	**416**	**2,740**
Estimated net effect on equity	**1,708**	**1,681**	**1,512**	**354**	**2,329**

The following tables represent, all other things being equal, the impact of a 2.0% parallel change in all interest rates and security yields (but not below 0%) by currencies on Citadele's pre-tax profits and available for sale securities' fair value revaluation reserve in equity as at the dates indicated.

	As at 30 June					
	2015 (unaudited)			2014 (unaudited)		
						(EUR thousands)
Scenario: +2%	EUR	USD	Other currencies	EUR	USD	Other currencies
Pre-tax profit / (loss)	7,864	6,025	(2,134)	7,881	5,672	239
Securities fair value revaluation reserve	(2,676)	(7,773)	(190)	(4,127)	(4,547)	(55)
Total pre-tax effect on equity	5,188	(1,748)	(2,324)	3,754	1,125	184
Estimated net effect on equity	4,410	(1,486)	(1,975)	3,191	956	156
Scenario: -2%, but not below 0%						
Pre-tax profit / (loss)	(889)	(2,517)	194	(2,233)	(1,649)	(64)
Securities fair value revaluation reserve	2,860	8,369	199	4,474	4,924	57
Total pre-tax effect on equity	1,971	5,852	393	2,241	3,275	(7)
Estimated net effect on equity	1,675	4,974	334	1,905	2,784	(6)

	As at 31 December										
	2014				2013				2012		
											(EUR thousands)
Scenario: +2%	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit / (loss)	9,711	5,969	(1,289)	731	5,011	5,481	(216)	1,407	3,099	4,953	788
Securities fair value revaluation reserve	(3,620)	(7,285)	(233)	(2,363)	(1,878)	(3,863)	(94)	(2,211)	(4,264)	(2,602)	–
Total pre-tax effect on equity	**6,091**	**(1,316)**	**(1,522)**	**(1,632)**	**3,133**	**1,645**	**(310)**	**(804)**	**(1,165)**	**2,351**	**788**
Estimated net effect on equity	**5,177**	**(1,119)**	**(1,294)**	**(1,387)**	**2,663**	**1,398**	**(264)**	**(683)**	**(990)**	**1,998**	**670**
Scenario: -2%, but not below 0%											
Pre-tax profit / (loss)	(1,795)	(1,919)	181	(249)	(1,692)	(1,653)	65	(811)	(995)	(2,416)	(155)
Securities fair value revaluation reserve	363	3,566	26	842	726	2,136	23	724	1,911	1,074	–
Total pre-tax effect on equity	**(1,432)**	**1,647**	**207**	**593**	**(966)**	**483**	**88**	**(87)**	**916**	**(1,342)**	**(155)**
Estimated net effect on equity	**(1,217)**	**1,400**	**176**	**504**	**(821)**	**411**	**75**	**(74)**	**778**	**(1,141)**	**(132)**

Currency Risk Management

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

The following table represents Citadele Group's open currency positions as at the periods indicated:

Net long / (short) position	**LVL**	**EUR**	**USD**	**CHF**	**LTL**	**RUB**	**Other**	**Total**
								(EUR thousands)
As at 30 June 2015	–	(9,420)	2,663	5,283	–	2	474	998
As at 31 December 2014	–	(5,474)	2,904	2,687	3,947	7	238	4,309
As at 31 December 2013	(30,652)	(9,589)	192	2,518	36,217	210	673	(431)
As at 31 December 2012	(66,958)	29,649	1,651	12,573	20,936	189	252	(1,708)

In the event of an adverse change in the exchange rates for the following currencies in which Citadele Group has open positions, all other things being equal, the potential total decrease in Citadele Group's pre-tax profits would amount to the following:

	As at 30 June					
	2015 (unaudited)			2014 (unaudited)		
						EUR thousands
Scenario	USD	CHF	Total for all currencies	USD	CHF	Total for all currencies
2% adverse change	53	106	10	34	54	449
5% adverse change	133	264	24	86	135	1,122

	As at 31 December										
	2014			2013				2012			
											EUR thousands
Scenario	USD	CHF	Total for all currencies	USD	CHF	LTL	Total for all currencies	USD	CHF	LTL	Total for all currencies
2% adverse change	58	54	7	4	50	724	30	47	357	6	1,481
5% adverse change	145	134	18	10	125	1,811	74	118	895	13	3,704

Liquidity Risk Management

The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations. 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 Division, and the risk is assessed and decisions are taken by ALCO. All ALCO decisions are approved by the Management Board. The Risk and Compliance Department provides information each month 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.

Citadele Group evaluates liquidity risk by using scenario analysis. Several scenarios under a variety of conditions are developed, ranging from a moderate crisis (used as the base case scenario), to an adverse combined scenario involving both market and Citadele Group-specific shock events. Citadele Group evaluates its liquidity position for each scenario for a range of periods (one week to three months). Citadele Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares yearly cash flows which incorporate assumptions about the most likely flow of funds. For general assessment of asset and liability gaps, Citadele Group regularly analyses liquidity term structure.

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.

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 sources of liquidity are regularly analysed and controlled across Citadele Group, and Citadele Group maintains regular contact with its interbank business partners and creditors with the aim of projecting possible deadlines for absorption, repayment or prolongation of liquidity resources.

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 of demand and current liabilities of the bank due in the next 30 days. For 2014 and 2013, Citadele was in compliance with the liquidity ratio requirements and met mandatory reserve requirements issued by the FCMC. Citadele's individual liquidity ratio requirements for 2015, 2014 and 2013 were set at 40% by the FCMC. As a result of joining the Eurozone in 1 January 2014, average reserve requirements in Latvia decreased from EUR 63.5 million in 2013 to EUR 16.6 million in 2014.

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. See "*Banking Regulation*" for further information.

Six months ended	Highest	Lowest	Average	Year (period)-end
30 June 2015	63%	59%	61%	60%
30 June 2014	56%	50%	54%	50%
Year ended				
31 December 2014	59%	50%	55%	59%
31 December 2013	58%	53%	56%	56%
31 December 2012	70%	52%	61%	56%

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

	As at 30 June		As at 31 December		
Capital Ratios[1]	**2015 (unaudited)**	**2014 (unaudited)**	**2014 (unaudited)**	**2013 (unaudited)**	**2012 (unaudited)**
***Basel II/Basel III Transitional Basis*[2]**					
Total capital adequacy ratio[3]	12.8%	10.1%	11.0%	10.3%	10.5%
Common equity Tier 1 capital ratio[4]	10.7%	8.0%	9.3%	8.4%	7.8%
Net Stable Funding Ratio[5]	123.7%	126.1%	130%	–	–
Liquidity Coverage Ratio[6]	280.9%	481.9%	533.0%	–	–
Leverage Ratio[7]	6.3%	4.9%	5.7%	–	–
Risk weighted assets[8]	1,678,194	1,713,203	1,822,041	1,611,100	1,555,928
Risk weighted assets as a percentage of total assets[9]	60.6%	67.0%	63.8%	63.4%	68.3%
***Basel III Fully Loaded Basis*[10]**					
Total capital adequacy ratio[3]	11.3%	8.6%	9.5%	–	–
Common equity Tier 1 capital ratio[4]	9.2%	6.4%	7.8%	–	–
Leverage Ratio[7]	5.7%	4.1%	5.0%	–	–
Risk weighted assets[8]	1,667,522	1,702,532	1,811,326		
Risk weighted assets as a percentage of total assets[9]	60.2%	66.6%	63.5%		

(1) The capital ratios for the year ended 31 December 2014 and the six months ended 30 June 2015 and 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations as a result of the introduction of Basel III requirements. Accordingly, Net Stable Funding Ratio and Liquidity Coverage Ratio have not been calculated for the years ended 31 December 2013 and 2012. 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 "*Asset, Liability and Risk Management—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*", "*Banking Regulation*", Note 15 to the Reviewed Interim Consolidated Financial Statements and Note 33 to the 2014, 2013 and 2012 Audited Consolidated Financial Statements for more information. Total capital adequacy ratio and common equity Tier 1 capital ratio, each calculated on a Basel III transitional basis, for the six months ended 30 June 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each calculated on a Basel III transitional basis, for the year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio on a Basel II basis for the years ended 31 December 2013 and 2012 are included in the 2013 and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed.

(2) The capital ratios set forth under the heading Basel II/Basel III transitional basis are calculated on a Basel II basis for the years ended 31 December 2012 and 2013, and on a Basel III transitional basis for year ended 31 December 2014 and the six months ended 30 June 2015 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio.

(5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio.

(6) 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. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio.

(7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Citadele Group's Leverage Ratio.

(8) Risk weighted assets is calculated as total risk exposure amount for the relevant period.

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

(10) The capital ratios set forth under the heading Basel IIII fully loaded basis are calculated on a Basel III fully loaded basis for the six months ended 30 June 2015 and 30 June 2014 and for the year ended 31 December 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

See *"—Capital Adequacy Management"* for further information.

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, the issuance of credit cards and overdrafts are granted to customers on the basis of an assessment of their cash flow and, in most cases, no collateral is required. Finance leases are secured by the relevant leased out property.

Operational Risk Management

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

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

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

Operational risk management measures are coordinated by the Operational Risk Control Department within the Risk and Compliance Department, 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 main instruments for achieving this are:

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

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

The key tools for restricting operational risks are: segregation of functions and responsibilities, documentation of the assignment of authorities, the separation of duties within the decision-making process and the use of a "four-eyes" principle (whereby the final performance of a transaction or operation must be approved by at least two independent employees or structural units). Citadele Group also has in place a centralised operational risk event reporting system, which has recorded over 180 reports on operational risk events with direct and potential losses totalling EUR 2.2 million and EUR 3.2 million, respectively, as at 30 June 2015. This data is used in setting Citadele Group's risk management policies and procedures.

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

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

embedded in Citadele Group's internal regulations and are binding on the Citadele Group's employees.

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

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

The compliance function is performed by separate structural sub-units at Citadele Group: the Compliance Monitoring Division and Compliance Control Division of the Risk and Compliance Department, acting under the authority of the Chief Risk Officer.

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

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

Citadele Group implements strict due diligence procedures when taking on new customers in order to be fully satisfied as to their identity, source of funds and economic rationale for opening an account. Enhanced due diligence ("**EDD**") measures are adopted in case of deposits received 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

(formerly called "Erase"), 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 is used to screen online customer transactions against OFAC, UN, EU and local FIU persons and sanctions lists. All customer data are screened against information in the Accuity database, which is also used for PEP identification purposes. Details of the customer EDD process and the customer monitoring process is documented and traceable in Citadele's IT systems. This includes Citadele's decisions regarding reporting suspicious activity or sending unusual transaction reports to the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity as well as decisions to terminate relationships with clients due to non-compliance with Citadele's AML procedures.

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

Induction training within the first month of employment, together with ongoing regular training through annual e-learning tutorials, is provided to Citadele Group's customer services employees by the Risk and Compliance Department, and the ongoing regular training is completed with a mandatory test, which must be passed by relevant employees. Special training courses are also provided on an ad-hoc basis for any significant amendments to Citadele Group's policies and procedures.

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

Changes to the risk management policies in the last fiscal year

Citadele Group has implemented FATCA (the U.S. Foreign Account Tax Compliance Act) requirements effective as at 1 July 2014. The implementation of FATCA required the introduction of a complex information technology solution due to its effect on multiple systems (such as the core system and remote banking) and the development of appropriate internal FATCA compliance procedures. Data on U.S. customer accounts subject to FATCA are collected and submitted to the local State Revenue Service for further submission to the U.S. Internal Revenue Service according to the Intergovernmental Agreement between Latvia and the U.S.

Unified compliance reports throughout the members of Citadele Group were developed and implemented in 2014 in order to ensure common compliance reporting requirements throughout the members of Citadele Group and to strengthen Citadele Group's compliance monitoring procedures.

Implementation of the Payment Card Fraud Prevention and Monitoring System "**Stronghold**" was completed in April 2014. The "Stronghold" replaced the previous monitoring system, RMS, which had been used as a back-up system during the "Stronghold" start-up period. Significant improvements of the "Stronghold" performance have been achieved in close co-operation with Citadele Group's information technology staff and the "Stronghold" developers during the first 8 months after implementation (including system performance enhancements and user interface improvements), and RMS has been retired since December 2014. Online fraud prevention methods were implemented in 2014, which facilitates the management of card fraud cases

through the use of online fraud prevention rules regularly developed and adjusted by Citadele Group.

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. Increases in the individual approval limits will include increased decision rights within the loan issuance process. Furthermore, Citadele is planning to increase reliance on external valuation reports prepared by independent valuators for certain real estate types (such as standard residential real estate) rather than performing internal revaluations for the majority of collateral held against its loan portfolio. These changes will ensure a more efficient decision making process and allow Citadele Group to provide a faster service for its customers.

CRS (Common Reporting Standard) aims to identify taxpayers (private individuals and legal entities that are clients of the bank and known to reside in a CRS jurisdiction, which includes the Baltic States) and report them to the tax authorities based on the principles of the U.S. FATCA approach from 1 January 2016. Implementation efforts have been commenced across Citadele Group.

Internal anti-bribery and corruption processes will be strengthened further, in particular following an independent review process undertaken by an external auditor firm to identify additional areas for enhancement. A new anti-bribery policy has been adopted and includes a detailed action plan setting out the necessary steps to meet Citadele Group's anti-bribery objectives, including the introduction of a training programme for employees and new staff monitoring procedures.

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

Capital Adequacy Management

CRR requires Latvian banks to maintain a minimum capital adequacy ratio of 8.0% of the total risk weighted exposure amounts, based on financial statements prepared under IFRS as adopted by the EU. The new rules under the CRD IV package also introduce a 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. For more information on the capital adequacy regime applicable to Citadele, see *"Regulation of Citadele Group's activities—Banking regulation and supervision in the EU—Capital adequacy requirements"*.

Additionally, a 2.5% capital conservation buffer is required by CRR, limiting dividend payout and certain other Tier 1 equity instrument buy-backs in cases of non-compliance, and effectively implying a well capitalised bank Tier 1 capital ratio target of 8.5% and total capital adequacy ratio target of 10.5%.

The FCMC has also calculated Citadele's standalone minimum capital adequacy ratio based on the Latvian Credit Institutions Law. The 2014 results of this calculation indicated that the standalone minimum capital adequacy ratio according to Citadele's non-resident business model is 10.9% on a Basel III transitional basis as implemented by the FCMC. Taking into account the 0.5% margin permitted by the EC, the resulting cap under the EC restrictions package (in excess of which

Citadele was required to pay an "asset relief fee" to the Latvian State Treasury) was 10.5% until 2014, and increased to 11.4% thereafter. Following the sale in April 2015 of Citadele Group's state-owned shares, this commitment no longer applies to Citadele Group, and Citadele Group is no longer obligated to pay an "asset relief fee" to the Latvian State if its capital adequacy ratio exceeds the FCMC's set ratio plus the 0.5% margin permitted by the FCMC. Citadele Group's 10.5% requirement in 2012 and 2013 and its 10.9% requirement in 2014 were satisfied through its common equity Tier 1 capital and subordinated debt (Tier II capital). During the first half of 2015, Citadele Group's capital adequacy ratio was less than this minimum requirement until audited profits from 2014 were included as part of its Tier 1 capital. As at 30 June 2015, Citadele Group satisfied this minimum capital adequacy ratio. See "*—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Prudential regulation*" for more information.

Typically a bank will hold a capital buffer above the minimum requirements, which is the approach currently followed by Citadele Group. Citadele Group's management anticipates that both Citadele as a standalone entity and Citadele Group as a whole will comply with both its minimum capital adequacy ratio target and the minimum Pillar 2 target contained within its ICAAP submission approved by the FCMC, as at 31 December 2014; however, Citadele anticipates that the optimal Pillar II target will only be achieved on the basis that Citadele Group continues to direct its operating profits towards increasing its capital position.

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

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

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

	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
	Group[1]	Group[1]	Bank	Bank
				EUR thousands
Common equity Tier 1 capital				
Paid up capital instruments	156,556	146,556	156,556	146,556
Retained earnings and eligible profits	29,335	28,750	24,747	24,747
Deductible other intangible assets	(1,781)	(1,690)	(1,523)	(1,456)
Other capital components, deductions and transitional adjustments, net	(4,781)	(4,689)	(2,293)	(820)
Tier 2 capital				
Eligible part of subordinated liabilities	35,593	31,568	35,593	31,568
Own funds	**214,922**	**200,495**	**213,080**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk				
Central governments or central banks	16,480	16,596	12,254	11,252
Regional governments or local authorities	1,038	35,611	687	35,082
Public sector entities	25	43	25	43
Multilateral Development Banks	1,707	1,052	1,707	407
Institutions	164,085	179,590	157,756	167,617
Corporates	655,479	631,548	639,363	649,329
Retail	85,196	98,655	42,149	60,870
Secured by mortgages on immovable property	267,482	236,922	190,390	155,962
Exposures in default	73,666	38,807	74,350	34,216
Items associated with particularly high risk	43,125	158,356	42,492	163,832
Claims on institutions and corporates with a short-term credit assessment	307	4,334		–
Collective investments undertakings	17,283	16,389	11,725	10,882
Equity	10,938	10,938	61,845	62,875
Other items	125,604	177,823	51,636	110,900
Total exposure amounts for position, foreign currency open position and commodities risk				
Traded debt instruments	9,227	7,126	5,870	2,427
Equity	869	867	–	–
Foreign Exchange	8,456	9,741	1,104	1,647
Commodities	58	–	58	–
Total exposure amounts for settlement	36	–	36	–
Total exposure amounts for operational risk	196,501	196,501	157,347	157,347
Total exposure amounts for credit valuation adjustment	632	1,142	632	1,135
Total risk exposure amount	**1,678,194**	**1,822,041**	**1,451,426**	**1,625,823**
Total capital adequacy ratio	**12.8%**	**11.0%**	**14.7%**	**12.3%**
Common equity Tier 1 capital ratio	**10.7%**	**9.3%**	**12.2%**	**10.4%**

(1) Citadele's consolidation group for regulatory purposes is different from the consolidation group for accounting purposes. As per regulatory requirements AAS CBL Life is not included in the consolidation group for capital adequacy purposes. Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

The following table sets out the qualitative assessment summary of Citadele's risk profile according to its 2014 ICAAP, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	Low	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	n/a	Standardized approach	n/a
Market risk	Position risk	Moderate	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Low	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Low	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Low	Part of reputation risk	n/a

Capital adequacy calculation as at 31 December 2013 and 31 December 2012

The following table sets forth the capital adequacy calculation of Citadele Group and Citadele in accordance with EU regulations (Basel II framework, Pillar I) as implemented by the FCMC as at 31 December 2013 and 31 December 2012. The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations:

	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	Group[1]	Group[1]	Bank	Bank
				LVL 000's
Tier 1				
—paid-in share capital	103,000	103,000	103,000	103,000
—audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(2,159)	(11,860)	(3,161)	(13,908)
Less				
—intangible assets	(1,284)	(859)	(949)	(493)
—restructuring reserve and other reserves	(3,137)	(3,153)	–	–
—Investments in subsidiaries—insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**94,920**	**85,628**	**97,390**	**87,099**
Tier 2				
—subordinated debt	50,270	50,270	50,270	50,270
—amortisation of subordinated debt[2]	(27,867)	(20,108)	(27,866)	(20,108)
—eligible securities fair value revaluation reserve	669	–	211	–
—investments in subsidiaries—insurance company (50% from total)	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**21,572**	**28,662**	**21,115**	**28,662**
Equity to be utilised in the capital adequacy ratio	**116,492**	**114,290**	**118,505**	**115,761**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	1,239	893	1,159	494
Municipalities	2,196	2,105	2,040	2,037
Government institutions	58	51	58	51
International development banks	14	–	14	–
Credit institutions	4,912	3,993	7,118	5,141
Companies	40,088	38,578	39,900	38,833
Assets qualifying for "retail" definition	6,205	5,562	3,826	4,000
Qualifying residential mortgage loans	10,241	7,878	8,588	6,112
Assets qualifying for "past due" definition	2,183	1,561	1,910	1,179
Investment funds	708	253	708	253
Other assets	10,706	11,145	6,950	7,315
Other risk capital charges:				
Foreign currency open positions subject to capital charge	940	5,068	371	604
Debt securities and derivatives position risk capital charge	961	399	338	233
Equities position risk capital charge	47	–	–	–
Commodities risk capital charge	1	14	1	14
Operational risk capital charge	10,084	9,981	7,999	7,713
Total capital charges	**90,583**	**87,481**	**80,980**	**73,979**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**10.3%**	**10.5%**	**11.7%**	**12.5%**

(1) AAS "CBL Life" is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

(2) During 2013, Citadele initiated discussions with the Latvian Privatisation Agency about early repayment of part of Citadele's subordinated debt. Therefore, part of Citadele's subordinated debt was not eligible for Tier 2 capital as at 31 December 2013. In April 2015, Citadele repaid EUR 18.4 million of its subordinated liabilities with the Latvian Privatisation Agency, and the Latvian Privatisation Agency transferred EUR 11.2 million of Citadele's remaining subordinated liabilities to the EBRD. As a result, and together with certain amendments to the subordinated loan agreement, Citadele's Tier 2 eligible capital for capital adequacy purposes increased by an additional EUR 9 million. See "*Operating and Financial Review—Key Factors Affecting Citadele Group's Financial Condition and Results of Operations—Prudential regulation*" for more information.

The following table sets out the qualitative assessment summary of Citadele's risk profile according to its 2013 ICAAP, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	High	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	Low	Standardized approach	n/a
Market risk	Position risk	High	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Moderate	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

Citadele Group's capital adequacy calculation by segment

The following table sets out certain regulatory requirements in the jurisdictions where Citadele Group operates as at 30 June 2015 or as otherwise indicated.

Regulatory requirement	Latvia	Lithuania	Estonia	Switzerland
Total capital adequacy ratio(1)	8% (10.9% for Citadele)	8%	8%	8%
Capital conservation buffer(2)	2.5%	2.5%	2.5%	2.5%
Tier 1 ratio(3)	6%	6%	6%	6%
FCMC Liquidity ratio(4)	30% (40% for Citadele)	30% - 60%	–	–
Liquidity coverage ratio(5)	60% in 2015, 70% in 2016, 80% in 2017, 100% from 2018	100%	100%	For Systemically Relevant Banks: 100% For other banks: 60% in 2015, 70% in 2016, 80% in 2017, 90% from 2018, 100% from 2019
Net stable funding ratio(6)	100% from 2018	100% from 2018	100% from 2018	100% from 2018
Large exposure limits(7)	EUR 150 million or 25% of eligible capital	EUR 144.8 million or 25% of eligible capital	EUR 150 million or 25% of eligible capital	25% of eligible capital
Mandatory reserves(8)	1% of Liabilities up to 2 years	1% of Liabilities up to 2 years	1% of Liabilities up to 2 years	2.5% of relevant short-term liabilities, which are calculated as the sum of short-term liabilities in Swiss francs (up to 20%) plus 20% of liabilities towards customers in the form of savings and investments.
FX open position limits(9)	20% of eligible capital for total position, 10% for single currency position	25% of eligible capital for total position, 15% for single currency position	8% of eligible capital	8%

(1) Total capital adequacy ratio represents capital as a percentage of risk weighted credit exposures. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of total capital adequacy ratio.

(2) Capital conservation buffer represents minimum capital requirements that are designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.

(3) Common equity Tier 1 capital ratio represents core equity capital as a percentage of risk weighted assets. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of common equity Tier 1 capital ratio.

(4) FCMC liquidity ratio represents unencumbered liquid assets as a percentage of short term liabilities (duration of less than 30 days). See "Asset, Liability and Risk Management—Liquidity Risk Management" for further information regarding the calculation of FCMC liquidity ratio.

(5) Liquidity Coverage Ratio represents unencumbered high quality liquid assets that can be liquidated easily and quickly in private markets as a percentage of net cash outflows in a 30 calendar day liquidity stress test scenario. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Liquidity Coverage Ratio.

(6) Net Stable Funding Ratio represents long term assets as a percentage of long term, stable funding. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for more information regarding the calculation of Net Stable Funding Ratio.

(7) Large exposure limits represents the sum of all the exposure values of a bank to a single customer or to a group of connected customers and must not be higher than a certain percentage of the bank's available eligible capital base at all times.

(8) Mandatory reserves represents the deposits credit institutions in the euro area are required to hold on account with their national central bank.

(9) FX open position limits represent limits on open foreign exchange positions as a percentage of the bank's eligible capital base.

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.

	As at 30 June		As at 31 December		
Capital Ratios[1]	**2015 (unaudited)**	**2014 (unaudited)**	**2014 (unaudited)**	**2013 (unaudited)**	**2012 (unaudited)**
Basel II/Basel III Transitional Basis[2]					
Total capital adequacy ratio[3]	12.8%	10.1%	11.0%	10.3%	10.5%
Common equity Tier 1 capital ratio[4]	10.7%	8.0%	9.3%	8.4%	7.8%
Net Stable Funding Ratio[5]	123.7%	126.1%	130.0%	–	–
Liquidity Coverage Ratio[6]	280.9%	481.9%	533.0%	–	–
Leverage Ratio[7]	6.3%	4.9%	5.7%	–	–
Risk weighted assets[8]	1,678,194	1,713,203	1,822,041	1,611,100	1,555,928
Risk weighted assets as a percentage of total assets[9]	60.6%	67.0%	63.8%	63.4%	68.3%
Basel III Fully Loaded Basis[10]					
Total capital adequacy ratio[3]	11.3%	8.6%	9.5%	–	–
Common equity Tier 1 capital ratio[4]	9.2%	6.4%	7.8%	–	–
Leverage Ratio[7]	5.7%	4.1%	5.0%	–	–
Risk weighted assets[8]	1,667,522	1,702,532	1,811,326		
Risk weighted assets as a percentage of total assets[9]	60.2%	66.6%	63.5%		

(1) The capital ratios for the year ended 31 December 2014 and the six months ended 30 June 2015 and 2014 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). The capital ratios for the years ended 31 December 2013 and 2012 have been calculated in accordance with FCMC regulations at that time (Basel II framework, Pillar 1) and are not directly comparable to the capital ratios for the year ended 31 December 2014 due to substantial changes in the relevant FCMC regulations as a result of the introduction of Base III requirements. Accordingly, Net Stable Funding Ratio and Liquidity Coverage Ratio have not been calculated for the years ended 31 December 2013 and 2012. 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 "*Asset, Liability and Risk Management—Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU Capital Adequacy Requirements*", "*Banking Regulation*", Note 15 to the Reviewed Interim Consolidated Financial Statements and Note 33 to the 2014, 2013 and 2012 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 2015 and 30 June 2014 are included in the Reviewed Interim Consolidated Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio for the years ended 31 December 2013 and 2012 are included in the 2013 and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed.

(2) The capital ratios set forth under the heading Basel II/Basel III transitional basis are calculated on a Basel II basis for the years ended 31 December 2012 and 2013, and on a Basel III transitional basis for year ended 31 December 2014 and the six months ended 30 June 2015 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's total capital adequacy ratio.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's common equity Tier 1 capital ratio.

(5) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Net Stable Funding Ratio.

(6) 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. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Liquidity Coverage Ratio.

(7) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information regarding the calculation of Citadele Group's Leverage Ratio.

(8) Risk weighted assets is calculated as total risk exposure amount for the relevant period.

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

(10) 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 2015 and 30 June 2014 and for the year ended 31 December 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules. See "*Regulation of Citadele Group's Activities—Banking Regulation and Supervision in the EU—Capital Adequacy Requirements*" for more information.

The following table sets out Citadele's capitalisation on a Basel III transitional basis as at 30 June 2015 and 31 December 2014:

	As at 30 June 2015 (unaudited)	As at 31 December 2014 (unaudited)
		(EUR millions)
Share capital	156.6	146.6
Retained Earnings	44.0	28.8
Unaudited Net Income	(14.7)	0.0
CET1 Deductions		
Intangibles	(1.8)	(1.7)
Available for Sale Securities	0.3	(1.1)
Deferred Tax Assets	(2.7)	0.0
Insurance Subsidiary	0.0	0.0
Restructuring Reserve	(4.5)	(4.5)
FX revaluation reserve	1.9	0.0
Other Deductions	0.3	0.8
Total CET1 Deductions	(6.6)	(6.4)
CET1 Capital	**179.3**	**168.9**
Subordinated Debt	54.0	73.6
Tier 2 deductions	(18.4)	(42.0)
Tier 2 Capital	**35.6**	**31.6**
Total Capital	**214.9**	**200.5**

The following table sets out Citadele's capitalisation on a Basel III fully-loaded basis as at 30 June 2015 and 31 December 2014:

	As at 30 June 2015 (unaudited)	As at 31 December 2014 (unaudited)
	(EUR millions, except percentages)	
Share capital	156.6	146.6
Retained Earnings[1]	44.0	28.8
Unaudited Net Income	(14.7)	0.0
CET1 Deductions		
Intangibles	(1.8)	(1.7)
Available for Sale Securities	2.1	3.1
Deferred Tax Assets	(29.0)	(30.1)
Insurance Subsidiary	(4.3)	(4.3)
Restructuring Reserve	(4.5)	(4.5)
FX revaluation reserve	4.6	1.9
Other Deductions	0.3	0.8
Total CET1 Deductions	(32.5)	(35.2)
CET1 Capital	**153.4**	**140.6**
Subordinated Debt	54.0	73.6
Tier 2 deductions	(18.4)	(42.0)
Tier 2 Capital	**35.6**	**31.6**
Total Capital	**189.0**	**172.2**
Total Capital adequacy ratio	**11.3%**	**9.5%**
Common equity	**9.2%**	**7.8%**

(1) Difference to IFRS financial statements due to exclusion of Citadele Life from the regulatory consolidation perimeter

Subsidiaries

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

Subsidiaries

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

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

Branch

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

Representative Offices

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

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

Management

General

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 Citadele's day-to-day operations.

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.

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, proctor, 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.

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

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

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

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

Elizabeth Critchley, Deputy Chairman of the Supervisory Board. Mrs. Critchley is Managing Director of Ripplewood Advisors Limited. Prior to joining Ripplewood Advisors Limited, Mrs. Critchley was a Founding Partner of Resolution Operations which raised £660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services. Until forming Resolution Operations, Mrs. Critchley was a Managing Director at

Goldman Sachs International where she ran the European FIG Financing business. Mrs. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs. Critchley holds a First Class Honours Degree in Mathematics from University College London. Mrs. Critchley joined the Supervisory Board and assumed the role of Deputy Chairman on 20 April 2015. Her term of office expires on 20 April 2020.

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

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

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

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

Geoffrey Dunn, member of the Supervisory Board. Mr. Dunn has been serving as the EBRD's appointed Supervisory Board member of Citadele Banka since the establishment of the bank in 2010. Previously, Mr. Dunn worked as Chief Financial Officer of the UK's Northern Rock bank during its restructuring, Business Finance Director for Co-operative Financial Services, Finance Director of the Bank of England and Chief Financial Officer of SWIFT. He also held leading

positions in several financial companies in the UK. Mr. Dunn holds a Master in Computing from the University of Manchester and a diploma in Business Administration from Manchester Business School. His term of office expires on 20 April 2020.

Sylvia Gansser-Potts, member of the Supervisory Board. Mrs. Gansser-Potts is a Managing Director of the EBRD. During her 23 years with the EBRD, she managed various financial divisions, including the financial institutions operations in central Europe, north Africa and the Middle East. She started her career at Swiss Bank Corporation (SBC) where she worked in Switzerland and Japan. Mrs. Gansser-Potts holds an MBA from INSEAD in France and is a graduate from the Université Paris IX Dauphine. She also holds an Honours Degree in the Japanese Language from ONALCO (Institut National des Langues et Civilisations Orientales) in Paris. Mrs. Gansser-Potts joined the Supervisory Board on 20 April 2015. Her term of office expires on 20 April 2020.

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

Management Board

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

The 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 Prospectus, the Management Board consists of the following members:

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

Aldis Paegle, Chief Financial Officer. Mr Paegle holds a business administration degree from Vidzeme University of Applied Sciences, which he attained in 2001. He previously worked at Andersen (2001-2002) and Ernst & Young (2002-2006), during which time he was involved in a number of banking sector audits. He now has over nine years' experience in the banking sector, having joined Parex in May 2006. His principal responsibility is the financial management of Citadele Group. Mr. Paegle has held a number of positions at Citadele, including head of the Finance Division, head of the ALCO and member of the supervisory boards of Citadele's subsidiaries, and has been a member of the Management Board since January 2014. His term of office expires on 1 January 2019.

Santa Purgaile, Chief Business Officer. Ms Purgaile holds an MSc in International Economics and Business from the University of Latvia, where she graduated in May 2004. She has 18 years of

banking experience, including as head of the private banking division of SEB in Latvia and the Baltic states, where she worked from 1994 to September 2012. Ms Purgaile's main responsibilities are the development and management of Citadele Group's business in Latvia and the Baltic States, and in relation to various aspects of client services. Ms Purgaile joined Citadele in September 2012, and has been a member of the Management Board since 20 September 2012. Her term of office expires on 14 September 2017.

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

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

The Management Board is advised by Robert Joss who is the former Deputy Assistant Secretary to the U.S. Treasury for economic policy. He was also the Vice Chairman of Wells Fargo from 1986 to 1993, the CEO of Westpac from 1993 to 1999, and was a member of the board of directors of Citigroup from 2009 to 2014.

Principal Committees

Supervisory Board Committees

Audit Committee

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

The Audit Committee is composed of at least three members (currently six), and is chaired a member of the Supervisory Board (at the date of this 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*" above.

As at the date of this Prospectus, the Audit Committee comprises the following members[1]:

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

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

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 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*" above.

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

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

Remuneration and Nomination Committee

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

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

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

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

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 Prospectus, the Technology Committee comprises the following members:

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

Management Board Committees

Credit Committee

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

Assets and Liabilities Management Committee

The 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*" above.

Compliance Committee

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

Group Investment Committee

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

Financial Market and Counterparty Risk Committee

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

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

SME Credit Committee

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

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

Private Individuals Credit Committee

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

Group Leasing Committee

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

The Group Leasing Committee meets twice per week.

Ethics and Disciplinary Committee

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

Procurement Committee

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

The Procurement Committee meets on a weekly basis.

Product Development Committee

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

The Product Development Committee generally meets on a monthly basis.

Remuneration

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

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

In relation to Citadele as a standalone entity, the fixed element of the remuneration paid to the CEO and Management Board members, together with the Head of Internal Audit Division and employees whose remuneration is equal to or exceeds the remuneration of any of the above, is set by the Supervisory Board. For other employees, the decision is taken by designated employees according to authorisations issued by Citadele to the human resources department. 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 to the human resources department.

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 service agreement 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 to the human resources department. 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. If the variable part of remuneration for an employee whose role has an impact on Citadele's risk profile is:

- up to 35% of the fixed part of the employee's remuneration in the reference year, then up to 40% of the variable element is deferred for a period of one year, as determined by the category of staff having an impact on the risk profile in which the employee falls;
- between 35% (inclusive) to 100% (exclusive) of the fixed part of employee's remuneration for the reference year, then not less than 40% of the variable element is deferred for a period of three years; or
- greater than or equal to 100% of the fixed part of employee's remuneration in the reference year, then not less than 60% of the variable element is deferred for a period of three years.

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 2014.

	Fixed remuneration	Variable remuneration	Additional benefits in kind	Total
Management Board	EUR 594,665	EUR 111,848	EUR 15,937	EUR 722,450
Supervisory Board	EUR 190,874	–	–	EUR 190,874

Citadele's Supervisory Board intends to adopt, in principle, prior to the Offer, a long term incentive plan ("**LTIP**") which will be offered to the members of the Management Board along with the head of Private Capital Management. The members of the Management Board and the head of Private Capital Management shall receive awards under the LTIP which are intended to take effect on completion of the Offer 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 Private Capital Management in any year shall not exceed 200% of their fixed remuneration. It is anticipated that the maximum variable pay awarded in 2015 will comprise 25% in the form of cash and 175% in Shares under the LTIP.

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 2015, there was EUR 371 thousand in loans and EUR 114 thousand in other financial commitments and guarantees in place between Citadele and members of the Management Board and Supervisory Board.

Conflicts of Interest

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

Further information in relation to the Management and Supervisory Board members

At the date of this 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

Citadele is subject to, and complies with, the corporate governance rules imposed by the European Banking Authority, 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 "*Asset, Liability and Risk Management*".

Interests in Citadele

The table below sets out, as at the date of this 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 A shares held	Number of Shares held	Number of ordinary C shares held	Ownership (%)	Entity through which shares are held
Timothy Collins	350,824	34,731,478	32,790,269	22.41 plus one share	RA Citadele Holdings, LLC
James L. Balsillie	138,640	13,725,347	12,958,211	8.86	Amolino Holdings Inc.
David Shuman	109,990	10,888,989	10,280,383	7.03	Shuco LLC*
Dhananjaya Dvivedi . . .	13,814	1,367,626	1,291,186	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 Prospectus, none of the Management Board members holds any shares in Citadele or options over shares in Citadele, directly or indirectly. See "*Management—Remuneration*" for details of Management Board shareholdings after the Offer.

For information regarding the number of shares in Citadele that will be held by existing shareholders after the Offer, see *"Shareholders and Related Party Transaction—Shareholders"*.

Shareholders and Related Party Transactions

Shareholders

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

RA Citadele Holdings, LLC co-invested with all of 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 which the Co-investors 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 *"Material Contracts"* below.

The anti-dilution provisions of the Commercial Law of the Republic of Latvia (the "**Latvian Commercial Law**") apply to Citadele. In the event the share capital of Citadele is increased, each Co-investor has a pre-emptive right to purchase new shares in proportion to the nominal value of shares it already owns. These rights must be exercised within one month (the minimum time period) from the day the notice regarding using these rights is submitted with the Latvian official gazette "Latvijas Vēstnesis". Anti-dilution rights are mandatory law, i.e., they cannot be limited or revoked in the memorandum of association, articles of association or by a decision of the GMS. Each investor may decide not to exercise its pre-emption right. In connection with this Offering, each of RA Citadele Holdings, LLC, the Co-investors, and EBRD have agreed to waive their pre-emption rights to enable the Offer to be made to new investors.

As at the date of this Prospectus

Shareholder	Number of ordinary A shares held	Number of ordinary B shares held	Number of ordinary C shares held	Ownership (%)[7]
EBRD	391,388	38,747,560	0	25.00 minus one ordinary A share
RA Citadele Holdings, LLC[1]	350,824	34,731,478	32,790,269	22.41 plus one ordinary A share
Delan S.A.R.L.[2]	155,972	15,441,188	14,578,151	9.96
EMS LB LLC[3]	138,641	13,725,501	12,958,355	8.86
NNS Luxembourg Investments S.a.r.l.[4]	138,641	13,725,501	12,958,356	8.86
Amolino Holdings Inc.[5]	138,640	13,725,347	12,958,211	8.86
Shuco LLC[6]	109,990	10,888,989	10,280,383	7.03
Other co-investors	141,460	14,004,676	13,221,927	9.02

Immediately following the Offer (assuming all Securities offered are sold and no Stabilisation Purchases are made)

Shareholder	Number of ordinary A shares held	Number of ordinary B shares held[8]	Number of ordinary C shares held	Ownership (%)[7] (assuming an Offer Price at the mid-point of the Offer Price Range)
EBRD	391,388	38,747,560	0	21.40 minus one ordinary A share
RA Citadele Holdings, LLC	350,824	34,731,478	32,790,269	19.18 plus one ordinary A share
Delan S.A.R.L.	155,972	15,441,188	14,578,151	8.53
EMS LB LLC	138,641	13,725,501	12,958,355	7.58
NNS Luxembourg Investments S.a.r.l.	138,641	13,725,501	12,958,356	7.58
Amolino Holdings Inc	138,640	13,725,347	12,958,211	7.58
Shuco LLC	109,990	10,888,989	10,280,383	6.01
Other co-investors	141,460	14,004,676	13,221,927	7.73

(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

(8) Assuming that existing shareholders do not subscribe for additional ordinary B Shares (in the form of Shares or GDRs) in the Offer, and this does not reflect any purchases that may be made by such existing shareholders or their respective affiliates, see "*Risk factors – An active and liquid market for either the Shares or the GDRs may not develop and the value of the Securities may fluctuate significantly, particularly given that certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities*"

Related Party Transactions

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.

In connection with the Offer, any affiliate of Citadele acting as an investor for its own account, may take up the Securities offered in the Offer and in that capacity may retain, purchase or sell the Securities for its own account and may offer or sell such Securities 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.

The following tables set out information in relation to Citadele's outstanding balances with related parties under IFRS, as at the date of this Prospectus, 30 June 2015 and 2014, and 31 December 2014, 2013 and 2012.

During the period in which the Latvian Privatisation Agency held shares in Citadele all branches of the Latvian state were deemed to be related parties for the purposes of the figures below. From 20 April 2015 following the sale by the Latvian Privatisation Agency of its shares in Citadele, any transaction involving the Latvian state, including the holding of government or municipal securities, are no longer deemed to be related party transactions.

	As at the date of this Prospectus (unaudited)	As at 30 June 2015	As at December 2014
			(EUR thousands)
Loans and receivables from customers and balances due from credit institutions, net	360	371	337
Financial commitments and guarantees outstanding	172	114	125
Total credit exposures to other related parties, net	**532**	**485**	**462**
Liabilities to other related parties			
Deposits from customers and balances due to credit institutions	864	790	555
Subordinated liabilities (EBRD)	18,684	18,753	7357
Total liabilities to other related parties	**19,548**	**19,543**	**7,912**

				As at
	30 June			31 December
	2014 (unaudited)	2014	2013	2012
				(EUR thousands)
Credit exposure to related parties				
Securities:	321,216	275,462	322,842	335,283
Latvian treasury bills and government bonds	286,726	241,007	288,418	300,791
Municipality bonds	34,490	34,455	34,425	34,492
Loans and receivables:	3,390	3,060	4,082	3,789
Management	390	337	427	435
State institutions and state controlled companies	482	553	70	43
Municipality institutions and municipality controlled companies	2,518	2,170	3,585	3,311
Financial commitments and outstanding guarantees:	4,825	6,202	4,664	4,749
Management	174	125	135	189
State institutions and state controlled companies	4,567	6,063	4,515	4,546
Municipality institutions and municipality controlled companies	84	14	14	14
Total credit exposure to related parties	**329,431**	**284,724**	**331,588**	**343,821**
Due to related parties:	141,562	123,461	159,144	152,876
Subordinated loans from shareholders	73,566	73,596	73,575	74,009
Management	477	555	546	545
State institutions and state controlled companies	37,483	25,895	47,644	41,231
Municipality institutions and municipality controlled companies	30,046	23,415	37,379	37,091
Total amounts due to related parties	**141,562**	**123,461**	**159,144**	**152,876**

Citadele conducts all transactions with related parties on an arm's length basis and on market terms.

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.

Advisory services agreement

On 18 May 2015, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. See "*Material Contracts—Advisory services agreement*" for further information.

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

Material Contracts

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of Citadele Group: (i) within the two years immediately preceding the date of this document and which is, or may be, material; or (ii) which contains any provision under which any member of Citadele Group has any obligation or entitlement which is material to Citadele as at the date hereof.

Material Financing Facilities

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

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

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

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

LPA Subordinated Debt

On 22 May 2009, Parex and the Latvian Privatisation Agency entered into a subordinated loan agreement for a principal amount of EUR 88,218,052.26 (the "**LPA Subordinated Debt**"). This loan was provided to ensure that Parex met its capital adequacy requirements. The loan was issued in two tranches – one tranche in the amount of EUR 71,527,765.92 was issued on the day of entering into the subordinated loan agreement and another tranche of the loan, in the amount of EUR 16,690,286.34, was to be issued on the day after the Latvian Privatisation Agency received from the Treasury of the Republic of Latvia funds in the amount equal to the outstanding part of the subordinated loan, and only if allowed by the EC. The issued amount of the loan constituted subordinated capital for Parex. Bastion took over this agreement on 1 August 2010 as part of the transfer of undertaking from Parex to Bastion.

According to the subordinated loan agreement, the maturity date of the loan is 22 May 2016. On 27 June 2013, Citadele and the Latvian Privatisation Agency agreed to extend the term until 20 December 2017.

The interest rate was amended several times. On January 31, 2011 the interest rate was changed to a rate which is determined in accordance with the particular formula specified in the amendment to the subordinated loan agreement, and as at the date of this Prospectus, is set at 7.13%.

It is intended that proceeds from the Offer will be applied towards repayment of the LPA Subordinated Debt. See "*Use of proceeds*".

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 titled *"Banking Sector—History of Citadele"* below) and the circumstances in which the EBRD was brought in as an external investor, the EBRD enjoys a number of enhanced rights under the Shareholders' Agreement, particularly in relation to receiving information and limitations on the operations of the business. Such measures were designed to provide comfort and protection in relation to the EBRD's capital investment and were a prerequisite to its subscription for shares in Citadele.

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

Membership of the Supervisory Board

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

Decisions of the Supervisory Board

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

Management Board

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

Conflict with Citadele Articles of Association of Latvian Law

- In the event of any conflict, ambiguity or discrepancy between the provisions of the Shareholders' Agreement and the Articles of Association, the provisions of the Shareholders' Agreement shall prevail only in relation to those shareholders that are party to the Shareholders' Agreement, provided that no party shall be required to take any action in breach

of applicable mandatory provisions of Latvian law. The parties to the Shareholders' Agreement shall exercise all voting and other rights and powers available to them so as to give effect to the provisions of the Shareholders' Agreement.

Termination

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

Information Rights

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

Advisory services agreement

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

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

Underwriting Agreements for Institutional Tranche and Retail Tranche

On or about the date of this Prospectus, Citadele and the Managers entered into the Institutional Underwriting Agreement (as defined in "*Subscription and Sale—Underwriting Agreement for the Institutional Tranche*"). On the same day, Citadele also entered into the Retail Underwriting Agreement (as defined in "*Subscription and Sale—Underwriting Agreement for the Retail Tranche*") with AS LHV Pank. See "*Subscription and Sale*".

Deposit Agreements

On or about the date of this Prospectus, Citadele and the Depositary entered into the Deposit Agreements for the establishment and maintenance of (i) the Regulation S facility and the Regulation S GDRs issued pursuant thereto and (ii) the Rule 144A facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which it also executed a deed poll in favour of the holders of the GDRs in the form attached to the Deposit Agreements. See "*Terms and Conditions of the Global Depositary Receipts*".

American Express Independent Operator Agreement

On 5 May 2011, Citadele and American Express Limited ("**AMEX**") entered into an independent operator agreement with an effective date of 4 April 2011, under which AMEX has granted Citadele certain exclusive, non-transferrable rights to act as a card issuer and merchant acquirer in Latvia. In consideration of the grant of such rights, Citadele has agreed to pay annual fees and commissions which are determined by reference to certain pre-defined billing targets. However, this exclusivity arrangement will cease to have effect from 9 December 2015 due to EU Regulation (EU) No. 2015/751. For more information, see "*Risk Factors—Citadele will not longer have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes*". The agreement is otherwise to remain in effect for a period of five years from the date on which the first card is issued under the terms of the agreement, subject to any renewal or early termination.

American Express Independent Operator Agreement

On 1 January 2012, Citadele, through its subsidiary, AB "Citadele" Bankas, and AMEX entered into an independent operator agreement, under which AMEX has granted Citadele certain exclusive, non-transferrable rights to act as a card issuer and merchant acquirer in Lithuania. In consideration of the grant of such rights, Citadele has agreed to pay annual fees and commissions, which are determined by reference to certain pre-defined billing targets. However, this exclusivity arrangement will cease to have effect from 9 December 2015 due to EU Regulation (EU) No. 2015/751. The agreement is otherwise to remain in effect for a period of five years from the date on which the first card is issued under the terms of the agreement, subject to any renewal or early termination.

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 Limited Membership Deed

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. The agreement is to continue in force from the date on which Visa Europe gives notice to Citadele that it has been accepted as a member until expressly terminated or until Citadele's ordinary share in Visa Europe (which is a membership association) is otherwise transferred.

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**") in connection with the provision of certain services related to the operation of payment cards, including: the authorisation of payment card transactions, the issuance of cards, 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 12 June 2014, Moody's Analytics UK Limited ("**Moody's Analytics**") and Citadele entered into a service agreement under which Moody's Analytics agreed to furnish reports, services, data, software and other products relating to its credit research to Citadele, for a term lasting until 11 June 2016. In consideration of the provision of such products and services, Citadele has agreed to pay certain licence fees to Moody's Analytics.

Description of Share Capital and Certain Requirements of Latvian Legislation

Set forth below is a description of Citadele's share capital, the material provisions of the Articles of Association in effect on the date of this Prospectus and certain requirements of Latvian legislation, including a description of certain rights of the holders of the Shares and related provisions of the Articles of Association and of Latvian law. 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.

Share Capital

Citadele's historical share capital position

Prior to 13 October 2015, Citadele had 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 (the "**Historical Shares**"), such that the total equity capital of Citadele equalled EUR 156,555,796. These Historical Shares were held in the following proportions:

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

Key features of the new classes of shares

On or around 14 October 2015, Citadele redesignated its share capital into three separate classes of shares:

- **ordinary A shares**: these are shares with a nominal value of EUR 20 with 200 voting rights per ordinary A share. Except in relation to voting rights, these ordinary A shares have equal rights to the ordinary B shares (including, but not limited to, equal rights to payments of dividends and equal rights to share in Citadele's assets on a liquidation);
- **ordinary B shares**: these are shares with a nominal value of EUR 0.1 with 1 voting right per ordinary B share. Except in relation to voting rights, ordinary B shares have equal rights to the ordinary A shares (including, but not limited to, equal rights to payments of dividends and equal rights to share in Citadele's assets on a liquidation), (the ordinary B shares having been provided with enhanced rights under Citadele's Articles of Association such that their right to dividends and assets on liquidation are not proportional to their nominal value but instead rank equally to those of the ordinary A shares); and
- **ordinary C shares**: these are shares with a nominal value of EUR 1, and which have no voting rights, no rights to payments of dividends and an economic entitlement which is limited to the right to receive EUR 0.01 for each EUR 10 million paid by Citadele on each ordinary A share and ordinary B share on a winding up only.

The table set out below sets out the shareholdings of the shareholders in Citadele following the new classes of shares being created, as at the date of the Prospectus.

Share class	RA Citadele Holdings, LLC and co-investors	EBRD	Total number of shares in class
Ordinary A shares	1,174,168	391,388	1,565,556
Ordinary B shares	116,242,680	38,747,560	154,990,240
Ordinary C shares	109,745,652	Nil	109,745,652

The purpose of the triple-class share structure is to enable the holders of the ordinary A shares (being RA Citadele Holdings, LLC, the consortium of co-investors (other than the EBRD), both as at the date of this Prospectus and immediately following the Offer) to maintain a controlling

interest in Citadele. Investors should be aware that the voting rights attached to the Shares being offered in the Offer are not directly proportionate to the economic interests provided by such Shares, with the result that the Shares have significantly less voting rights than the ordinary A shares. See "*Risk Factors—After the offering, certain shareholders will continue to be able to exercise significant influence over Citadele, its management and its operations*" for more information.

The result of the share redesignation is that the number of ordinary A shares and ordinary B shares, in aggregate, equals 156,555,796 shares, being equal to the number of Historical Shares previously in issue before the new classes of share were created by Citadele.

Rationale for C ordinary shares being created

As the ordinary A shares and ordinary B shares will have equal rights with respect to the payments of dividends and equal rights to share in Citadele's assets on a liquidation, if the number of ordinary A shares and ordinary B shares were to be more than 156,555,796 in total, it would result in the pre-existing shareholders having a disproportionately high economic interest in Citadele following the Offer.

Therefore, to maintain a total number of ordinary A shares and ordinary B shares which is equal to the number of Historical Shares in existence prior to the redesignation (being 156,555,796) while having nominal values of EUR 20 and EUR 0.1 each for the ordinary A shares and ordinary B shares, respectively, Citadele allocated a total of EUR 46,810,144 in existing paid up nominal value to the classes of ordinary A shares and ordinary B shares.

As the total equity capital in Citadele equalled EUR 156,555,796 (representing the paid up nominal value attributable to the Historical Shares), an amount of EUR 109,745,652 in paid up nominal share capital remained unallocated. Citadele therefore created a class of ordinary C shares in order to have allocated to it the remaining paid up nominal share capital, as set out in the table below:

Share class	Total number of shares	Nominal share capital	Total equity allocated
Ordinary A shares	1,565,556	EUR 20.00	EUR 31,311,120
Ordinary B shares	154,990,240	EUR 0.10	EUR 15,499,024
Ordinary C shares	109,745,652	EUR 1.00	EUR 109,745,652
Total			**EUR 156,555,796**

As the ordinary C shares were created with the sole intention of maintaining the economic status quo following the redesignation of share capital in anticipation of the Offer, the ordinary C shares have been given extremely limited rights. The ordinary C shares carry no voting rights, no rights to dividends, and only have a nominal right to capital on a winding up of Citadele, in addition to certain other mandatory rights prescribed by Latvian law (see "*Rights of shareholders under the Latvian Commercial Law*" below). Therefore, these ordinary C shares will have no practical impact upon holders of ordinary B shares or ordinary A shares.

Cancellation of ordinary C shares

The existing shareholders intend for the ordinary C shares to be bought back by Citadele for their market value (which, given their extremely limited rights, Citadele assesses to be no more than EUR 1.00 for the entire class) and then cancelled as soon as possible following the end of the Stabilisation Period. Such cancellation will require the approval of Citadele's shareholders as well as the FCMC. If shareholders of Citadele approve the cancellation of the ordinary C shares, the paid up nominal value attributable to them (being, EUR 109,745,652) would be placed into a non-distributable equity reserve of Citadele, which would continue to be treated as Tier 1 capital. Following such cancellation of the ordinary C shares, the share capital of Citadele would comprise only ordinary A shares and ordinary B shares.

For the avoidance of doubt, the Shares offered in the Offer (in the form of Shares and GDRs) are the ordinary B shares in Citadele. Prior to the Closing Date, Citadele expects to issue up to 100,000,000 Shares in connection with the Offer.

Each of the ordinary A shares, Shares and ordinary C shares in Citadele has equal rights of pre-emption in offers for subscription of shares.

Shareholders acquire rights to Citadele's shares upon payment of the amounts due for the subscription of those shares and the registration of the increase of Citadele's share capital in the Commercial Register.

Pursuant to the Latvian Commercial Law, if there is more than one category of shares in a company, a decision in a shareholders meeting in respect of matters which affect the rights of holders of a particular category of shares (including any resolutions concerning an increase or decrease in share capital) is subject to the consent by the shareholders of that category of shares. The shareholders of a category of shares can provide their consent in accordance with the majority voting requirements as set out in the Latvian Commercial Law and Citadele's Articles of Association.

Changes in Share Capital

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.

Form and Transfer of Shares

At the date of this Prospectus, all registered shares in Citadele (being the ordinary A shares and the ordinary C shares) are in certified (paper) form. The Shares are in bearer shares held in dematerialised form.

The Latvian Commercial Law provides that a shareholder is free to transfer (alienate) their 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.

According to the Latvian Financial Instrument Market Law, only book entry shares are eligible for public trading in Latvia. The LCD manages the book entry system. In order to effect any transactions with book entry shares, an investor must open a book entry account with a member of the LCD. Thus, investors may hold and transfer Shares through an LCD participant, such as banks and investment brokerage companies operating in Latvia. All transactions with book entry shares are executed as electronic book entry transfers. The holders of the Shares are entitled to receive statements from their LCD participant confirming the book entry transfers as well as periodical or on the date statements of their total or separate holdings.

Capital Increase and Reduction; Issue of Shares and Pre-emptive Rights

Citadele may increase its share capital by issuing new shares. Citadele's share capital may be reduced by cancelling shares or reducing the nominal value of the shares (provided that all Citadele's creditors have been notified in writing and all claims of creditors who have applied within the specified time have been secured (by being provided with a commercial pledge or other form of security)). Such changes in the share capital of Citadele can be adopted at a GMS if at least 75% of votes of shareholders with voting rights who are present at such meeting are cast in favour of such change. The Supervisory Board must make a prior review in respect of the proposed capital increase or reduction.

All shareholders of Citadele have statutory pre-emption (priority) rights upon the issue of new shares (other than any issued upon the conversion of convertible bonds, in the case of a reorganisation, as compensation to minority shareholders of the company to be merged upon an exchange of shares by the dominant (or parent) undertaking of a group of companies or as part of an employee share scheme) to subscribe for those shares on a pro-rata basis. Companies listed on the Nasdaq Riga must announce any proposed issuance of securities and offer such securities on a pre-emptive basis for a period not less than one month. The pre-emptive right to acquire shares is granted to shareholders of the company on the record date, i.e. at the close of the sixth business day prior to the GMS. Where a shareholder holds shares through securities accounts maintained by the LCD, subscription for shares offered pre-emptively is conducted through the LCD. Under the Latvian Commercial Law, Citadele is prohibited from subscribing for its own shares, and there are only limited circumstances in which Citadele may acquire its own shares or accept its own shares as security, including a decrease of share capital, the acquisition of employee shares, and the passing of shares which are not paid up in the specified period.

If Citadele makes a loss in excess of half of its share capital or its solvency is in doubt, the GMS may adopt a decision to make additional equity contributions to Citadele by way of a further capital call.

Following the end of the Stabilisation Period, to the extent that the Stabilisation Managers have made any Stabilisation Purchases, Citadele intends to cancel the repurchased Shares. The cancellation of such Shares is contingent upon approval by Citadele's shareholders at a GMS as well as the holders of Shares as a separate class. The cancellation of the Shares may also be subject to the prior approval of the FCMC, at its discretion.

Liability of Shareholders

Citadele is liable for its obligations in relation to its assets.

As a general rule, according to the Latvian Commercial Law, shareholders are not liable for the obligations of a company in excess of the paid-up capital. However, if a decision of a GMS is challenged on unjustifiable grounds and provided such challenge has been brought in bad faith or due to gross negligence, the shareholders who bring such an action may be jointly liable for any losses incurred by Citadele.

Voting Rights

The respective rights of holders of each class of shares in Citadele to vote at a GMS are specified in the Articles of Association. Citadele's ordinary A shares carry 200 voting rights each, the Shares carry one voting right each, and the ordinary C shares carry no voting rights at a GMS. See "*Description of share capital and certain requirements of Latvian legislation—Share capital*" above for more information. A GMS is convened in accordance with the law applicable when convened. Under the Latvian Commercial Law and the Financial Instruments Market Law of the Republic of Latvia (the "**Latvian Financial Instruments Market Law**"), in order to convene a GMS a notice has to be sent to shareholders no later than 30 days prior to the date of the planned GMS. According to the Latvian Financial Instruments Market Law, the Management Board must ensure that the following information is provided (1) information related to the GMS including the place, time and agenda of the GMS, the total number of voting shares and an explanation of shareholders' rights to participate in the GMS. A form of power of attorney should also be provided to the shareholders along with the notice of the GMS; (2) information related to any payment of dividends; (3) any issue of new shares, including share subscription information and where the shareholders carry the right to pre-emption rights, then information related to the exercise of such pre-emption and the process to waive such pre-emption rights; (4) the selected depository or an institution comparable thereto through the intermediation of which persons owning the shares may exercise their rights; and (5) any changes in the rights of classes of shares. Information regarding the convocation of the GMS shall be made public through media or other channels of information dissemination.

In addition to the information required by the Latvian Commercial Law, the notice must also contain: (1) the process by which shareholders should participate and vote at the GMS, including the information regarding (a) the rights of shareholders to include new issues in the GMS agenda, submit drafts of decisions for discussion and to ask questions regarding the issues included in the GMS agenda, as well as the period when the shareholders can exercise such rights; (b) the process by which shareholders can exercise their voting rights through a power of attorney; and (c) the process by which the shareholders can vote by using electronic means or by means of posting (in the event such rights are provided in the articles of association); (2) the date of record and an explanation that only the persons who are shareholders on the date of record are entitled to participate in the GMS; (3) place and form of receiving the drafts of decisions and forms used to vote by power of attorney; and (4) the address of the website where the above information is available.

In the website specified in the notice of the convocation of the GMS, the company must provide shareholders with the following information at least 30 days prior to the GMS: (1) information regarding the notice of convocation of the GMS; (2) information regarding the total number of company's shares and the total number of shares with voting rights on the date of distribution of the notice (if the company's equity capital consists of different classes of shares then information must be provided for each class of the shares); (3) the drafts of decisions which are at the disposal of the company; and (4) forms that can be used by the shareholders to vote through a power of attorney.

The Management Board or the person that according to the Latvian Financial Instruments Market Law is entitled to convene the GMS shall send to the official mandatory information centralised storage system the draft decisions regarding the issues included in the GMS agenda, including any draft decisions submitted by the shareholders at least 14 days prior the GMS. If the GMS agenda consists of any issue related to the amendments in the company's documents of incorporation, then that issue should be made public through media or other channels of information dissemination and should also be sent to the market regulators in which the company's shares are included.

The decisions of the GMS shall generally be adopted by a simple majority of votes of the shareholders present and entitled to vote. However, the following decisions of the GMS, among others, require approval by at least 75% of the votes represented by the shareholders present and entitled to vote: (1) amendment to the Articles of Association; (2) changes in Citadele's share capital; (3) any issuance of convertible bonds; (4) any reorganisation of Citadele; (5) entry into a group of companies agreement and any amendment or termination thereof; (6) the termination, continuation, suspension or resumption of the operations of Citadele; and (7) approval of variable remuneration terms in certain circumstances.

Financial Statements and Auditor

The Management Board must prepare Citadele's financial statements and make the accounts available for inspection by the shareholders. The GMS approves the annual accounts.

The GMS elects the external auditor annually. The auditor is required to be economically and legally independent from Citadele, its directors and shareholders. The audit of the financial statements is performed by the external auditor in accordance with International Standards on Auditing. Immediately upon the completion of the annual audit, the full report is approved by the Management Board and the Supervisory Board before being presented to the GMS. Citadele's consolidated financial statements and auditor's report are published in accordance with the rules set by the FCMC.

As a credit institution, Citadele is obliged to ensure that a comprehensive and efficient internal control system is established, which is appropriate to the nature, volume and complexity of its business. See "*Asset, Liability and Risk Management—Risk Management Structure—Principal risk management bodies—Internal Audit Division*" for further information.

Profit; Distributions; Dividends

The Shares and the ordinary A shares (but not the ordinary C shares) grant the holder the right to receive dividends. Any dividends payable shall be paid out in cash, based on the decision of the GMS: (i) to make a distribution; and (ii) on the amount of profit that should be paid as a dividend. Dividends are calculated and paid out on fully paid-up shares. The payment of dividends is also subject to the need for Citadele to meet its regulatory liquidity and capital adequacy requirements, therefore FCMC approval is required to pay dividends. Dividends are paid out only in respect of fully paid-up shares and in accordance with the dividend rights of each class of ordinary share as specified in Citadele's Articles of Association. See "*Description of share capital and certain requirements of Latvian legislation—Share capital*".

Pursuant to the Latvian Commercial Law, dividends are paid out of Citadele's profit. Share premium may not be used to make dividend payments. Further, Citadele is not allowed to make any other types of distributions, group contributions or provide financial assistance, as the Latvian Commercial Law only allows the shareholders to participate in the distribution of Citadele's profit. Citadele is also prohibited from financing, directly or indirectly, any third parties in their acquisition of its shares, except in the case of redemptions of personnel shares (being shares held by employees) which are normally issued on the basis of undistributed profits and cannot exceed 10% of the company's share capital.

Under the Latvian Commercial Law, dividends cannot be paid if it arises from the annual accounts that the own funds of Citadele are less than the total amount of its share capital or if the net value of the own funds of Citadele at the end of the financial year is below, or as a result of this payment shall fall below, the total amount of the share capital of Citadele.

In the event an unlawful distribution is made by Citadele, the shareholder who knew or should have known that the distribution was unlawful, must repay the amount to Citadele when such circumstance becomes known to him. In case such distribution is caused by the relevant shareholder acting in bad faith or with gross negligence, the shareholder also has the obligation to compensate losses incurred by Citadele as a result of such unlawful payment.

Merger, Division, Amendment of the Articles of Association

The Articles of Association provide that any entry by Citadele into a group of companies agreement with a controlling entity or one or several subsidiaries (as well as the termination of such group of companies agreement), or any reorganisation of Citadele (which includes mergers, divisions or restructuring) requires approval from at least 75% of the votes represented by shareholders present and entitled to vote at a GMS.

An amendment to the Articles of Association may only be adopted if at least 75% of the votes represented by the shareholders present and entitled to vote at a GMS vote in favour of the amendment. The Supervisory Board must review such amendment to the Articles of Association prior to its approval by the shareholders.

Liquidation

A decision taken by the GMS in relation to the voluntary liquidation (winding up) of Citadele requires at least 75% of votes of shareholders with voting rights who are present at such meeting to approve the decision. The Supervisory Board must make a prior review in respect of the proposed matter.

A decision on the mandatory liquidation of Citadele may be made by the competent Latvian court by application of the FCMC for the liquidation and cancellation of the credit institution licence (permit) of Citadele.

In addition, a decision on the mandatory liquidation of Citadele may be made as the last stage of Citadele's insolvency (bankruptcy) proceedings. If a bank infringes or, due to a rapidly deteriorating financial condition, is likely to infringe its regulatory requirements, the FCMC can

use early intervention powers, including the power to appoint a temporary administrator, require changes to the institution's business strategy or require one or more members of the management body or senior management to be removed or replaced. The FCMC can also apply individually or in any combination one of the following tools: the sale of businesses, a bridge institution, asset separation or bail-in.

Generally, a petition for the insolvency proceedings of a Latvian credit institution may be initiated by the credit institution itself, or by a creditor or a group of creditors, if: such creditor or group of creditors makes an uncontested claim for payment against the credit institution, and the credit institution is not able to settle such debt during a certain time period; or if the credit institution has informed the creditor in writing about its insolvency.

An insolvency application by the credit institution itself or by a creditor requires prior notification to the FCMC. In case the FCMC does not support the application, any means of enforcement that prevent the credit institution in question from providing financial services, shall not be available for satisfying the claims of creditors in such proceedings.

During the liquidation proceedings, the liquidator or administrator will determine procedures for the making of payments and settling of debts. Only the funds that remain after the full satisfaction of all other justified claims and the passing of certain mandatory periods in which creditors may make claims will be distributed to the shareholders of Citadele. The entitlements of holders of each class of Citadele's shares to participate in a distribution of funds on a liquidation are specified in Citadele's Articles of Association. See *"Description of share capital and certain requirements of Latvian legislation—Share capital"* for more information.

A voluntary reorganisation of a credit institution is subject to the prior written approval of the FCMC, which shall be granted only if the credit institution has fulfilled all obligations towards depositors, which are recorded in the accounts of the credit institution. The rights of other stakeholders of the credit institution (such as its other creditors and shareholders) may be severely and negatively affected by such voluntary reorganisation.

Corporate Governance

In general, 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 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.

The Supervisory Board represents the interests of shareholders in periods between meetings of shareholders and is tasked with appointing and removing members of the Management Board, supervising the Management Board and approving major transactions. Citadele's Articles of Association provide that the Supervisory Board is to consist of nine members who are each elected for a term of five years. The members of the Supervisory Board elect the chairperson and deputy chairperson from among their number. According to the Latvian Commercial Law, a shareholder or group of shareholders holding voting shares which represent at least 5% in aggregate of the voting share capital present at a GMS may nominate a director. There is a single round of voting for all of the nominated candidates and all shareholders vote simultaneously. Any shareholder holding shares with voting rights is entitled to apportion his/its votes in any manner to the candidates nominated. Those candidates who receive the most votes are elected to the Supervisory Board.

The Management Board is responsible for the day-to-day management of Citadele. According to Citadele's Articles of Association, the Management Board is to consist of five members, and the Supervisory Board elects a chairperson of the Management Board from among its number.

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.

According to the Latvian Financial Instruments Market Law, a joint-stock company with its shares 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. See "*Banking Regulation*" for further information.

Interested/Related Party Transactions

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

The Latvian Commercial Law sets out restrictions applicable to transactions between joint stock companies and the founder of the company, shareholders, members of the management or supervisory boards and other related persons. In most cases, the prior approval of such transactions by a general meeting of shareholders is necessary. There are a number of exceptions provided in the Groups of Companies Law of the Republic of Latvia (the "**Latvian Groups of Companies Law**") regarding transactions between companies in the same group which allow transactions between a parent company and its subsidiary to be exempted from the "arms 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.

Major Transactions

According to Citadele's Articles of Association, its Management Board must obtain prior approval of the Supervisory Board for any capital commitment made by Citadele in excess of EUR 0.25 million, except where such capital commitment is already provided for in Citadele's business plan.

Objects and purposes

Citadele's Articles of Association, at Clause 2, contain 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.

Rights of shareholders under the Latvian Commercial Law

The Latvian Commercial Law provides certain rights to shareholders of Latvian companies holding certain percentages of the company's share capital (being the total nominal value of the issued shares, excluding any premium paid, and irrespective of the voting rights carried by such shares). Under the Latvian Commercial Law and Citadele's Articles of Association:

(a) any shareholder holding at least 5% of the total share capital in Citadele or at least EUR 71,100 of share capital may initiate a damages claim in the Latvian courts against the founders of Citadele, the Management Board members, the Supervisory Board members and/or Citadele's auditors;

(b) any shareholder holding at least 5% of the total share capital in Citadele has the right to:

- request and, in certain circumstances, procure that Citadele performs an internal audit;
- request that the Management Board convenes an extraordinary meeting of shareholders and, if the Management Board and the Supervisory Board fails to do so within the statutory period, request that the Register of Enterprises of the Republic of Latvia (the "**Register of Enterprises**") convenes such a meeting; and
- request the inclusion of additional items on the agenda for a GMS or extraordinary meeting of shareholders;

10 any shareholder holding at least 10% of the total share capital in Citadele has the right to:

- object to the appointment of an auditor and, in specific circumstances and at their own expense, invite another auditor to carry out an audit of Citadele on the same terms as the auditor elected by the GMS;
- postpone the approval of the annual financial statements by the GMS;
- request, in certain circumstances, that the individual responsible for internal audits reviews Citadele's annual financial statements; and
- request that the Supervisory Board check the activities of the Management Board and, if the Supervisory Board fails to do so or fails to respond within a month, request the GMS to instruct the Supervisory Board to do so;

(d) any shareholder, irrespective of the number or class or shares which they hold, has the right to:

- inspect the shareholders' register and obtain extracts from it;
- request the Register of Enterprises to convene a GMS if it has not been convened within the period prescribed by the Latvian Commercial Law;
- obtain draft resolutions free of charge at least 14 days prior to a GMS;
- obtain from the Management Board all requested information in relation to items tabled on the agenda for a GMS at least three days in advance of such meeting (although the Management Board may refuse such a request in certain circumstances);
- participate in a GMS whether by attending personally or by proxy;
- request, during a GMS, that the Management Board provide information to shareholders about Citadele's state of affairs to the extent necessary for reviewing and making objective decisions in relation to items on the agenda for the GMS (although the Management Board may refuse such a request in certain circumstances);
- inspect the minutes of a GMS and any attached documentation and receive copies or extracts free of charge;
- challenge the validity of a resolution passed at a GMS in the Latvian courts and request its annulment in special circumstances only;
- request, during a GMS, that the Supervisory Board provide explanations about its report on the draft annual accounts prepared by the Management Board as well as any recommendation on distribution of Citadele's profits; and
- challenge the validity of a decision of the Management Board to increase Citadele's share capital in the Latvian courts and request the annulment of such decision.

In addition to the rights listed above which are inherent to the share capital of Citadele and which operate irrespective of the voting rights of such shares, holders of Citadele's share capital which also carry voting rights have the following rights:

- where a shareholder holds share capital carrying at least 5% of the voting rights, the right to nominate a candidate for election to the Supervisory Board; and
- where a shareholder holds at least 10% of Citadele's share capital (at least some of which carries voting rights), the right to require closed voting at a GMS.

Regulation of Shareholders of Commercial Banks

The Credit Institutions Law of the Republic of Latvia (the "**Latvian Credit Institutions Law**") together with EU banking legislation, including Regulation (EU) No 1024/2013 which confers certain powers upon the ECB in relation to the prudential supervision of credit institutions—otherwise known as the Single Supervisory Mechanism ("**SSM**")—and Regulation (EU) No 468/2014 which sets out the framework for cooperation under the SSM between the ECB and national competent and designated authorities, impose certain restrictions on who can acquire qualifying holdings in a credit institution, including a commercial bank. A qualifying holding in this instance means a direct or indirect holding in an undertaking which represents 10% or more of the capital or voting rights in the undertaking (which, in the case of Citadele, means 10% of the capital or voting rights of the ordinary A shares, the Shares and the ordinary C shares taken as a whole) or which makes it possible to exercise significant influence over the management of that undertaking. This regime also imposes restrictions at additional interest-holding thresholds, being 20%, 33% and 50% of the capital or voting rights in the undertaking, or where the undertaking would be classed as a subsidiary of the qualifying holder.

Any person who acquires an interest in excess of any of the thresholds outlined above would require the approval of the ECB. If any person disposes of an interest and passes down through any of the thresholds outlined above, they would need to provide a notification to the FCMC.

Only a person meeting the following requirements and conditions may acquire qualifying holdings in a commercial bank:

- the person is identifiable, has an impeccable reputation, is financially stable, and is able to prove the legality of its financial resources by documentary evidence and who is:
    - a natural person of legal age and with the capacity to act; or
    - a legal (registered) person; or
    - a state or local government;
- the person is financially stable and capable, if necessary, of making additional investments for renewal of the capital of the credit institution, ensuring the conformity of the capital of the credit institution to the requirements of law and the requirements governing the operation of credit institutions;
- the person:
    - (i) has not been a member of the management board or supervisory board of a credit institution or financial institution which has been declared insolvent while such person was a member of such management board or supervisory board;
    - (ii) has not been a member of the management board or supervisory board of any other company that has been declared insolvent (where such insolvency would constitute a criminal offence) or bankruptcy due to such person's negligence or intentional action;
    - (iii) (a) has not been convicted of an intentionally committed crime, including wilful bankruptcy (regardless of the extinguishment or setting aside of criminal record) or (b) is not a person against whom criminal proceedings for an intentionally committed crime have been instigated, even if the proceedings have been terminated; and

- the person obtains prior approval of the ECB in relation to the acquisition of a qualifying holding. In making such decision, the ECB considers:
    - whether the reputation of the person is impeccable and whether all the criteria above are met;
    - whether the knowledge and professional experience of the supervisory board, management board and senior management which will manage the activities of the credit institution following the planned acquisition of the qualifying holding conforms with the requirements of law, and whether such supervisory board, management board and senior management possess impeccable reputations;
    - how financially stable the person is, in particular in relation to the type of activity performed by or planned by the credit institution;
    - whether, following the acquisition of the qualifying holding, the credit institution will be able to comply with its regulatory requirements as set out in the Latvian Credit Institutions Law and other laws and regulations, and whether the structure of the group that the credit institution will become a part of: (i) does not restrict the ability of the FCMC to perform its supervisory functions; (ii) ensures sufficient exchange of information between the supervisory authorities of credit institutions; and (iii) enables a clear allocation of the supervisory powers between the supervisory authorities of credit institutions; and
    - whether there is a reasonable possibility that, in relation to the planned acquisition, money laundering and terrorist financing has been carried out or attempts to do so have been made, or that the planned acquisition of a qualifying holding could lead to such a risk. See "*Banking Regulation*" for further information.

Similarly, prior approval of the ECB is required for increasing a qualifying holding over 20%, 33% and 50% of the share capital or voting rights in the undertaking, or where the undertaking becomes a subsidiary of the acquirer. Falling below any of the 10%, 20%, 33% or 50% thresholds also requires a written notification to the FCMC.

Additional restrictions are placed on the commercial activities of certain individuals, such as public officials and their relatives, under Latvian legislation.

The obligations applicable to shareholders in joint stock companies such as Citadele under the Latvian Financial Instrument Market Law include the obligation:

- to provide the FCMC with such information and documents as it may require in connection with its investigation of a possible breach of law;
- to provide the FCMC with information regarding the underlying beneficiaries of shares in the company;
- to provide the FCMC with: (i) information regarding any acquisition of a qualifying holding or the passing of any relevant thresholds (as outlined above) and; (ii) information relating to the beneficiaries of such interests;
- to notify the FCMC in writing in the event of a reduction or disposal of a qualifying holding;
- to offer his/its shares for compulsory share redemption if he/it has voted for the withdrawal of shares from a regulated market;
- to notify the FCMC and the company of any acquisition (whether direct or indirect) or sale of shares carrying voting rights that are listed on a regulated market where such acquisition or sale results in the shareholder's interests exceeding or falling below 5%, 10%, 15%, 20%, 30%, 50% or 75%;
- to make a mandatory offer for the entire issued share capital of the company: (i) when he/it acquires (directly or indirectly) shares representing over 50% of the voting power in the company; or (ii) in a general meeting of shareholders if he/it has voted for the withdrawal of shares from the regulated market; and

- to make a final share squeeze-out offer if he/it acquires shares representing at least 95% of the voting power in the company.

According to the Latvian Commercial Law, any shareholder holding at least 25% of Citadele's total shares on somebody's behalf must inform Citadele in writing and disclose the beneficiary's name. Any corporate entity incorporated outside the EU which holds at least 25% of Citadele's total shares must inform Citadele about its beneficiaries.

According to the Latvian Groups of Companies Law, a shareholder who acquires more than 10% of Citadele's total shares is required to notify Citadele in respect of the number of shares acquired and the voting rights relating thereto. Acquisition of each 5% above this 10% threshold and each decrease in shareholding by 5% until this 10% threshold is also required to be notified. Notifications shall be provided within 2 weeks of the completion of the transaction. Information concerning acquisitions or disposals of shares in respect of 10%, 25%, 50%, 75% or 90% thresholds shall be further notified by Citadele to the Register of Enterprises within 2 weeks from receipt of declaration from the shareholder. A shareholder who has failed to provide notifications is prohibited from exercising his/its rights (e.g. voting rights and rights to dividends) until such time as the notice is served in accordance with the requirements of the law.

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.

Latvia

As a member of the EU and NATO since 2004, Latvia has made significant strides in increasing integration with the EU over the past decade. This has translated into the EU becoming one of Latvia's key trading partners, and Europe now lies at the heart of the Latvian economy. Following a smooth accession to the Eurozone in January 2014, Latvia has further embedded itself on the European stage and improved its investor-friendly environment. Integration efforts have ultimately resulted in Latvia holding the presidency of the Council of the European Union in the first half of 2015, cementing Latvia's growing status not only among the Baltic States but in the wider context of Europe and beyond. Latvia is currently on the path to membership of the Organisation for Economic Co-operation and Development, having commenced the accession process in October 2013.

Latvia is an export-oriented economy, with exports of goods and services in 2014 representing 58% of GDP, up from 53% in 2010, and representing a significantly higher percentage than for the EU as a whole (where exports accounted for 43% of GDP in 2014). The EU represents the largest market for Latvia's export of goods, accounting for 73% of the total in 2014 (of which Lithuania comprised 18%, Estonia comprised 12%, Germany comprised 7%, Poland and Sweden each comprised 6%, and the UK comprised 5%). Latvia is now more closely tied to the health of the Eurozone, having adopted the Euro in 2014. In addition, Russia is a key trading partner for Latvia, representing 11% of its exports.

Latvia's export opportunities are expected to improve in the coming years, with domestic demand bolstered by improving growth dynamics in the Eurozone and the EU, the weakness of the Euro on the foreign exchange markets, low interest rates and low oil prices. These export opportunities are expected to drive the growth of Latvian businesses and increase their requirements for banking services.

Latvia imports 80% of its goods and services from the EU, including 26% from the other Baltic States (of which Lithuania comprised 18% and Estonia 8%). Additionally, Poland and Germany each make up 11% of Latvia's total imports, Russia makes up 8% and Finland makes up 6%.

Latvia's credit rating has improved in recent months, 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 as a percentage of GDP forecasted by the EC to decrease to 37.3% at the end of 2015, down from 46.8% in 2010. This is also considerably below the forecast of 88.0% for the average across the EU by the end of 2015. Latvia's wealth convergence with

-larger economies is demonstrated by its rising GDP per capita figure (USD 16,038 as at 31 December 2014), 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 11,908.

Following robust GDP growth of 4.8% in 2012, and 4.2% in 2013, the growth rate moderated to 2.4% in 2014 which, according to the IMF, indicates that the current growth cycle still holds great potential for further growth in coming years. The 2014 slowdown was caused, in part, by geopolitical uncertainty in the region, Russian economic problems and a food embargo, and was also attributed by the Economist Intelligence Unit to the closure during 2014 of AS Liepajas Metalurgs, a major steelmaker, which previously accounted for up to 1% of Latvia's GDP. Since its re-opening in February 2015, there has been a significant rise in industrial output. Latvia's 2014 GDP growth was still well above the Eurozone average of 0.9%, according to Eurostat figures, and the IMF has forecasted a 4.1% growth in GDP per capita for Latvia between 2015 and 2020, well ahead of the forecasted growth for the EU as a whole of 2.0%.

Latvia has a skilled and highly-educated workforce. There are over 60 higher learning institutions in Latvia and the government has stated that it plans to increase public funding to universities in the future. Despite this, labour costs remain relatively low, at an average of EUR 6.60 per hour, compared to an average of EUR 24.60 across the EU. Unemployment numbers continued to fall in line with the EU average of 10.2% in 2014, having reached 10.8% in 2014, down from 11.9% in 2013 and 15.0% in 2012. The breakdown of Latvian GDP by sector in 2014 shows that the service sector, including trade, was the predominant contributor, having contributed 74% of total value added. Industry, construction and agriculture, at 16%, 7% and 3%, respectively, made up the remainder. In terms of end of use, household consumption accounted for 61% of the total end use of Latvian GDP. Latvia also has the seventh fastest internet speed in the world. Inflation has remained relatively low in recent years, with the consumer price index rising by 0.7% in 2014, following 0.0% and 2.3% in 2013 and 2012 respectively. Whilst lower oil prices may depress inflation figures, the Economist Intelligence Unit expects that this will be offset by a continued weakening of the Euro and continued wage growth, leading to an expected inflation rate of 0.7% in 2015. According to the IMF, in the medium to long term, inflation is expected to reach an average of 2.0% in 2016-20.

	For the year ended December 31				
Key Macroeconomic Indicators	**2014**	**2013**	**2012**	**2011**	**2010**
GDP (USD bn)	31.9	30.9	28.5	28.3	23.9
Population (m)	2.0	2.0	2.0	2.1	2.1
GDP per capita (USD)	16,038	15,357	14,032	13,749	11,379
GDP, PPP (international USD bn)	46.4	45.4	43.1	40.0	36.7
GDP per capita, PPP (international USD)	23,337	22,534	21,176	19,405	17,489
GDP growth (%)*	2.4	4.2	4.8	5.0	(2.9)
Unemployment (%)*	10.8	11.9	15.0	16.2	19.5
Inflation (%)*	0.7	(0.0)	2.3	4.2	(1.2)
Exports (% of GDP)*	58.0	59.4	60.9	57.8	53.0
General Government gross debt (% of GDP)*	40.0	38.2	40.9	42.7	46.8

Source: World Bank, unless stated otherwise

* Source: Eurostat

According to the latest information from the United Nations Human Development Index ("**HDI**") (as at 2013), which provides the geometric mean of normalised indices for each of the three dimensions of human development (i.e. a long and healthy life, being knowledgeable and having a decent standard of living), Latvia has a rating of 0.810, ahead of the world average of 0.702 and the average for Europe and Central Asia of 0.738 (which includes the countries of Europe together with Kazakhstan, Kyrgystan, Tajikistan, Turkmenistan and Uzbekistan).

Lithuania

Lithuania is also an export-driven economy, with exports of goods and services comprising 82% of GDP in 2014. Russia is among the major trading partners for Lithuania, representing 21% of its

total exports. 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 2014 was 2.9%, following rates of 3.3% in 2013 and 3.8% in 2012. Whilst the pace of growth has declined since 2012, Lithuania's expected GDP per capita compound annual growth rate between 2015 and 2020 is expected to reach 4.0% according to the IMF, putting it among the fastest growing economies in Europe and exceeding the EU average rate of 2.0%. According to the World Bank, in 2014, Lithuania's GDP per capita of USD 16,445 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 have seen improvement in recent months, in part as a result of the Lithuanian government's programme of fiscal consolidation and also as a result of its joining the Eurozone. Moody's upgraded Lithuania from Baa1 to A3 in May 2015, following an affirmation from Fitch of Lithuania's A- rating in March 2015 and S&P's upgrade from BBB to A- in April 2014. Lithuania's HDI rating was 0.834 in 2013 (the latest available data).

Estonia

Similar to its Baltic neighbours, Estonia also relies heavily on exports, with exports of goods and services representing 84% of GDP in 2014. As opposed to Latvia and Lithuania, Estonia's exports are focused on the Nordics, with Sweden and Finland comprising 18% and 15% of its total export market, respectively. Estonia's economy regained some momentum after a slowdown in 2013 and early 2014, with GDP growth accelerating to 2.1% in 2014, up from 1.6% in 2013. The 2012 GDP growth rate was 4.7%. Estonia's expected GDP per capita compound annual growth rate for 2015-2020, at 3.7%, is also notably ahead of the 2.0% expected EU average. According to the World Bank, Estonia has one of the highest GDP per capita rates among the central and eastern European nations, standing at USD 19,720 in 2014, and is currently expected to grow by 3.7% per annum between 2015 and 2020. Estonia's HDI rating in 2013 (the latest available data) reached 0.840.

As a result of Estonia's lowest debt-to-GDP ratio in the EU (10.6%), 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 31 December 2014, there were 17 banks and 9 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 63.5% of total assets, 76.3% of total loans, and 64.7% of total deposits. Notwithstanding this recent consolidation process, the market is still less concentrated compared with pre-crisis levels, i.e. before 2008, when the five largest banks held between 65% and 70% of the total assets.

Commercial Banks in Latvia

According to the FCMC, the total assets in the Latvian banking sector (including both domestic commercial banks and branches of foreign banks) rose to EUR 30.8 billion by the end of 2014 following a dip in the aftermath of the global financial crisis in 2008-2009. Of these assets, 12.8% (EUR 3.9 billion) were held by branches of foreign banks. Of the total assets in the Latvian banking sector, the proportion of loans fell to 47.6% (EUR 14.7 billion) by 31 December 2014, compared with approximately 70% in 2008, as part of the ongoing deleveraging process. The shrinkage in the loan portfolio between 2010 and 2014 was approximately EUR 5.7 billion

(representing a rate of 7.9% per annum). In terms of the loan portfolio mix, as at 31 December 2014, the corporate loan portfolio amounted to EUR 7.9 billion and the households loan portfolio amounted to EUR 5.8 billion (of which 81.2% were resident housing loans). Between 2010 and 2014, the size of these portfolios declined by 8.0% and 8.8% 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 72% by the end of 2014 from between 40-45% in the midst of the recession in 2008-2009. Customer deposits amounted to EUR 22.2 billion at 31 December 2014, which represents an increase of 8.8% per annum over the period of 2010 to 2014. Of this total, household deposits constituted 26.1% (EUR 5.8 billion), which represents an increase of 4.4% per annum between 2010 and 2014, and corporate deposits constituted 57% (EUR 12.6 billion), which represents an increase of 11.2% per annum between 2010 and 2014. Deposits growth was mainly fuelled by international deposits, which grew from 41.6% as at 31 December 2010 to 51.7% (EUR 11.5 billion) as at 31 December 2014. This represents an increase of 14.9% per annum between 2010 and 2014. The growth of international deposits is linked to the substantial depreciation of the Euro against the US dollar and other major currencies (in which most international deposits are made). Liabilities to monetary and financial institutions constituted 11.4% of total liabilities as at 31 December 2014, the majority of which (89.6%) represented parent funding of foreign banks. Parent bank funding has declined from 26.5% of total liabilities as at 31 December 2010 to 10.2% as at 31 December 2014. The trend towards deposit funding has meant a significant fall in the loan-to-deposit ratio from a peak of 169% in 2008 to 66.1% in 2014.

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%
1H 2015	14.7	22.4	66%

The deterioration in loan quality during the recession was accompanied by a sharp rise in the volume of non-performing loans. The percentage of loans which were more than 90 days overdue reached a peak of 19% of total portfolios in 2010 and decreased thereafter, reaching a level of 7.8% in 2012, 6.9% by the end of 2014, and 5.6% as at 30 June 2015. 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 780 million (approximately 5.3% of total portfolios), down from a peak of EUR 2.8 billion in 2010. The cost of risk has also declined from 3.4% as at 31 December 2010 to 0.79% as at 31 December 2014. The following table sets out the asset quality figures for the Latvian banking sector since 2007:

Year	Non performing loan ratio (%)	Cost of risk (%)
2007	0.7	0.2
2008	3.6	2.0
2009	16.4	7.3
2010	19.0	3.4
2011	17.2	2.8
2012	11.1	1.2
2013	8.3	1.2
2014	6.9	0.8
1H 2015	6.8	0.3

Lending activities in Latvia have been restrained by the amortisation of loan portfolios and write-offs of bad loans. New lending is beginning to increase following the recovery of the Latvian economy and improvements in the solvency of domestic companies and households. Almost EUR 2.5 billion in new loans was issued in 2014, with approximately half the volume 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 2014:

Bank	Compound annual loan growth rate (%) (2012-14)
Citadele	3%
DNB	-8%
Nordea	-5%
SEB	-4%
Swedbank	-8%

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 11.1% as at 31 December 2014, driven by the improved efficiency of Latvian banks. Cost-to-income ratios have declined from 72% as at 31 December 2010 to 49.7% as at 31 December 2014, and net interest margins have improved from 1.07% as at 31 December 2010 to 1.73% as at 31 December 2014.

The table below sets out the average gross yields (as a percentage of assets) and cost of funds (as a percentage of assets) of the Latvian banking sector since 2007:

Year	Gross yield (% of total assets)	Cost of funds (% of total assets)
2007	6.0	3.3
2008	6.2	3.8
2009	4.5	2.9
2010	3.1	2.0
2011	3.0	1.6
2012	2.6	1.1
2013	2.3	0.6
2014	2.1	0.5
1H 2015[(1)]	2.1	0.4

(1) The figures for the period to 30 June 2015 have been annualised for comparison purposes

The Latvian banking sector is generally well capitalised (with a Tier 1 ratio as at 24 September 2015 of 18.4%, which is higher than the 16.4% average of Nordic banks including Swedbank, Danske Bank, Handelsbanken, Jyske, Syndbank, SEB and DNB, as well as the average of the STOXX 600 and STOXX 600 EURO which were 12.4% and 11.5% respectively), and Latvia's membership of the Eurozone means that it now has access to ECB liquidity, thereby decreasing banking sector risks.

For information in relation to the regulation of Latvian banks, see the section "*Regulation of Citadele Group's Activities-Latvia-Banking Regulation*" below.

Regulation of Citadele Group's Activities

Banking Regulation and Supervision in the EU

Citadele falls under the ambit of European banking regulation and must comply with European legislation. Regulations of the EU apply directly in Member States while directives are required to be implemented into national law by Member States. The following key items of current and proposed EU legislation have particular relevance for Citadele Group.

Capital Adequacy Requirements

Capital adequacy refers to the sufficiency of Citadele Group's capital resources to cover the credit risks and market risks arising from its portfolio of assets and off-balance sheet exposures as well as other operational risks.

In December 2010, the Basel Committee on Banking Supervision of the BIS (the "**BCBS**") proposed revised capital adequacy and liquidity standards that were significantly more stringent than the then-existing requirements. The set of comprehensive changes to the capital adequacy framework published by the Basel Committee, known as Basel III, has now been implemented into EU law by CRR/CRD IV. The CRR/CRD IV legislative package includes an EU regulation (the CRR) which is directly enforceable law in every Member State, and an EU directive (the CRD IV), which has been implemented into national law (in the case of Citadele Group, primarily Latvian law). CRR/CRD IV contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on 1 January 2014, with capital requirements and buffers increasing from year to year, until fully phased-in in 2019. This legislative package comprises, together with further legislative texts setting out rules, among other things, for the protection of depositors and management of bank failures, the Single Rulebook of the EU. The Single Rulebook regulates the financial sector in the Member States of the EU and is also the foundation of the European Banking Union.

The CRR/CRD IV package provides for, among other things, minimum capital requirements and additional capital buffers which will increase from year to year until 2019. Pursuant to the CRR, such capital requirements are expressed as a percentage of total risk weighted assets. These minimum capital requirements have to consist of a certain quantity and quality of capital referred to as Tier 1, sub-divided into CET 1 (Common Equity Tier 1) and AT 1 (Additional Tier 1), and Tier 2 instruments, depending on their ability to absorb losses.

Common equity Tier 1 capital is calculated as common equity (i.e., the sum of common shares issued by a bank and its consolidated subsidiaries, including non-controlling interests that meet the criteria for classification as common shares for regulatory purposes) less applicable regulatory adjustments, and the common equity Tier 1 capital ratio is calculated as common equity Tier 1 capital divided by risk-weighted assets.

Tier 1 capital is calculated as the sum of common equity, share premium resulting from the issue of such common shares and other qualifying instruments (such as certain preferred shares), retained earnings, accumulated other comprehensive income and other disclosed reserves, and applicable regulatory adjustments.

For the purposes of determining Tier 1 capital, credit institutions may include interim or year-end profits in their Tier 1 capital prior to the credit institution taking a formal decision confirming the final profit or loss for the credit institution for the year, provided that they receive permission of the competent authority (in Latvia, the FCMC). The competent authority shall grant permission when: (i) the applicable profits have been verified by the independent auditors of the credit institution; and (ii) the credit institution has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

Tier 2 capital is calculated as the sum of instruments issued by a bank and its consolidated subsidiaries that meet the criteria for inclusion in Tier 2 capital and that are not already included in Tier 1 capital (such as certain non-callable hybrid instruments and subordinated debt), share premium resulting from the issue of such qualifying instruments, certain loss provisions and applicable regulatory adjustments.

Total capital adequacy ratio is a measure of a bank's capital, expressed as a percentage of the bank's risk weighted credit exposures. It is calculated as the sum of Tier 1 capital and Tier 2 capital, divided by risk-weighted assets, i.e., assets (including market and operational assets) and off-balance sheet items weighted according to risk.

The above capital ratios are presented in this Prospectus both as "transitional" and "fully loaded". The grandfathering rules under the CRR/CRD IV 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. The fully loaded measure 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.

The CRR also introduced a leverage ratio requirement, which is a non-risk based measure designed to act as a supplement to risk based capital requirements and as a back stop measure. Under Basel III, the leverage ratio is calculated as the ratio of Tier 1 capital to the leverage exposure, being the sum of all balance sheet assets (including derivatives collateral and collateral for securities financing transactions) and off-balance sheet items, without deducting liability items (such as gains/losses on fair valued liabilities). The exposures must be measured in a manner consistent with Tier 1 capital as regards deductions from (and inclusions in) capital. The BCBS suggested in its Basel III framework a minimum of at least 3%; however this may be subject to changes and the minimum leverage ratio requirement may be increased over time.

Basel III also contains proposals regarding a net stable funding ratio ("**NSFR**"), i.e., the ratio of long-term assets to long-term, stable funding. The NSFR requires a minimum amount of stable sources of funding at a bank relative to the liquidity profiles of the assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon. The calculation of NSFR relies in part on the judgment of management. The NSFR aims to limit over-reliance on short term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. On the basis of an analysis currently conducted by the European Banking Authority ("**EBA**") on appropriate methodologies, the EC may submit a legislative proposal to introduce the NSFR to the European Parliament and the Council of the EU by 31 December 2016.

The BCBS is constantly revising its guidance on capital requirements for financial institutions. The further development of Basel III may lead to higher liquidity and own fund requirements as well as a more stringent large exposure regime and additional pillar 2 risk management requirements. For more information on Citadele's standalone capital requirements, see *"Asset, Liability and Risk Management—Capital Adequacy Management"*.

Liquidity requirements

Under Basel III, more stringent liquidity standards apply since the beginning of 2015. Subject to certain transition periods, banks will be required to observe a liquidity coverage ratio ("**LCR**"), i.e., the ratio of the value of the bank's unencumbered high-quality liquid assets that can be liquidated easily and quickly in private markets as a percentage of the bank's liquidity needs to offset the net cash outflows in a 30 calendar day liquidity stress test scenario. The calculation of LCR relies in part on the judgment of management. Implementation of the LCR will be phased in from 2015 through 2018.

With respect to liquidity requirements, there are continuing developments. On 10 October 2014 the European Council adopted a Delegated Act which lays down a full set of rules on liquid

assets, cash outflows and cash inflows needed to calculate the precise liquidity coverage requirements under the CRR. Member States must transpose this legislation from 1 October 2015. The Internal Liquidity Adequacy Assessment Process ("**ILAAP**") will be introduced under this regime. The Internal Liquidity Adequacy Assessment ("**ILAA**") rules require banks to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite established by the bank's management body. A bank must carry out an ILAAP in accordance with the relevant Member State's ILAA rules, and the ILAAP should be proportionate to the nature, scale and complexity of the bank's activities.

Banks are required to document their assessment of overall liquidity adequacy and their compliance with the ILAA rules. The document is referred to as the ILAAP document.

As part of the ILAAP, the bank should undertake a regular assessment of whether its liquidity resources are sufficient to cover the major sources of risk to the bank's ability to meet its liabilities as they fall due. Central to this process is an appropriate and clearly articulated risk appetite defining the duration and type of stress that the firm aims to survive.

European Market Infrastructure Regulation ("EMIR")

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain over-the-counter derivatives contracts to be submitted to central clearing and imposes, among other things, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The clearing and margin requirements currently being phased in from and certain reporting obligations are already in force.

Markets in Financial Instruments Regulation and Directive ("MiFID II")

On 15 May 2014 the European Parliament and the European Council adopted a directive and associated regulation on markets in financial instruments, the Markets in Financial Instruments Regulation and Directive, together known as ("**MiFID II**"). MiFID II will repeal and recast the Markets in Financial Instruments Directive No. 2004/39/EC ("**MiFID**").

MiFID II introduces a variety of changes to the banking sector's market infrastructure and conduct rules, with the majority of provisions under MiFID II required to enter into force from 3 January 2017. MiFID II bans banks that provide advice on an independent basis from accepting or receiving fees, commissions or any other monetary benefits paid or provided by any third party, and also introduces new investor protection measures which include product governance requirements and enhanced suitability requirements.

MiFID II is being introduced to make financial markets more efficient and resilient, to take account of recent technological developments, to increase transparency of both equity and non-equity markets, to reinforce supervisory powers and introduce a stricter framework for commodity derivatives markets and to strengthen investor protection.

MiFID II will come into effect on 3 January 2017. Member States must adopt and publish by 3 July 2016 the measures transposing the MiFID II Directive into national law, and must apply those provisions from 3 January 2017.

Bank Recovery and Resolution Directive ("BRRD")

On 15 May 2014 the European Parliament and European Council adopted legislation for the establishment of an EU wide framework for the recovery and resolution of credit institutions and investment firms, the BRRD. The BRRD was published in the Official Journal of the EU on 12 June 2014 and was implemented in Latvia on 16 July 2014 through the Latvian Credit Institutions and Investment Firm Recovery and Resolution Law. For more information, see "*Risk factors—Citadele Group may be impacted by Latvian and/or European banking reform initiatives*".

SRM Regulation

The Council of the EU adopted on 15 July 2014 a regulation establishing the SRM, which provides for the establishment of the SRB as the authority in charge of the implementation of the SRM and the establishment of a SRF financed by banks at the national level. The SRM will be applicable from 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 will replace national resolution funds as of 1 January 2016 implemented pursuant to the BRRD.

Deposit Guarantee Schemes Directive

The existing Deposit Guarantee Schemes Directive required each Member State to introduce at least one deposit guarantee scheme, with implementation by 1 July 1995. The EC published a legislative proposal to revise the Deposit Guarantee Schemes Directive in July 2010. The Deposit Guarantee Schemes Directive has been reviewed and a new directive to recast and replace the existing rules was adopted by the European Parliament and European Council on 16 April 2014 and published in the Official Journal on 12 June 2014. The LDGL, implementing most provisions of the Deposit Guarantee Schemes Directive, entered into force on 1 July 2015.

For more information, see "*Risk factors—Citadele Group may be impacted by Latvian and/or European banking reform initiatives*".

Mortgage Credit Directive ("MCD")

In April 2008, the European Parliament and the Council of the EU adopted a second directive on consumer credit (Directive No 2008/48/EC) which provided that, subject to certain exemptions, loans of between EUR 200 and EUR 75,000 inclusive must be regulated. This directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by 11 June 2010. Loan agreements secured by charges over real property are exempted from the consumer credit directives.

The MCD on credit agreements relating to residential property for consumers came into effect on 20 March 2014. The MCD was modelled in part on the second directive on consumer credit and requires, among other things, standard pre-contractual information to be provided to the borrower, adherence to business conduct rules, calculation of the annual percentage rate of charge in accordance with a prescribed formula, a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. Member States are required to transpose the MCD into national law by 21 March 2016.

In addition, the EC has indicated that it will be carrying out further work around mortgage foreclosure, default and underwriting requirements and the MCD itself provides for a review after five years following its implementation.

Payment Services Directive

Member States were required to transpose Directive No 2007/64/EC on payment services in the internal market (the "**Payment Services Directive**") before 1 November 2009.

In July 2013 the EC proposed a revised payment services directive ("**PSD II**") to take account of new types of payment services, due to technological development, and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed

or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. It also published a proposal for a regulation on multilateral interchange fees. Taken together, the proposals are designed to: (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated; (ii) limit the scope of available exemptions under the Payment Services Directive; (iii) increase consumer rights and payment security; and (iv) reduce interchange fees for card payments and prohibit surcharging. Adoption of the final texts of PSD II and the regulation on multilateral interchange fees is anticipated to occur in 2015.

SEPA Regulation

Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (the "**SEPA Regulation**") lays down rules for credit transfer and direct debit transactions denominated in EUR within the EU. The implementation of the SEPA Regulation is staggered. The date by which credit transfers and direct debits were to be carried out in accordance with the SEPA Regulation was 1 February 2014. However an amendment to the SEPA Regulation introduced a transitional period of six months to 1 August 2014 to reflect the fact that it was unlikely that all market participants would be in compliance with the SEPA Regulation by 1 February 2014. Credit transfers and direct debit transactions denominated in EUR in countries outside the Eurozone must be carried out in accordance with the SEPA Regulation from 31 October 2016.

Payment Accounts Directive

On 28 August 2014, Directive No 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") was published in the Official Journal of the EU. The Payment Accounts Directive is intended to enable consumers to make informed choices when opening a payment account by improving the transparency and comparability of information on account fees, whilst eliminating discrimination based on residency, and to enable consumers to switch accounts more easily. Member States will have to transpose the Payment Accounts Directive into their own national law by 18 September 2016. However, there are a number of exceptions to this, including certain provisions of the Directive that apply to Member States from 17 September 2014.

Money Laundering Regulations

Directive No 2005/60/EC was reviewed by the EC between 2010 and 2012 and the review found no fundamental shortcomings in the regime. In response to the EC's review, however, broad support was expressed for the proposed alignment to the revised "Financial Action Task Force" standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border transactions. In February 2013, the EC adopted proposals for a directive on the prevention of the use of financial systems for the purpose of money laundering and terrorism financing (the "**Fourth Money Laundering Directive**") and a regulation on information accompanying transfer of funds to secure due traceability of these transfers (the "**Funds Transfer Regulation**"). Changes in the proposed Fourth Money Laundering Directive include, amongst other things, extending the scope of the previous directive, requiring evidence based measures to be implemented and tighter rules on customer due diligence. These proposals are currently being negotiated by the European Parliament and Council. The effective Latvian law in respect of anti-money laundering matters is the Law on the Prevention of Money Laundering and Terrorism Financing. The Directive No 2005/60/EC has been fully transposed in the Law on the Prevention of Money Laundering and Terrorism Financing. The purpose of this Law is to prevent money laundering and terrorism financing by creating internal control system and determination of procedure to identify a customer, report on unusual and suspicious

transactions etc. On 5 June 2015 the Fourth Money Laundering Directive was published in the Official Journal and Member States must transpose the Fourth Money Laundering Directive into national law by 26 June 2017. Hence the measures of the Fourth Money Laundering Directive will be implemented into Latvian legal acts in the nearest future.

UCITS Directive

On 23 July 2014 the EU adopted Directive No 2014/91/EU on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities ("**UCITS**") as regards depositary functions, remuneration policies and sanctions (the "**UCITS Directive**").

The UCITS Directive introduces new rules on UCITS depositaries, such as the entities eligible to assume this role, their tasks, delegation arrangements and the depositaries' liability as well as general remuneration principles that apply to fund managers.

In particular, the UCITS Directive establishes how depositaries hold assets, and what they must do with them, how and when depositaries can delegate activities to third parties, a requirement that lost assets held by the depositary must be replaced by the depositary as soon as possible with assets of the same type or value (unless this is due to an external event beyond its control) and EU-wide principles and rules on pay policies to be followed by management companies, to ensure they do not lead to excessive risk taking.

Insurance Distribution Directive

The Insurance Distribution Directive ("**IDD**") is expected to come into force by the end of 2015, replacing the Insurance Mediation Directive (2002/92/EC) ("**IMD**"). The final text of the IDD was published on 17 July 2015. Its provisions must be implemented within each EU Member State within the two years following its commencement.

The IDD will set out requirements for the regulation of insurance intermediaries by EU Member States. As with the IMD, the IDD will be a minimum harmonising directive, meaning that Member States will be able to impose more onerous requirements.

The IDD will apply to insurance and reinsurance "distribution", potentially covering insurers and reinsurers as well as intermediaries, a widening of scope compared with the IMD. The general purpose of the IDD is to impose an obligation on Member States to ensure that insurance and reinsurance undertakings act in accordance with the best interests of their customer. The IDD will regulate areas including the registration of intermediaries, the professional development of intermediaries and insurers, and product oversight and governance.

Insurance Mediation Directive

The IMD was adopted on 9 December 2002 and came into force on 15 January 2003. The IMD is also a minimum harmonising directive, leaving Member States free to impose more onerous regulations. The IMD aims to achieve a market throughout the EU for insurance intermediaries and seeks to ensure professionalism and competence among insurance intermediaries and the protection of customers' interests.

The IMD requires that undertakings providing insurance or reinsurance mediation are registered in their home EU Member State, specifies minimum professional requirements including professional indemnity insurance and appropriate ability, and seeks to ensure customers can obtain clear explanations on any advice given.

The IMD was first reviewed in 2008, and in 2012 the European Commission adopted a proposal for the revision of the IMD, seeking to upgrade consumer protection in the insurance sector by creating common standards to ensure proper advice for customers. This proposal is expected to be adopted by the end of 2015 in the form of the Insurance Distribution Directive (see above).

The Foreign Account Tax Compliance Act ("FATCA")

FATCA was enacted as part of the Hiring Incentives to Restore Employment Act on 18 March 2010. FATCA creates a new information reporting and a new 30% withholding tax regime for payments made by US persons and others to certain foreign financial institutions ("**FFIs**") and certain other non-financial foreign entities ("**NFFEs**") that do not meet specific information reporting requirements.

Under FATCA, US and foreign payors must generally withhold a 30% tax on specified US-source payments made to FFIs and NFFEs unless the foreign entity complies (or is deemed to comply) with the information reporting rules of FATCA or falls within a category of exempt or excepted foreign entities.

The purpose of FATCA is not to collect the 30% withholding tax. Instead, it is to induce foreign entities (over which the US does not generally have jurisdiction) to report information to the IRS about their US account holders and owners. The withholding tax is intended to compel FFIs and certain NFFEs to disclose information to the IRS about US persons who may be hiding untaxed income offshore.

FATCA withholding is phased in between 2014 and 2019. FATCA withholding on US-source "fixed or determinable, annual or periodic" income, such as interest and dividends took effect in 2014. However, FATCA withholding on gross proceeds does not begin to take effect until 2019. FATCA affects US persons and other payors that make payments to foreign entities as well as the foreign payees, specifically including foreign banks, securities dealers, investment funds (including private equity and hedge funds), private investment vehicles and other non-publicly traded foreign entities.

For more information, see "*Risk factors—Changes to the risk management policies in the last fiscal year*" and "*Taxation—Foreign Account Tax Compliance Act*".

Latvia

Banking Regulation

Citadele is a full-service credit institution, licensed in Latvia and offering a portfolio of banking, financial and capital management services for both private individuals and companies in its home market Latvia and through its international presence.

FCMC

In Latvia credit institutions are supervised by the FCMC, whose responsibilities, tasks and rights are mainly set out in the Latvian Law on the Financial and Capital Market Commission, the Latvian Credit Institutions Law and the Latvian Financial Instruments Market Law. Banking laws and regulations are revised and amended regularly to follow the developments of the banking sector and supervisory practices and to incorporate requirements of the EU.

As from November 2014, through the SSM, the ECB has taken on new tasks, specifically in relation to policies relating to the prudential supervision of credit institutions. In Latvia, three banks are supervised by the ECB in close cooperation with the FCMC—Swedbank, SEB banka and ABLV Bank. Other credit institutions, including Citadele, will continue to be directly supervised by the FCMC. The ECB may at any time decide to initiate any credit institution's direct supervision to ensure high supervisory standards are applied consistently.

The Law on the Financial and Capital Market Commission of the Republic of Latvia (the "**Latvian Law on Financial and Capital Market Commission**") provides that the FCMC is an autonomous public institution, which carries out the supervision of the financial and capital market and the activities of its participants. The objective of the operation of the FCMC is to increase the level of protection provided to investors, depositors and insured persons and the development and

stability of the financial and capital markets in Latvia. The FCMC is authorised to implement regulations on various banking control issues and it has actively used this authorisation, creating a detailed body of regulations.

The FCMC is administered by a board which consists of five members: the chairperson of the FCMC, the deputy and three board members who are also the departmental directors of the FCMC. The chairperson and the deputy are appointed by the Parliament of Latvia for a period of six years upon a joint proposal of the President of the Bank of Latvia and the Minister of Finance. The other board members, following discussion of their candidacies with the President of the Bank of Latvia and the Minister for Finance, are appointed and removed from the office by the chairperson.

Rights of the FCMC

The FCMC is the primary authority responsible for the regulation of credit institutions in Latvia. Therefore, in performing functions prescribed by law, the FCMC has wide powers, including the authority to issue regulatory provisions, request and receive information, determine restrictions and impose penalties.

Sanctions imposed by the FCMC

The Latvian Credit Institutions Law and the Financial Instruments Market Law provide a wide range of actions and measures that the FCMC may take if it establishes infringements of legal requirements in the operations of the credit institution depending upon the severity of infringement. Sanctions which may be imposed by the FCMC include issuing a warning, imposing a temporary prohibition against members of the management board or supervisory board of the credit institution who are responsible for the breach from acting as directors or members of a management or supervising council, imposing fines and revoking a credit institution's licence.

If the FCMC detects that a credit institution substantially violates the applicable laws and regulations, the FCMC is entitled to impose restrictions on the rights and activities of the credit institution, completely or partially suspend the credit institution's provision of financial services, impose restrictions on the liabilities the bank can accept, including deposit liabilities, and increase ratios and prudential requirements applicable to the bank.

Banking Supervision:

Licensing

In order to commence credit institution operations, Citadele has obtained a credit institution licence from the FCMC allowing provision of various financial services according to the Latvian Credit Institutions Law. According to the law, the licence is granted for an indefinite period.

The new SSM regulation has established a number of procedures, known as the common procedures, applying to authorisations to take up the business of a credit institution and withdrawals of such authorisations. The decision to grant or withdraw the authorisation of a credit institution is now made by the ECB in close cooperation with national authorities (the FCMC in Latvia). To obtain a credit institution operating licence (permit), a bank must submit the information and documentation to the FCMC in accordance with the provisions of the relevant regulations.

Apart from a bank licence, the following licences may be required for various activities of a financial institution in Latvia:

- a licence for the provision of life insurance services (licence obtained by the subsidiary of Citadele—JSC CBL Life);
- a licence for the provision of investment management services (licence obtained by the subsidiary of Citadele—IPAS CBL Asset Management);

- a private pension fund licence (licence obtained by the subsidiary of Citadele—JSC "CBL Atklātais pensiju fonds");
- a licence for leasing services to consumers (licence obtained by the subsidiary of Citadele—SIA "Citadele līzings un faktorings"; and
- a licence for alternative investment fund management activities (licence obtained by the subsidiary of Citadele—IPAS "CBL Asset Management").

Capital adequacy requirements and prudential ratios

			As at 30 June		As at 31 December		
Capital Ratios[1]	Fully loaded ratio (unaudited)	Regulatory minimum requirements under the CRR	2015 (unaudited)	2014 (unaudited)	2014 (unaudited)	2013 (unaudited)	2012 (unaudited)
Total capital adequacy ratio	11.3%	8%	12.8%	10.1%	11.0%	10.3%	10.5%
Tier 1 capital ratio ...	9.2%	6%	10.7%	8.0%	9.3%	–	–
Common equity Tier 1 Capital ratio	9.2%	4.5%	10.7%	8.0%	9.3%	–	–
Leverage Ratio	5.7%	3%	6.3%	4.9%	5.7%	–	–

(1) 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 2015 and 30 June 2014 are included in the Reviewed Consolidated Interim Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the year ended 31 December 2014 are included in the 2014 Audited Consolidated Financial Statements. Total capital adequacy ratio on a Basel II basis for the years ended 31 December 2013 and 2012 are included in the 2013 and 2012 Audited Consolidated Financial Statements, respectively. The other capital ratios set forth in this table have not been audited or reviewed.

Latvian laws are aligned with the EU laws regarding capital adequacy and prudential requirements for credit institutions, including the CRR/CRD IV regime implementing the Basel III framework in the EU. The principal own funds requirements and requirements limiting large exposures are set out in the CRR.

Under the general principles of the Basel III framework, a credit institution is required to assess the capital necessary for covering the inherent and potential risks which arise as a result of its activities and ensure that the capital necessary for covering these risks is available, as well as determining the elements and structure of such capital.

The Latvian Credit Institutions Law, implementing the CRD IV into national law, provides that a credit institution is required to ensure that its Common Equity Tier 1 capital is sufficient to cover:

- a capital conservation buffer in the amount of 2.5% of the total exposure value which is calculated in accordance with section 3 of Article 92 of the CRR. A credit institution is required to conform to the requirement to ensure the capital conservation buffer individually and at the level of a consolidated group or sub-consolidated level in accordance with Part one, Title II of the CRR; and
- an institution-specific countercyclical capital buffer, determined as a multiplication of the total exposure value calculated in accordance with point (3) of Article 92 of the CRR by the institution-specific countercyclical capital buffer rate.

The Latvian Credit Institutions Law and regulations of the FCMC also define liquidity requirements, capital buffer requirements and calculation of the capital conservation buffer, the countercyclical capital buffer, a globally systemically important institution's capital buffer, other systemically important institutions' capital buffers, a systemic risk buffer and a total capital buffer, which a credit institution also has to comply with. See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for further information.

Provisioning of funds

A credit institution is required to assess the quality of its assets in accordance with European Union Regulations (including CRR/CRD IV), the Latvian Credit Institutions Law and the regulatory provisions of the FCMC. It is required to assess the capital necessary for covering the inherent and potential risks which arise as a result of its activities and ensure that the capital necessary for covering the inherent and potential risks for activities is sufficient, as well as determine the

elements and structure of such capital. A credit institution is required to hold its assets in such a way so as to ensure that the legally justified claims of its creditors may be satisfied at any time.

The more detailed assessment requirements for assets and loans are approved by the FCMC and stipulate principles and rules, which have to be observed by a credit institution.

Relevant corporate governance code requirements

The main legislation for corporate governance in Latvia is contained in the Latvian Commercial Law, which determines the general corporate governance requirements applicable to Latvian private and public companies. In addition, the FCMC and the EBA have published corporate governance requirements for credit institutions which are applicable to Citadele Group.

The Latvian Financial Instruments Market Law defines corporate governance as a set of measures aimed at achieving the operating goals of a company and controlling its performance, as well as assessing and managing the operational risks of a company. A joint-stock company whose shares are traded on the regulated market has an obligation to prepare a corporate governance report annually.

The Nasdaq Riga has issued Principles of Corporate Governance and Recommendations on their implementation taking into account the requirements for companies laid down in the statutory instruments of Latvia as well as the recommendations of the EU and the OECD on the governance of capital companies. These rules follow the principle of "comply or explain", which provide that the company must comply with the rules or provide an explanation in its corporate governance report detailing how and why it departed from the rules' requirements. See "*Description of share capital and certain requirements of Latvian legislation—Corporate governance*" for further information.

AML legislation

The Latvian money laundering legislation implements and follows all EU money laundering regulations. The key statutory instruments on AML legislation adopted and effective in Latvia are:

- the Law on the Prevention of Money Laundering and Terrorism Financing of the Republic of Latvia (the "**Latvian Law on the Prevention of Money Laundering and Terrorism Financing**"), which regulates and stipulates the implementation of, and compliance with, various special measures and procedures, aimed at minimising money laundering and the financing of terrorism, as well as determining to whom the law applies, and identifying their respective obligations, rights and liabilities;
- Regulation No 1071 of 22.12.2008 of the Republic of Latvia Cabinet of Ministers (the "**Regulation on the list of unusual transaction indicators and procedures for reporting unusual and suspicious transactions**") was adopted pursuant to the Latvian Law on the Prevention of Money Laundering and Terrorism Financing, and sets forth the list of indicators of unusual transactions, as well as procedures for reporting unusual and suspicious transactions to the competent state authorities; and
- Regulation No. 125 of 27.08.2008 of the Republic of Latvia Financial and Capital Market Commission (the "**Regulations for Enhanced Customer Due Diligence**") was adopted pursuant to the Latvian Law on the Prevention of Money Laundering and Terrorism Financing, and specifies the instances in which financial institutions are obliged to perform enhanced customer due diligence, the procedure for and the minimum extent of enhanced customer due diligence, the categories of money laundering and terrorism financing risks and their respective risk indicators, special measures for enhanced customer due diligence, and the procedure for enhanced monitoring of customer transactions.

Banking sector initiatives undertaken by FCMC

A significant recent development in the supervision of the banking sector was the approval of a new banking supervision model at the European level, which provides broader powers to the ECB. As of November 2014, through the SSM, the ECB has implemented policies relating to the prudential supervision of credit institutions. In Latvia, three banks are supervised by the ECB—Swedbank, SEB banka and ABLV Bank.

There are several new pieces of legislation that have been recently adopted by the Parliament of Latvia:

- Amendments to the Latvian Credit Institutions Law—implementing requirements of the Directive No 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 No 82/891/EEC, and Directives No 2001/24/EC, No 2002/47/EC, No 2004/25/EC, No 2005/56/EC, No 2007/36/EC, No 2011/35/EU, No 2012/30/EU and No 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council to the extent they relate to matters of individual credit institutions;

- The Latvian Law on the Recovery and Resolution of Credit Institutions and Investment Firms and related amendments to the Latvian Law on the Financial and Capital Market Commission and the Latvian Financial Instrument Market Law—developed on the basis of the 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 No 82/891/EEC, and Directives No 2001/24/EC, No 2002/47/EC, No 2004/25/EC, No 2005/56/EC, No 2007/36/EC, No 2011/35/EU, No 2012/30/EU and No 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council; and

- The LDGL—implementing Directive No 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

Latvian banking laws and regulations are revised and amended on a regular basis to follow the developments of the banking sector, supervisory practices and to incorporate requirements of EU law.

Consumer protection legislation

The Consumer Rights Protection Law of the Republic of Latvia (the "**Latvian Consumer Protection Law**"), applies to all contracts between Citadele Group and consumers in Latvia, meaning natural persons who use Citadele Group's products or services in Latvia for reasons other than entrepreneurial or professional activity, and contains mandatory provisions in order to protect the interests of consumers, such as provisions on the interpretation of unclear or relief on unreasonable and unfair general terms and conditions, the form of consumer credit agreements, and the right to withdraw from the consumer credit agreement. The Latvian Consumer Rights Protection Centre supervises the legality and manner of use of certain contractual conditions in order to protect consumers. Citadele Group believes that its terms and conditions are in compliance with applicable Latvian consumer protection legislation.

Regulation of Other Operations

Leasing and factoring

Citadele Group's subsidiary, SIA "Citadele līzings un faktorings", offers leasing services, including financial and operating leasing and leaseback. In particular, it specialises in providing leasing products in relation to motor vehicles, commercial vehicles and other industrial plant and

machinery. It also offers factoring services. SIA "Citadele līzings un faktorings" operates under a licence (No. NK-2105-005) for financial leasing, operational leasing and reverse leasing provided by the Latvian Consumer Rights Protection Centre.

Asset management and pensions

IPAS "CBL Asset Management" is also licensed as a manager of alternative investment funds by the FCMC pursuant to Law on Alternative Investment Funds and Their Managers of the Republic of Latvia. Under this license IPAS "CBL Asset Management" manages closed-ended alternative investment fund "Baltic Pearl Real Estate Fund" registered by Financial and Capital Market Commission on 18 March, 2015 and closed-ended alternative investment fund "Baltic Commercial Real Estate Fund" registered by Financial and Capital Market Commission on 27 May, 2015. IPAS "CBL Asset Management" is a joint stock company operating under the Law on Investment Management Companies of the Republic of Latvia (the "**Latvian Investment Management Companies Law**"). This legislative regime regulates the manner in which IPAS "CBL Asset Management" may attract customers and perform investment activity. The FCMC is charged with the supervision and licensing of investment management companies in Latvia. There is a requirement that the minimal capital of investment management companies shall be at least EUR 125,000.

Under the Latvian Investment Management Companies Law, investors who are treated as consumers, as outlined above, are entitled to submit complaints about violations of the Latvian Investment Management Companies Law, in addition to their general rights under the Latvian Consumer Protection Law.

IPAS "CBL Asset Management" also manages Pillar II pensions in accordance with the Law on State Funded Pensions of the Republic of Latvia, as well as Pillar III pensions in accordance with the Law on Private Pension Funds of the Republic of Latvia. Pillar II pension activity is supervised by the FCMC in conjunction with the State Social Insurance Agency.

AS "CBL atklātais pensiju fonds" is a private open pension fund. It is a joint stock company and administers pensions in accordance with the Law on Private Pension Funds of the Republic of Latvia, as well as the Latvian Investment Management Companies Law. The FCMC is also in charge of supervising and licensing private pension funds in Latvia.

Life assurance

AAS "CBL Life" is a life assurance and accident insurance services provider. Insurance companies in Latvia are joint stock companies, European undertakings (Societas Europaea) or mutual co-operative insurance associations operating under and in accordance with the Law on Insurance Companies and Supervision of the Republic of Latvia, which will be fully replaced by the Insurance and Reinsurance Law of the Republic of Latvia on 1 January 2016. The FCMC is in charge of supervising and licensing life assurance companies in Latvia.

Lithuania

Banking Regulation

Citadele has a direct and wholly owned subsidiary in Lithuania: AB "Citadele" bankas. AB "Citadele" bankas is a credit institution, licensed in Lithuania and offering a portfolio of banking, financial and private capital management services for both private individuals and companies.

Bank of Lithuania and ECB

Supervision of banks and other financial institutions in Lithuania is performed by the Bank of Lithuania, the central bank of the Republic of Lithuania. As of 1 January 2015, under the SSM, part of the supervisory responsibilities and decision-making powers have been transferred to the

ECB, including the supervision of the three largest Lithuanian credit institutions. Other credit institutions, including AB "Citadele" bankas, will continue to be directly supervised by the Bank of Lithuania.

The Bank of Lithuania monitors credit institutions carrying on financial market activities and evaluates their compliance with specified requirements and prudential guidelines, and applies sanctions for infringement of applicable regulations. While performing the supervision of the credit institutions, the Bank of Lithuania seeks to ensure, and monitors, compliance of such institutions with the standards of safe and sound banking, as set by the laws and legal enactments of the Bank of Lithuania, as well as recommendations of the International Accounting Standards and decisions of the Basel Committee.

The Bank of Lithuania is managed by a board that consists of five board members: the chairperson of the Bank of Lithuania, two deputies and two additional board members. The chairperson is appointed by the Parliament of Lithuania for a period of five years upon a proposal of the President of the Republic of Lithuania. The other four members of the board are appointed by the President of the Republic of Lithuania for a period of six years upon a proposal of the Chairperson of the Bank of Lithuania.

Since 1 January 2012, a new unit of the Bank of Lithuania, the Supervision Service, has been supervising commercial banks and other credit and payment institutions, securities and insurance markets, and investigating disputes between consumers and financial institutions. The Supervision Service is authorised by the board of the Bank of Lithuania to independently resolve certain issues that may arise in connection with the supervision of a financial institution, for example, approve changes to the constitutional documents of the institution where such changes do not relate to an amendment to the authorised share capital of the institution or approval of a member of its management bodies. Even after the delegation of part of the functions to the Supervision Service, the Board of the Bank of Lithuania retained the right to solve any issue to be solved by structural units of the Bank of Lithuania.

Banking Supervision:

Licensing

Under the SSM, the decision to grant or withdraw the authorisation of a credit institution is made by the ECB; however, the application must be processed through and the draft decision is prepared by the national authorities, which in the case of Lithuania is the Bank of Lithuania.

It is deemed that, unless explicitly excluded, the banking licence encompasses other licensed financial services (such as payment services); therefore no separate licences are necessary for the operation of a credit institution.

In order to obtain a banking licence or change ownership of the qualified part of the shares in the credit institution, the interested party must submit all information and documents stipulated in the legal enactments and provide explanations if required by the supervisory authority.

Rights of the Bank of Lithuania and the ECB

In performing supervisory functions, the Bank of Lithuania and, depending upon the rights and powers being delegated to it under EU Regulation No 1024/2013, the ECB has wide powers, including the authority to request and receive information, apply restrictions on activities or impose penalties on the credit institutions or its managing bodies (administration) as laid down in laws and regulations.

Sanctions imposed by the Bank of Lithuania and the ECB

The laws provide an extensive list of actions and measures the supervisory authority or the ECB may take in the event that it establishes deficiencies or infringements of legal requirements in the activities of a credit institution. The chosen measure depends upon the severity of the

deficiency or infringement. The Bank of Lithuania may require that deficiencies are eliminated within the established term, increase ratios and prudential requirements applicable to the bank, or impose the fines laid down in the laws. It may also demand that the bank refrain from certain transactions or temporarily prohibit the bank from providing certain financial services. In case of more severe infringements, the Bank of Lithuania may also impose a moratorium or suggest that the ECB withdraw the credit institution's licence.

Capital adequacy requirements and prudential ratios

Lithuanian laws are aligned with the EU laws regarding capital adequacy and prudential requirements for credit institutions. According to the amendments to the Lithuanian Law on Banks, effective 1 May 2015, direct reference is made to the CRR with respect to prudential requirements. As of the same date the Law on Banks of the Republic of Lithuania (the "**Lithuanian Law on Banks**") now imposes an obligation of a credit institution to form a capital buffer, a countercyclical capital buffer, a systemic risk buffer and other buffers. Required capital reserve and prudential requirements are calculated in accordance with the CRR and the regulations and guidelines issued by the supervisory authority, the Bank of Lithuania.

In addition to being part of the consolidated capital adequacy assessment of Citadele Group, AB "Citadele" bankas' capital adequacy is assessed on an individual basis as set out in the CRR. The table below sets out the independent own funds requirements for AB "Citadele" bankas:

		As at 30 June		As at 31 December		
Capital Ratios	**Regulatory minimum requirements under the CRR**	**2015 (unaudited)**	**2014 (unaudited)**	**2014 (unaudited)**	**2013 (unaudited)**	**2012 (unaudited)**
Total capital adequacy ratio . .	8%	17.5%	26.0%	16.1%	18.6%	22.5%
Tier 1 capital ratio	6%	17.5%	26.0%	16.1%		
Common equity Tier 1 Capital ratio	4.5%	17.5%	26.0%	16.1%	–	–
Leverage Ratio	3%	10.7%	12.5%	11.3%	–	–

See "*Asset, Liability and Risk Management—Capital Adequacy Management*" for further information on the capital adequacy requirements and prudential ratio requirements set by the CRR/CRD IV regime.

The Bank of Lithuania and ECB may impose individual prudential requirements on Lithuanian institutions.

Provisioning of funds

The Lithuanian Law on Banks stipulates that a bank must make provisions to reduce its operational risk on the basis of legal enactments of the supervisory institution and take into account the risk of every transaction it concludes for the provision of financial services, the financial and economic condition of a client, the performance of the obligations related to the transactions for the provision of financial services, the available means of ensuring the performance of these obligations and other circumstances influencing the value of the relevant bank's assets.

The minimum loan assessment requirements approved by the Bank of Lithuania stipulate principles and rules, which are required to be included in the loan assessment rules of each bank operating in Lithuania.

Relevant corporate governance code requirements

In addition to the basic corporate governance regulations and requirements applicable to companies in general and financial institutions in particular in accordance with the Lithuanian

Civil Code of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania and the Lithuanian Law on Banks, the Regulations for the Organisation of Internal Control and Risk Assessment (Management) approved under Regulation No 149 of the Bank of Lithuania establish further guidance and the core principles to be observed by a bank to ensure that internal control and risk assessment (management) of the bank is properly organised, efficient and guarantees safe and stable functioning of the bank.

AML legislation

The key regulatory enactments on AML adopted and effective in Lithuania are:

- The Republic of Lithuania Law on Prevention of Money Laundering and Terrorist Financing Activities (the "**Law on AML**"), which regulates and stipulates implementation of and compliance with various special measures and procedures, aimed at minimising money laundering and financing of terrorism, and determines to whom the law applies, and their obligations, rights and liabilities. The Law on AML also implements the provisions of the EU directives No 2005/60/EC, No 2006/70/EC, No 2007/64/EC, No 2009/110/EC and EU Regulations (EC) No 1889/2005 and No 1781/2006; and
- Regulation No. 03-17 of 12.02.2015 of the Bank of Lithuania on Money laundering and/or terrorist financing prevention guidelines for the financial market participants.

Banking sector initiatives undertaken by the Bank of Lithuania

As of 1 January 2015 Lithuania joined the Eurozone and became part of a new banking supervision model in the European Banking Union. Following the change, the national legislation of the banking sector is currently being adjusted to new rules and requirements of the EU. The first large-scale amendments to the Lithuanian Law on Banks came into force on 1 May 2015 with the second large-scale amendments coming into force on 1 October 2015.

The Bank of Lithuania is monitoring the regulatory environment and is constantly suggesting draft laws and amendments in order to improve the legal platform. Some of the pending initiatives are the proposed amendments to the rules on provision of information to the Bank of Lithuania regarding internal management and amendments to regulations on remuneration policies and practices.

Regulation of Other Operations

Leasing and factoring

UAB "Citadele faktoringas ir lizingas" is a subsidiary of AB "Citadele" bankas and provides car and equipment leasing. It is registered within the public register of consumer credit providers and is supervised by the Bank of Lithuania.

Estonia

Banking Regulation

Citadele has a branch in Estonia registered under the name of AS Citadele banka Eesti _heref. Citadele's Estonian branch operates under the supervision of the Latvian supervisory authority, however, the Estonian Financial Supervision Authority ("**Estonian FSA**") has the right to establish secondary conditions on the activities of the branch in accordance with legislation applicable in Estonia.

Estonian Financial Supervision Authority

Estonian branches of credit institutions of other Member States of the EEA are supervised by the financial supervisory authority of the respective home Member State that exercises supervision over such foreign credit institution. Citadele Group's Estonian branch operates under the supervision of Latvian supervisory authority.

However, the branches of foreign credit institutions operating in Estonia are also supervised by the Estonian FSA whose responsibilities, tasks and rights are set out primarily in the Estonian Credit Institutions Act ("**CIA**") and the Financial Supervision Authority Act ("**FSAA**").

In Estonia, banking laws and regulations are revised on a regular basis. The Estonian FSA is a financial supervision institution with autonomous competence and a separate budget which conducts supervision in the name of the state and is independent in its activities and decisions. The objective of financial supervision is to help ensure the stability and quality of services of the companies providing financial services and thereby promote the reliability of the Estonian monetary system.

The Estonian FSA is managed by its management board comprising three to five management board members, from time to time, appointed by the supervisory board of the Estonian FSA. The Estonian FSA supervisory board plans the activities and monitors the management of the Estonian FSA. The supervisory board consists of six members. Two of these Estonian FSA supervisory board members are the Minister of Finance and the President of the Bank of Estonia. One half of the appointed members of the Estonian FSA supervisory board are to be appointed and removed by the Government of Estonia based on the proposal of the Minister of Finance of Estonia and the other half by the supervisory board of the Bank of Estonia on the proposal of the President of the Bank of Estonia.

Banking Supervision:

Licensing

In Estonia, a credit institution of an EEA member state (including Latvia) which wishes to found a branch in Estonia is required to notify the Estonian FSA through the financial supervision authority of its home Member State (in respect of Citadele Group, Latvia) through a mechanism known as "passporting". The Estonian FSA is required to be provided with the following information and documents:

- the action plan of the branch containing data on all the financial services which the branch proposes to offer in Estonia, and a description of the organisational structure of the branch;
- the address of the branch; and
- data relating to the managers of the branch, pursuant to the requirements set forth in the CIA.

Within two months following receipt of the requisite information, the Estonian FSA makes a passporting decision. The Estonian FSA is required to promptly inform the financial supervision authority of the home Member State and the credit institution in question of its decision. An EEA credit institution may found a branch and commence activities after receiving, through the financial supervision authority of its home Member State, the Estonian FSA's decision, or two months after the date on which the Estonian FSA receives the documents and information specified in CIA Article 214 section 1.

As a duly passported branch of an EEA credit institution, AS Citadele banka Eesti _heref operates with the primary supervision and licence issued by the Latvian supervisory authority, but in accordance with the requirements set forth by the Estonian FSA and Estonian laws.

Rights of the Estonian FSA

The Estonian FSA exercises supervision over branches and representative offices of foreign credit institutions in Estonia. The Estonian FSA may demand reports, information and documents that are necessary for the exercise of supervision over the credit institution. If a licence is revoked from the credit institution by a foreign financial supervisory authority, the Estonian FSA would take measures to prevent the branch from continuing its operations in Estonia. The Estonian FSA may also apply sanctions to a branch of a foreign credit institution if such branch violates Estonian laws. The Estonian FSA may conduct inspections of branches of foreign credit

institutions without prior warning. The Estonian FSA cooperates with the respective foreign supervisory authorities of the country where the parent company of the branch resides. In certain circumstances, the Estonian FSA may also stop the activities of a branch.

Sanctions imposed by the Estonian FSA

The Estonian FSA may apply sanctions to the branch of a foreign credit institution if the branch or the foreign credit institution violates Estonian laws. The Estonian FSA may also issue precepts and take action in the public interest including restricting the execution of certain transactions, requesting that members of management bodies be replaced, requesting reduction of operational costs and requesting changes to an entity's organisational structure. If such requirements are not complied with then the Estonian FSA is able to apply penalty payments, request a meeting of management bodies and make decisions on the agendas of those meetings, declare the resolutions of the management bodies void and demand plans for reorganisation.

Capital adequacy requirements and prudential ratios and the provision of funds

The capital adequacy and respective ratios of the branch of a Latvian credit institution are determined at Latvian level and are under supervision of the Latvian supervisory authority. Estonian laws are harmonised with the EU laws regarding prudential requirements for credit institutions. For a branch, the capital requirements of the credit institution, as the parent company, are reviewed. See "*Asset, Liability and Risk Management*" for further information.

Relevant corporate governance code requirements

Corporate governance in Estonia is regulated by the Commercial Code, which entered into force on 1 September 1995.

AML legislation

AML rules in Estonia are set forth in the Money Laundering and Terrorist Financing Prevention Act which entered into force on 28 January 2008 and regulates measures and procedures aimed at minimising money laundering and financing of terrorism.

Supervision of compliance with AML rules by credit institutions is exercised by the FSA.

Regulation of Other Operations

Leasing and factoring

Citadele Group's subsidiary, OÜ "Citadele Leasing & Factoring", offers leasing services, including financial and operating leasing and leaseback. In particular, it specialises in providing leasing products in relation to motor vehicles, commercial vehicles and other industrial plant and machinery. It also offers factoring services. OÜ "Citadele Leasing & Factoring" operates pursuant to the Estonian Consumer Protection Act of 2004, and is supervised by the Estonian Consumer Protection Board. It is also licensed by the Estonian Financial Intelligence Unit under the Estonian Money Laundering and Terrorist Financing Prevention Act of 2008. From 21 March 2016, OÜ "Citadele Leasing & Factoring" will operate pursuant to the Estonian Act of Creditors and Credit Brokers of 2015.

Switzerland

Banking Regulation

Swiss Financial Market Supervisory Authority ("FINMA")

Supervision of banks and other financial institutions in Switzerland is performed by FINMA, the Swiss independent financial-markets regulator. The legal basis for its activities is the Financial Market Supervision Act of Switzerland, which was enacted by the Swiss parliament on 22 June

2007. FINMA is responsible for the enforcement of the Swiss financial market acts. Its main task is to protect creditors, investors and insured persons as well as to ensure the proper functioning of the Swiss financial market. FINMA supervisory activities also serve to enhance the competitiveness and reputation of the Swiss financial centre.

In cooperation with the Swiss National Bank, FINMA monitors the stability of the Swiss financial system. FINMA can issue own ordinances (where it is authorised to do so) and circulars. These ensure a proper and uniform application of the financial market legislation and provide appropriate information and guidance on regulatory matters to the supervised institutions.

Established in 2009, FINMA is an autonomous public-law institution with own legal personality and official seat in Berne. Its management bodies are the board of directors, the management board and the Auditor body. The board of directors is the strategic management body of FINMA. It comprises seven to nine expert members (who are independent from the supervised entities) and is appointed by the Federal Council for a term of office of four years. The management board is the operational management body and is headed by a Chief Executive Officer. Acting as supervisor in the public interest, FINMA is functionally, institutionally and financially independent. In order to meet its goals, FINMA delegates part of its supervisory work to audit firms and can also appoint agents who are deployed on a case-by-case basis.

Banking Supervision

Licensing

Under the Swiss Banking Act and its Ordinance, a bank must require a licence before starting its activities and applying for registration in the Commercial Register. Under the Swiss Stock Exchange Act, a licence is required for various forms of securities trading. As a rule, banks are also licensed as securities dealers. AP Anlage & Privatbank AG, as a foreign controlled bank, has consequently obtained licenses as bank and securities dealer.

In Switzerland, the competent licensing authority is FINMA. In order to obtain a licence, the interested party must demonstrate that all the legal requirements are met and submit all information and documents to FINMA in accordance with the provisions of the relevant regulations. Inadequate organisation, undisclosed ownership structures and a questionable reputation are all factors that could lead to a decision rejecting the application.

Rights of FINMA

FINMA supervises the Swiss financial market according to its powers provided by the Financial Market Supervision Act and the Swiss financial market acts. In this context, FINMA is endowed with sovereign authority over banks and other financial entities and with broad enforcement powers. It performs its supervisory tasks using the instruments of licensing, supervision, enforcement and regulation. FINMA licences bank and other financial intermediaries. It ensures that supervised institutions comply with laws, ordinances and circulars and verifies that they meet licensing requirements at all times. FINMA also provides administrative assistance and carries out on-site inspections. Where rules have been violated, it ensures that compliance is restored.

Possible sanctions

FINMA deals with violations of the law. It enforces supervisory regulations using the measures as provided by the law. The measures at FINMA's disposal range from reprimanding a supervised institution for a violation of the law to revoking its licence or liquidating the entity. FINMA can demand refund of profits made in violation of supervisory provisions. It files criminal complaints to the prosecution authorities where it has knowledge of criminal activities or violations of financial market laws resulting in criminal offences. FINMA also conducts restructuring proceedings, and when it is not possible, assists the entities to exit from the market via bankruptcy.

Capital adequacy requirements, prudential ratios and provisioning of funds

In order to ensure a high level of protection of creditors and the stability of the financial system, banks and other financial intermediaries must have sufficient funding to cover inherent and potential risks which arise as a result of their activities. The basic principles of the regulation governing capital adequacy requirements, prudential ratios and provisioning of funds are defined in the Swiss Banking Act. The details of the Swiss capital standards are provided by the Capital Adequacy Ordinance ("**CAO**"), implementing Basel II from 1 January 2007, Basel 2.5 from 1 January 2011 and Basel III from 1 January 2013. Furthermore, FINMA issued several circulars clarifying and implementing the CAO, in particular the Circular 2011/2, "Capital buffer and capital planning in the banking sector". In addition to minimum capital requirements for credit, market and operational risks (Pillar 1), the CAO requires banks to hold a capital buffer and additional capital in order to be able to cope with any risk not covered by the minimum capital requirements and to ensure compliance to such standards even in adverse circumstances (Pillar 2). The Pillar 2 requirements are intended to increase the overall financial stability.

The following table sets out the Pillar 1 minimum capital requirements for credit, market and operational risks:

Capital ratios	Regulatory minimum requirements under CAO
Total capital adequacy ratio	8%
Tier 1 capital ratio	6%
Common equity Tier 1 capital ratio	4.5%

In accordance with the FINMA Circular 2011/2, the capital requirements under Pillar 2 are set in a degressive manner (5 categories) depending on the institution's size and complexity.

AP Anlage & Privatbank belongs to category 5, which criteria (in CHF billions) is as follows:

- Total assets: < 1
- Assets under management: < 2
- Privileged deposits: < 0.1
- Required equity: < 0.05

The limits for capital buffers in line with category 5 are shown in the table below:

Capital ratio determining capital adequacy target	Capital ratio below which immediate and extensive action is taken under supervisory law (intervention threshold)
10.5%	10.5%

The table below shows the quality of capital to be held in category 5 to meet the capital adequacy target. The share of capital exceeding the overall capital ratio of 8% is regarded as part of the capital buffer.

Common equity Tier 1	Additional Tier 1	Tier 2 capital
7%	1.5%	2%

Relevant corporate governance code requirements

The Swiss Banking Act and its Ordinance establish the internal control and risk assessment requirements a bank must comply with.

In principle, the following conditions are required to ensure an efficient, safe and stable functioning of a bank:

- Clear separation of functions between the highest governing body and the operational management body;
- Effective separation of internal functions, in particular lending, trading, asset management and settlement;
- Effective risk management (the internal organisation of the bank must enable it to properly identify, limit and monitor, when necessary, market, credit, default, liquidity and legal risks);
- Effective internal control system (the internal audit must be independent of the operational management body).

AML legislation

The Swiss Anti-Money Laundering Act and its ordinance regulate the fight against money laundering in Switzerland. Within the scope of its prudential supervision of banks and other financial institutions, FINMA also monitors compliance with the requirements set out in the anti-money laundering legislation. All financial intermediaries must comply with a range of due diligence and disclosure requirements in relation to combating money laundering, including the following:

- Verification of the identity of the contracting party and identification of the beneficial owner of the assets;
- Clarification of the financial background of an unusual business relationship or transaction;
- Clarification in greater details of business relationships and transactions with heightened risk;
- Implementation of organisational measures to prevent money laundering and financing of terrorism, including issuing internal directives, training staff and performing inspections;
- Submission of a communication to the Money Laundering Reporting Office in case of suspicion of money laundering.

As regards more specifically banks, the obligation to verify the identity of the contracting party and identify the beneficial owner is governed by the special provisions of the "Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 08)" of 7 April 2008. This agreement was enacted by the Swiss Bankers Association in a self-regulatory procedure and approved by FINMA.

Banking sector initiatives by FINMA

Swiss financial market acts and regulations are amended on a regular basis to follow the developments of the banking sector, supervisory practices and to incorporate new requirements of European and international law. A significant recent development in the banking sector is the project, initiated by the Swiss Federal council, to review completely the current Swiss financial services legislation. The new architecture of the financial services market will be based on 6 segments including in particular the following legal acts: Financial Market Supervision Act, Financial Services Act, Financial Institutions Act and Financial Market Infrastructure Act. The main objective of this revision is to enhance the level of investor protection.

The Financial Market Infrastructure Act, passed by the Swiss parliament on 19 June 2015, provides FINMA with the authority to issue implementing provisions on reporting requirements for securities trading, on imposing a clearing duty for derivate as well as on disclosure and takeover. In this context, FINMA has drawn up the new FINMA Financial Market Infrastructure Ordinance, subject to public consultation until 2 October 2015.

Consumer protection legislation

In Switzerland the consumer protection legislation comprises the Swiss Consumer Credit Act and its Ordinance. The application of this regulation is subject to several conditions. For example, the Swiss Consumer Credit Act does not apply in case of credit contracts involving an amount of less than CHF 500 or more than CHF 80'000. Also, general legal provisions may include specific rules for matters involving consumers, in particular with regard to applicable law and jurisdiction issues.

Certain Latvian Securities Market Regulations and Procedures, the Nasdaq Riga and the London Stock Exchange

European Union Takeover Bids Rules

The Latvian Financial Instrument Market Law, in particular Section V of Part D (Articles 65 to 83.1), reflects the provisions of the EU Takeover Bids Directive (Directive No 2004/25/EC).

Latvian Takeover Bids Rules

The issued securities of a listed company, including Citadele after its listing, are subject to all voluntary takeover bid and mandatory takeover bid rules, as indicated in the Latvian Financial Instrument Market Law. However these rules are not and will not be applicable to the current majority shareholders of Citadele (RA Citadele Holdings, LLC and the Co-investors) regarding their current majority stake in Citadele as they acquired that majority stake before Citadele's shares entered into public circulation and the Latvian Financial Instrument Market Law become applicable to Citadele. As a result, the group of current majority shareholders of Citadele (a consortium led by RA Citadele Holdings, LLC), in relation to their current majority shareholdings, will not be required to make a mandatory bid regarding the Shares offered in connection with the Offer in so far as their shareholding does not decrease below 50% of voting power represented by Citadele's shares and then again increases reaching or exceeding 50% of the voting power represented by Citadele's shares after the Shares have entered into public circulation. Furthermore, for the same reasons, the mandatory takeover obligation will not be applicable to RA Citadele Holdings, LLC and the Co-investors regarding their current majority stake in Citadele. At the date of the Prospectus, a potential change to the takeover bid rules in Latvia is being considered by the legislative authorities. This change would see the threshold for triggering a mandatory takeover bid decrease from 50% of voting power represented by shares to 30% of voting power.

Voluntary takeover bids

Pursuant to the Latvian Financial Instrument Market Law, a person is entitled to make a voluntary takeover bid, if the purpose thereof is to acquire shares and thus ensure having at least 10% of the total amount of voting shares of Citadele. When making voluntary takeover bid, a person should establish in the voluntary takeover bid prospectus the minimal or maximal amount of shares it intends to acquire. If the shareholders of Citadele accept the bid for the shares exceeding the maximum amount established in the prospectus, the shares should be acquired proportionally from all shareholders who have accepted the bid (proportion is calculated proportionally to the amount of shares other shareholders have accepted to sell). In such case the amount of acquired shares cannot be less than the maximum amount established in the prospectus. If the shareholders accept a voluntary takeover bid for the shares not reaching the minimal determined amount, all shares from shareholders of Citadele, which accepted the bid, should be acquired except if it is specifically established in the prospectus that the bid is not effective if other shareholders accept the bid for the amount of shares not reaching the minimal established amount.

Mandatory takeover bids

Pursuant to the Latvian Financial Instrument Market Law, a mandatory takeover bid to buy the remaining voting shares of the Issuer should be made by a person who has directly or indirectly acquired, acting individually or in concert with other persons not less than 50% of the total amount of voting shares of the Issuer or persons who have voted at the GMS of the Issuer in favour of the withdrawal of the shares of the Issuer from the regulated market.

A person who fails to fulfil the obligation to make a mandatory takeover bid within an established period of time or makes and implements a mandatory takeover bid contrary to the

requirements of the Latvian Financial Instrument Market Law, for the period until the proper execution of requirements of the law, should be deprived of voting rights at the GMS of Citadele. Resolutions of the GMS of Citadele, which are adopted through exercising deprived voting rights contrary to these provisions, should be void and entries in any type of public registers may not be requested on the basis of such decisions.

A sale by EBRD to a third party who subsequently enters into or adheres to a shareholders' agreement with RA Citadele Holdings, LLC and its co-investors would require a mandatory bid to be made in relation to all the other shares in Citadele, excluding the shares held by RA Citadele Holdings, LLC and its co-investors.

Obligations of Shareholders to Disclose Holdings

Pursuant to Article 61 of the Latvian Financial Instrument Market Law, any person who, directly or indirectly, acquires or disposes of voting rights in Citadele must promptly (within 4 (four) trading days) give written notice to the FCMC and Citadele by means of a standard form of such acquisition or disposal if, as the result of such acquisition or disposal, the percentage of voting rights held by such person exceeds or falls below the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75%, 90% and 95%.

Under the Latvian Financial Instrument Market Law Citadele is required to publicly announce the indicated notice within 1 (one) trading day as from its receipt.

The Nasdaq Riga

The Nasdaq Riga is the only regulated market operator in Latvia, offering trading, listing and information services. Only Nasdaq Riga, Tallinn and Vilnius exchanges members—banks and brokerage companies—may trade on the Baltic exchanges either on their own account or for the account of their clients. The Nasdaq Riga is a self-regulated organization (joint stock company), issuing and enforcing its own rules and regulations approved by the FCMC consistent with the international standards for exchange operations, settlement and surveillance. The Nasdaq Riga is supervised by the FCMC. Securities are kept and traded in a dematerialized form. The electronic register of publicly issued securities and securities transactions is registered at the Latvian Central Registry of Securities, which is maintained by the LCD.

The Nasdaq Riga is a part of the harmonized Baltic securities market and represents Nasdaq group in the Baltic region providing the electronic trading platforms INET and Genium INET and post-trading services for Baltic-listed securities: equities, bonds and investment fund units.

A regulated market is subject to both stock exchange and respective financial market regulator's supervision. On the Nasdaq Riga regulated market financial instruments may be listed in one of the following lists: (i) the Baltic Main List (equities), (ii) the Baltic Secondary List (equities), (iii) the Baltic Bond List (debt securities), and (iv) the Baltic Fund List (investment fund units). Settlement of all transactions executed on the Nasdaq Riga is handled by the LCD, a joint-stock company, in which the Nasdaq Riga has a 100% stake.

Taking into consideration that after the Offering (if successfully executed) Citadele's Shares will be listed on the Baltic Main List (equities) of the Nasdaq Riga, Citadele follows the corporate governance regime of the Baltic Main List (equities) of the Nasdaq Riga, also publicly announcing on its compliance with the indicated regimes. Taking into consideration also the aforementioned issues, Citadele's announcements on material events will be published according to the applicable Latvian laws and rules.

The London Stock Exchange

In the U.K., the EEA-regulated market for GDRs is the London Stock Exchange's Regulated Market, also known as the London Main Market. GDRs trading on this market must, among other

things, comply with the Prospectus Directive and the obligations under the Transparency Directive No 2004/109/EC. The GDRs are traded on separate segments of the London Stock Exchange's International Order Book (IOB).

A two-stage admission process applies to companies seeking to admit their GDRs to the London Main Market. GDRs are required to be admitted to the Official List by the UKLA, a division of the FCA, as well as to be admitted to trading by the London Stock Exchange. GDRs are only admitted to the Official List of the UKLA following the approval of a prospectus prepared by the issuer. Only once the GDRs are officially listed, can they be admitted to trading on the London Main Market.

The London Stock Exchange requires listed securities admitted to trading on its Main Market to comply with the relevant Prospectus Rules, Listing Rules and the Disclosure and Transparency Rules ("**DTRs**").

The Prospectus Rules are rules relating to the admission of securities to trading on a regulated market (such as the London Main Market) or offering securities to the public. The FCA requires GDR issuers preparing a prospectus to comply with the minimum disclosure requirements of the Annex 10 of the Prospectus Regulations.

The Listing Rules are rules that apply to companies which are either listed on or are seeking admission to the UKLA's Official List. Amongst others, the Listing Rules contains rules for overseas companies, eligibility requirements for admission to the Official List, prospectus approval procedure, procedures for suspension or cancellation of securities admitted to the Official List and also sets out the requirements for the listing of certificates representing certain securities, such as GDRs.

The DTRs are rules that foster transparency of, and access to, information in the UK financial markets. They contain rules related to the obligation to announce inside information, and rules and procedures related to disclosure of information.

In addition, the London Stock Exchange's Admission and Disclosure Standards (the "**Standards**") contain the admission requirements and continuing obligations that are applicable to all issuers which are admitting securities to, or already have securities admitted to trading on the Main Market.

Terms and Conditions of the Global Depositary Receipts

*The following terms and conditions (the "**Conditions**"), subject to completion and amendment and excepting sentences in italics, will apply to the global depositary receipts (the "**GDRs**") and will be endorsed on each global depositary receipt certificate (the "**GDR Certificates**").*

The GDRs are issued in respect of the ordinary B shares, having a par value of EUR 0.10 each (the "**Shares**"), of AS "Citadele banka" (the "**Company**"), pursuant to and subject to (i) in the case of the Regulation S GDRs, the Regulation S Deposit Agreement dated on or around the date of the Prospectus by and between the Company and Citibank, N.A., as depositary (the "**Depositary**") (the "**Regulation S Deposit Agreement**") and, in the case of the Rule 144A GDRs, the Rule 144A Deposit Agreement dated on or around the date of the Prospectus by and between the Company and the Depositary (the "**Rule 144A Deposit Agreement**"). References in the Conditions to the "Deposit Agreement" shall mean, in the case of Regulation S GDRs, the Regulation S Deposit Agreement and, in the case of Rule 144A GDRs, the Rule 144A Deposit Agreement. Each GDR represents the right to receive, subject to the terms of the Deposit Agreement and the Conditions, 5 Shares on deposit under the terms of the Deposit Agreement.

Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Nordea Bank Finland Plc as custodian to receive and hold on its behalf the Shares from time to time deposited under the Deposit Agreement (the "**Deposited Shares**"), and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (such rights, securities, property and cash together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these Conditions references to the "**Depositary**" are to Citibank, N.A. and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to Nordea Bank Finland Plc or any other custodian which may from time to time be appointed under the Deposit Agreement and references to the "Office" mean, in relation to the Custodian, the principal office of the Custodian in Helsinki, Finland (currently at Aleksis Kiven katu 3-5, VC210, FI00020 Nordea, Helsinki, Finland).

References in the Conditions to the GDRs shall include the GDRs issued pursuant to the terms of the Regulation S Deposit Agreement (the "**Regulation S GDRs**") and the GDRs issued pursuant to the terms of the Rule 144A Deposit Agreement (the "**Rule 144A GDRs**").

References in these Conditions to the "**Holder**" of any GDR shall mean the person registered as the holder of any GDR on the books of the Depositary maintained for such purpose. References in these Conditions to "Beneficial Owner" of any GDR shall mean any person who is the beneficial owner of GDRs as determined in accordance with Rule 13d-3 and Rule 13d-5 under the Exchange Act. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the GDR Certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary. Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner, to have notice of, and be subject to, all of the applicable provisions of the Deposit Agreement and the Conditions. Terms used in the Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.

The Depositary shall hold Deposited Property for the benefit of the Holders as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued and the Holders will accordingly be tenants in common of such Deposited Property to the extent of the Deposited Property corresponding to the GDRs in respect of which they are the Holders. For the avoidance of doubt, in acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property as bare trustee as aforesaid, does not assume any relationship of trust for or with the Holders or the Beneficial Owners or any other

person. Any right or power of the Depositary in respect of Deposited Property is reserved by the Depositary under its declaration of trust contained in this paragraph and is not given by way of grant by any Holder or Beneficial Owner.

Holders and Beneficial Owners of GDRs are not parties to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce certain specified provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which it is the Holder relate.

Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner and owning, acquiring or holding, as the case may be, a GDR, to have notice of and be subject to all applicable provisions of the Deposit Agreement and the Conditions. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement or the Conditions on behalf of any Holder or Beneficial Owner of a GDR or any other person.

GDRs will initially take the form of global GDRs evidenced by one or more Master GDR Certificates (each a "**Master GDR Certificate**") registered (i) in the case of Regulation S GDRs, in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as Common Depositary (the "**Common Depositary**"), and will initially be held by the Common Depositary for Euroclear Bank, SA/NV, as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, Société Anonyme ("**Clearstream**") and for the account of accountholders in Euroclear or Clearstream ("**Euroclear Participants**" and "**Clearstream Participants**", respectively), as the case may be, and (ii) in the case of Rule 144A GDRs, in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**") for the account of accountholders in DTC ("**DTC Participants**"). The Master GDR Certificates will be exchangeable for a GDR Certificate in definitive registered form in the limited circumstances as described below.

If at any time DTC, Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the GDRs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available GDR Certificates in definitive registered form.

Under the terms of the GDRs, each purchaser of GDRs is deemed to have represented and agreed, among other things, that the GDRs have not been and will not be registered under the Securities Act and may be offered, sold, pledged or otherwise transferred only in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. Each GDR will contain a legend to the foregoing effect.

For a description of the restrictions on the transfer of the GDRs see "Selling and Transfer Restrictions".

1. Deposit of Shares

A. The Depositary may, in accordance with the terms of the Deposit Agreement, but subject to the Conditions, and upon delivery of (x) a duly executed or electronically submitted order (in a form approved by the Depositary) and (y) a duly executed or electronically submitted deposit certification substantially in the form attached to the Deposit Agreement by or on behalf of any investor who is to become the Beneficial Owner of the GDRs (other than in the case of a deposit of Shares by the Company or an Affiliate of the Company which shall be subject to Clause 7.1.4 of the Deposit Agreement), from time to time issue and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects and, subject to the terms of the Deposit Agreement, the Conditions and applicable law, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires

otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The deposit certificate to be provided pursuant to the Regulation S Deposit Agreement certifies, among other things, that the person providing such certificate is not an "affiliate" of the Company, has acquired, or has agreed to acquire and will have acquired, the Shares to be deposited in an "offshore transaction" (as defined in Regulation S) and will comply with the restrictions on transfer applicable to Regulation S GDRs set forth under "Selling and Transfer Restrictions".

The deposit certificate to be provided pursuant to the Rule 144A Deposit Agreement certifies, among other things, that the person providing such certificate is not an "affiliate" of the Company, is a "Qualified Institution Buyer" (as defined in Rule 144A), and will comply with the restrictions on transfer applicable to Rule 144A GDRs set forth under "Selling and Transfer Restrictions".

B. Subject to the terms and conditions of the Deposit Agreement and applicable law, upon (i) physical delivery to the Custodian of Shares, or book-entry transfer of Shares to an account of the Custodian at the Latvian Central Depository (*Latvijas Centrālais Depozitārijs*) (the "**LCD**"), (ii) physical or electronic delivery to the Depositary of the applicable deposit certification unless the deposit of Shares is made by the Company or an Affiliate of the Company in which case such deposit will be subject to Section 7.1.4 of the Deposit Agreement, and (iii) payment of necessary taxes, governmental charges (including transfer taxes) and other charges as set forth in the Deposit Agreement and fees of the Depositary as set forth in Clause 10.1 of the Deposit Agreement and Condition 19, the Depositary will (i) adjust its records for the number of GDRs issued in respect of the Shares so deposited, (ii) notify DTC or the Common Depositary, as the case may be, to increase the number of GDRs evidenced by a Master GDR Certificate, and (iii) make delivery of the GDRs so issued to the applicable DTC Participant, Euroclear Participant or Clearstream Participant specified in applicable order received for such purpose.

C. Subject to the limitations set forth in the Deposit Agreement and applicable law, the Depositary may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued against evidence to receive rights from the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares) in the form of a written blanket or specific guarantee of ownership furnished by the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares). No such issue will be deemed a "Pre-Release Transaction" as defined in Condition 1(E).

D. Any further GDRs issued pursuant to Condition 1(A) which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will, subject to Clause 3.16 of the Deposit Agreement be represented by a separate master partial entitlement GDR certificate (each a "**Master Partial Entitlement GDR Certificate**"). Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR Certificate (by increasing the total number of GDRs evidenced by the relevant Master GDR Certificate or by the number of such further GDRs, as applicable).

E. Subject to the further terms and provisions of the Deposit Agreement, Citibank, N.A., its agents and affiliates, on their own behalf, may own and deal in any class of securities of the Company and its affiliates and in GDRs. In its capacity as Depositary, the Depositary shall not lend Shares or GDRs; provided, however, that the Depositary may (i) issue GDRs prior to the receipt of Shares pursuant to Condition 1 and Clause 3 of the Deposit Agreement, and (ii) deliver Shares prior to the receipt and cancellation of GDRs pursuant to Condition 2 and Clause 3 of the Deposit Agreement, including GDRs which were issued under (i) above but for which Shares may not have been received (each such transaction a "**Pre-Release Transaction**"). The Depositary may receive GDRs in lieu of Shares under (i) above and receive

Shares in lieu of GDRs under (ii) above. Each such Pre-Release Transaction will be (a) subject to a written agreement whereby the person or entity (the "**Applicant**") to whom GDRs or Shares are to be delivered (1) represents that at the time of the Pre-Release Transaction the Applicant or its customer owns the Shares or GDRs that are to be delivered by the Applicant under such Pre Release Transaction, (2) agrees to indicate the Depositary as owner of such Shares or GDRs in its records and transfer all beneficial right, title and interests in and to such Shares or GDRs, as the case may be, to the Depositary and to hold such Shares or GDRs in trust for the Depositary until such Shares or GDRs are delivered to the Depositary or the Custodian, (3) unconditionally guarantees to deliver to the Depositary or the Custodian, as applicable, such Shares or GDRs, (4) agrees not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with such transfer of beneficial ownership other than to deliver such Shares or GDRs, as the case may be, to the Depositary in satisfaction of such Pre-Release Transaction and (5) agrees to any additional restrictions or requirements that the Depositary deems appropriate, (b) at all times fully collateralised with cash, U.S. government securities or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary will normally limit the number of GDRs and Shares involved in such Pre- Release Transactions at any one time to thirty per cent (30%) of the GDRs outstanding (without giving effect to GDRs outstanding under (i) above), provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may also set limits with respect to the number of GDRs and Shares involved in Pre- Release Transactions with any one person on a case by case basis as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing. Collateral provided pursuant to (b) above, but not the earnings thereon, shall be held for the benefit of the Holders (other than the Applicant). The Depositary may require that the person to whom any Pre-Release Transaction is to be made pursuant to this Condition 1(E) deliver to the Depositary a duly completed certification and agreement in substantially the form set forth as Schedule 3 to the Regulation S Deposit Agreement or Schedule 3, Part A to the Rule 144A Deposit Agreement, as the case may be.

F. Any person delivering Shares for deposit under the Deposit Agreement and Condition 1 and any Holder or Beneficial Owner may be required and will be deemed to accept, by virtue of being a Holder or a Beneficial Owner, that, from time to time, it will be required to furnish the Depositary or the Custodian with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, taxpayer status, payment of all applicable taxes or governmental charges, exchange control approvals, legal or beneficial ownership of GDRs and Deposited Property, compliance with all applicable laws, the terms of the Deposit Agreement, the Conditions and the provisions of, or governing, the Deposited Property and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the Depositary may deem necessary or appropriate for the administration or implementation of the Deposit Agreement and the Conditions. The Depositary, the Registrar or the Custodian may withhold acceptance of Shares for deposit, withhold delivery or registration of issuance or transfer of all or part of any GDR Certificate, withhold adjustment of the Master GDR Certificate to reflect increases in Shares represented thereby or withhold the distribution or sale of any dividend or distribution of rights or of the net proceeds of the sale thereof or the delivery of any Deposited Property, until such proof or other information is filed or such certifications are executed, or such representations are made or such other documentation or information is provided in each case to the satisfaction of the Depositary, the Registrar or the Custodian.

G. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of

Shares or Deposited Property which, upon application of the ratio of GDRs to Shares or Deposited Property, as the case may be, would give rise to fractional GDRs. No Share shall be accepted for deposit unless accompanied by evidence, if any is required by the Depositary or the Custodian, that is reasonably satisfactory to the Depositary or the Custodian that all conditions for such deposit have been satisfied by the person depositing such Shares under the laws and regulations of Latvia and any necessary approval has been granted by any applicable governmental body in Latvia (if any), including, without limitation, if applicable, any regulator of currency exchange.

H. Each person depositing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorised, validly issued, fully paid, nonassessable and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorised so to do, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, and (vi) in the case of the Regulation S Deposit Agreement, that the Shares are not, and the Regulation S GDRs will not be, "restricted securities" (as defined in Rule 144(a)(3) under the Securities Act). Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorised, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to acknowledge that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the applicable Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, taking delivery of, transfer, surrender or withdrawal of the Shares or the GDRs or any beneficial interest therein.

2. Withdrawal of Deposited Property

A. Subject to the terms and provisions of the Deposit Agreement, the Conditions, the procedures of the LCD and applicable law, any Holder may request withdrawal of the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relevant GDR as the Depositary may reasonably require at the principal office of the Depositary accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn or evidence of the electronic transfer thereof to be delivered to or upon the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under the Conditions or the Deposit Agreement including, but not limited to the fees of the Depositary set forth in Clause 10.1 of the Deposit Agreement and Condition 19;

(iii) (x) surrender of a GDR Certificate at the Principal New York Office or Principal London Office, if DTC, Euroclear or Clearstream book-entry settlement system is not then available for GDRs, or (y) receipt by the Depositary at the Principal New York Office of instructions from DTC, Euroclear or Clearstream, or a DTC Participant, Euroclear

Participant or Clearstream Participant or their respective nominees, on behalf of any Beneficial Owner together with a corresponding credit to the Depositary's account at DTC, Euroclear or Clearstream for the GDRs so surrendered, if the book-entry settlement system is then available for GDRs, in either case for the purpose of withdrawal of the Deposited Property represented thereby; and

(iv) the delivery to the Depositary of, in the case of Rule 144A GDRs, a duly completed withdrawal certificate in the form of Schedule 3, Part B to the Rule 144A Deposit Agreement.

B. Withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

C. Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition 2, the Depositary will direct the Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its office, to, or to the order in writing of, the person(s) designated in the accompanying order:

(i) a certificate for, or other appropriate instrument of title to, or evidence of book-entry transfer of, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid or evidence of the electronic transfer of such other Deposited Property;

provided that the Depositary:

(x) may make delivery of (a) any cash dividends or cash distributions or (b) any proceeds from the sale of any distributions of Shares or rights which are held by the Depositary in respect of the Deposited Property represented by the GDRs surrendered for cancellation and withdrawal; and

(y) at the request, risk and expense of any Holder surrendering a GDR for cancellation and withdrawal, will direct the Custodian to forward any cash or other property (other than securities) held by the Custodian in respect of the Deposited Property represented by such GDRs to the Depositary,

in each case at the Principal New York Office or the Principal London Office (if permitted by applicable law from time to time).

D. Delivery by the Depositary and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

E. If any GDR surrendered and cancelled represents fractional entitlements in Deposited Property, the Depositary shall cause the appropriate whole number of Deposited Property to be withdrawn and delivered in accordance with the terms of the Deposit Agreement and this Condition 2 and shall, at the discretion of the Depositary, either (i) issue and deliver to the person surrendering such GDR a new GDR representing any remaining fractional Share, or (ii) sell or cause to be sold the fractional Share represented by the GDR surrendered and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR.

F. Notwithstanding anything to the contrary in the Deposit Agreement or the Conditions, the Depositary shall not knowingly accept any Rule 144A GDRs for cancellation and withdrawal of the Deposited Property represented thereby if the recipient thereof has instructed the

deposit of such Deposited Property into any unrestricted depositary receipt facility, unless the Depositary shall have received an opinion of counsel reasonably satisfactory to it stating that the Deposited Property so withdrawn are not at such time "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

3. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The issuance and delivery of GDRs against deposits of Shares generally or deposits of particular Shares may be suspended or withheld, or the registration of transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended or refused, during any period when the transfer books of the Depositary, the Company, a registrar of GDRs or any registrar of Shares are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, an applicable court order, or under any provision of the Deposit Agreement, the Conditions, or the provisions of or governing the Deposited Property, or any meeting of shareholders of the Company or for any other reason. The Depositary may restrict the transfer of Deposited Shares where the Company notifies the Depositary in writing that such transfer would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Charter or would otherwise violate any applicable laws.

The Depositary will refuse to accept Shares for deposit under the Rule 144A Deposit Agreement, if it has been notified by the Company in writing that the Deposited Shares or any depositary receipts corresponding to Shares are listed on a U.S. national securities exchange or quoted on a U.S. automated inter-dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A under the Securities Act.

Notwithstanding any provision of the Deposit Agreement, the Conditions or any GDR Certificate to the contrary, Holders and Beneficial Owners are entitled to surrender outstanding GDRs to withdraw the Deposited Shares at any time subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any laws or governmental regulations or an applicable court order relating to the GDRs or to the withdrawal of the Deposited Shares.

4. Transfer and Ownership

A. GDRs are to be issued in registered form. Title to the GDRs passes upon registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Depositary will maintain Holder records, including a register of Holders, at its principal office in New York.

Any interest in GDRs represented by one of the Master GDR Certificates that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR Certificate, will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR Certificate and, accordingly, will be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR Certificate for so long as it remains such an interest.

For a description of the restrictions on the transfer of the GDRs see "Selling and Transfer Restrictions".

B. Notwithstanding any other provision of the Deposit Agreement or the Conditions, each Holder and Beneficial Owner, by virtue of their ownership of any GDR or any Deposited Property, shall be deemed thereby to agree to comply with requests from the Company or the Depositary pursuant to Latvian law and any other stock exchange on which the Shares are, or may be registered, traded or listed, or the Charter, which are made to provide information, inter alia, as to the capacity in which such Holder or former Holder, Beneficial Owner or former Beneficial Owner holds or held, owns or owned a beneficial ownership interest in GDRs (and Deposited Property, as the case may be) and regarding the identity of any other person interested in such GDRs (and Deposited Property), the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request.

C. Applicable laws and regulations may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements or obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. By virtue of their ownership of any GDR or any Deposited Property, each Holder and Beneficial Owner shall be deemed thereby to agree to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

5. Cash Distributions

Whenever the Depositary receives, or receives confirmation from the Custodian of the receipt from the Company of, any cash dividend or other cash distribution on or in respect of the Deposited Shares or receipt of proceeds from the sale of any Shares, rights, securities or other entitlements under the terms of the Deposit Agreement or the Conditions, the Depositary shall, if at the time of receipt thereof any amounts received in Foreign Currency can in the judgment of the Depositary (pursuant to Condition 11) be converted on a practicable basis into Dollars transferable to the U.S., promptly convert, or cause to be converted, such dividends, distribution or proceeds into Dollars in the terms described in Condition 11 and will promptly distribute the amount thus received (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes withheld) to the Holders entitled thereto. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent, and any balance not so distributable shall be held by the Depositary (without liability for interest thereon) and shall be added to and become part of the next sum received by the Depositary for distribution to Holders of GDRs then outstanding at the time of the next distribution. If the Company, the Custodian or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Property an amount on account of taxes, duties or other governmental charges, the amount distributed to Holders in respect of the GDRs representing such Deposited Property shall be reduced accordingly. Such withheld amounts shall be forwarded by the Company, the Custodian or the Depositary to the relevant governmental authority. Evidence of payment thereof by the Company shall be forwarded by the Company to the Depositary upon request.

6. Distributions of Shares

If any distribution upon any Deposited Property consists of a dividend in, or free distribution of, Shares, the Company shall cause such Shares to be deposited with the Custodian and, if applicable, registered in the name of the Depositary, the Custodian or any of their nominees,

as the case may be. Upon receipt of confirmation of such deposit from the Custodian, the Depositary shall establish the GDR Record Date upon the terms described in Condition 10 and shall, subject to the terms of the Deposit Agreement and the Conditions, either (i) distribute to the Holders as of the GDR Record Date in proportion to the number of GDRs held as of the GDR Record Date, additional GDRs, which represent the aggregate number of Shares received as such dividend or free distribution, subject to the other terms of the Deposit Agreement and Conditions and net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes, by either (x) if GDRs are not available in book-entry form, issuing additional GDR Certificates for an aggregate number of GDRs representing the number of Shares received as such dividend or free distribution, or (y) if GDRs are available in book-entry form, reflecting on the records of the Depositary such increase in the aggregate number of GDRs representing such Shares and give notice to the Common Depositary of the related increase in the number of GDRs evidenced by the Master GDR Certificate, or (ii) if additional GDRs are not so distributed, each GDR issued and outstanding after the GDR Record Date shall, to the extent permissible by law, thenceforth also represent rights and interests in the additional Shares distributed upon the Deposited Property represented thereby, net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes. In lieu of delivering fractional GDRs, the Depositary shall sell the number of Shares represented by the aggregate of such fractions and distribute the net proceeds of such sale upon the terms described in Condition 5. In the event that the Depositary determines that any distribution in Shares would violate applicable law, is not operationally practicable, is subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the Company, in the fulfilment of its obligations under Clause 7.1.4 of the Deposit Agreement, has furnished an opinion of U.S. counsel determining that the distribution to Holders of the Shares and the GDRs representing such Shares must be registered under the Securities Act or other laws in order to be distributed to Holders (and no such registration statement has been declared effective), the Depositary may dispose of all or a portion of such Shares in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable, and the Depositary shall distribute the net proceeds of any such sale, after deduction of (a) taxes and (b) fees and charges of, and expenses incurred by, the Depositary, to Holders entitled thereto upon the terms described in Condition 5. The Depositary shall hold and/or distribute any unsold balance of such property in accordance with the provisions of the Deposit Agreement and the Conditions.

7. Distributions Other than Cash or Shares

Whenever the Depositary receives from the Company property other than cash, Shares or rights to purchase additional Shares and receives a notice from the Company indicating that the Company wishes such distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall distribute the property so received to the Holders of record as of the GDR Record Date set in accordance with Condition 10, in proportion to the number of GDRs held by them respectively and in such manner as the Depositary may deem practicable for accomplishing such distribution (i) upon receipt of payment or net of the applicable fees and charges of, and expenses incurred by, the Depositary, and (ii) net of any taxes withheld. The Depositary may dispose of all or a portion of the property so distributed and deposited, in such amounts and in such manner (including public or private sale) as the Depositary may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) or other governmental charges applicable to the distribution. If (i) the Company does not request the Depositary to make such distribution to Holders or requests not to make such distribution to Holders, (ii) the Depositary does not receive documentation within the terms of Clause 7.1.4 of the Deposit Agreement, or (iii) the Depositary determines (in accordance with Clause 5.1 of the Deposit Agreement) that all or a portion of such distribution is not lawful or is not reasonably practicable, the Depositary shall sell or cause

such property to be sold in a public or private sale, at such place or places and upon such terms as it may deem practicable and shall (x) cause the proceeds of such sale, if any, to be converted into Dollars in accordance with Condition 11, and (y) distribute the proceeds of such conversion received by the Depositary (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) to the Holders as of the GDR Record Date upon the terms of Condition 5. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

8. Rights Issues

A. Whenever the Company intends to distribute to the holders of the Deposited Property rights to subscribe for additional Shares, and provides a notice to the Depositary indicating that the Company wishes such rights to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall (x) establish a GDR Record Date (upon the terms described in Condition 10), (y) establish procedures to distribute such rights (by means of warrants or otherwise) and/or to enable the Holders to exercise the rights (upon payment of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes), and (z) issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the Depositary to the extent necessary in establishing such procedures.

   Nothing herein shall obligate the Depositary to make available to the Holders a method to exercise such rights to subscribe for Shares (rather than for GDRs).

B. In the event that (i) the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the rights available to Holders or (ii) the Company requests that the rights not be made available to Holders of GDRs or (iii) any rights made available are not exercised and appear to be about to lapse, the Depositary shall determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the Depositary to the extent necessary to determine such legality and practicability. If the Depositary sells such rights, the Depositary shall, upon such sale, (x) cause the proceeds of such sale, if any, to be converted into Dollars upon the terms described in Condition 11, and (y) distribute the proceeds of such sale (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) upon the terms set forth in Condition 5.

   If the Depositary is unable to make any rights available to Holders upon the terms described in the Deposit Agreement or to arrange for the sale of the rights upon the terms described above, the Depositary shall allow such rights to lapse.

   The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make such rights available to Holders in general or any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the Holders on behalf of the Company in connection with the rights distribution.

C. Notwithstanding anything to the contrary in the Deposit Agreement or this Condition 8, if registration (under the Securities Act or any other applicable law) of the rights or the securities to which any rights relate may be required in order for the Company to offer such rights or such securities to Holders and to sell the securities represented by such rights, the Depositary will not distribute such rights to the Holders unless and until a registration statement under the Securities Act covering such offering is in effect. In the event that the

Company, the Depositary or the Custodian shall be required to withhold and does withhold from any distribution of rights an amount on account of taxes or other governmental charges, the amount distributed to the Holders of GDRs representing such Deposited Property shall be reduced accordingly. In the event that the Depositary determines that any distribution of Deposited Property or rights to subscribe therefor is subject to any tax or other governmental charges which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such Deposited Property or rights to subscribe therefor in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable to pay any such taxes or charges. There can be no assurance that Holders generally, or any Holder in particular, will be given the opportunity to exercise such rights on the same terms and conditions as the holders of Deposited Property or to exercise such rights. Nothing in the Deposit Agreement or this Condition 8 shall obligate the Company to file any registration statement in respect of any rights or Deposited Property or other securities to be acquired upon the exercise of such rights.

9. Redemption

If the Company intends to exercise any right of redemption in respect of any of the Deposited Property, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.2 of the Deposit Agreement, the Depositary shall send to each Holder a notice in accordance with Condition 25 setting forth the intended exercise by the Company of the redemption rights and any other particulars set forth in the Company's notice to the Depositary. The Depositary shall instruct the Custodian to present to the Company the Deposited Property in respect of which redemption rights are being exercised against payment of the applicable redemption price. Upon receipt of confirmation from the Custodian that the redemption has taken place and that funds representing the redemption price have been received, the Depositary shall convert, transfer, and distribute the proceeds (net of applicable (a) fees and charges of, and the expenses incurred by, the Depositary, and (b) taxes), retire GDRs and cancel GDRs upon delivery of such GDRs by Holders thereof and on the terms set forth in the applicable Conditions. If less than all outstanding Deposited Property is redeemed, the GDRs to be retired will be selected by lot or on a pro rata basis, as may be determined by the Depositary. The redemption price per GDR shall be the per share amount received by the Depositary upon the redemption of the Deposited Property represented by GDRs (subject to the terms of the Deposit Agreement and the applicable fees and charges of, and expenses incurred by, the Depositary, and taxes) multiplied by the number of Deposited Property represented by each GDR redeemed.

10. GDR Record Dates

Whenever the Depositary shall receive notice of the fixing of a record date by the Company for the determination of holders of Deposited Property entitled to receive any distribution (whether in cash, Shares, rights or other distribution), or whenever, for any reason, the Depositary causes a change in the number of Deposited Property that are represented by each GDR, or whenever the Depositary shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of Shares or other Deposited Property, or whenever the Depositary finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the Depositary shall fix a record date (the "GDR Record Date") for the determination of the Holders of GDRs who shall be entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of Holders with respect to such changed number of Deposited Property represented by each GDR. The Depositary shall make reasonable efforts to establish the GDR Record Date as closely as possible to the applicable record date for the Deposited Property (if any) set by the Company in Latvia. Subject to applicable law and the provisions of the Deposit Agreement and Conditions, only

the Holders of GDRs at the close of business in New York on such GDR Record Date shall be entitled to receive such distribution, to give such voting instructions, to receive such notice or solicitation, or otherwise take action.

11. Conversion of Foreign Currency

Whenever the Depositary or the Custodian shall receive any Foreign Currency by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the Foreign Currency so received can in the judgement of the Depositary be converted on a practicable basis into Dollars transferable to the U.S. and distributed to the Holders entitled thereto, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine, the Foreign Currency so received into Dollars and shall distribute such Dollars (net of applicable fees, any reasonable and customary expenses incurred on behalf of Holders in complying with currency exchange control or other governmental requirements) in accordance with the terms of the applicable Conditions. If the Depositary shall have distributed warrants or other instruments that entitle the holders thereof to such Dollars, the Depositary shall distribute such Dollars to the holders of such warrants and/or instruments upon surrender thereof for cancellation, in either case without liability for interest thereon. Such distribution shall be made upon an averaged or other practicable basis without regard to any distinctions among Holders on account of any application of exchange restrictions or otherwise. If such conversion or distribution generally or with regard to a particular Holder can be effected only with the approval or licence of any government or agency thereof, the Depositary shall have the authority, with the assistance of the Company, to file such application, for such approval or licence, if any, as it may consider desirable. In no event, however, shall the Depositary be obligated to make such a filing. If at any time the Depositary shall determine that in its judgement the conversion of any currency other than Dollars and the transfer and distribution of proceeds of such conversion received by the Depositary is not practicable or lawful, or if any approval or licence of any government or agency thereof which is required for such conversion, transfer or distribution is denied or, in the opinion of the Depositary, is not obtainable at a reasonable cost, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may in its discretion (i) make such conversion and distribution in Dollars to the Holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the Foreign Currency (or an appropriate document evidencing the right to receive such Foreign Currency) to Holders for whom this is lawful and practicable, and (iii) hold (or cause the Custodian to hold) such Foreign Currency (without liability for interest thereon) for the respective accounts of the Holders entitled to receive the same.

12. Distribution of any Payments

Any distribution of cash under Condition 5, 6, 7, 8, 9, 13 or 14 will be made by the Depositary to those Holders who are Holders of record on the GDR Record Date established by the Depositary in accordance with Condition 10 for that purpose and, distributions will be made in Dollars subject to Condition 11 by cheque drawn upon a bank in New York City or, in the case of the relevant Master GDR Certificate, according to usual practice between the Depositary and DTC, Euroclear and Clearstream, as the case may be. The Depositary may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relative Deposited Property.

13. Capital Reorganisation

Upon any change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of Deposited Property, or upon any recapitalisation, reorganisation, merger

or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Deposited Property shall, to the extent permitted by law, be treated as new Deposited Property under the Deposit Agreement and the Conditions, and the GDRs shall, subject to the terms of the Deposit Agreement, the Conditions and applicable law, evidence GDRs representing the right to receive such replacement securities. The Depositary may, with the Company's approval, and shall, if the Company shall so request, subject to the terms of the Deposit Agreement and the Conditions, and subject to the receipt by the Depositary of an opinion of counsel satisfactory to the Depositary (obtained at the expense of the Company) that such distributions are not in violation of any applicable laws or regulations, execute and deliver additional GDRs or make appropriate adjustments in its records, as in the case of a stock dividend on the Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs, in either case, as well as in the event of newly deposited Shares, with necessary modifications to the form of GDR attached to the Deposit Agreement specifically describing such new Deposited Property or corporate change. Notwithstanding the foregoing, in the event that any security so received may not be lawfully distributed to some or all Holders, the Depositary may, with the Company's approval, and shall if the Company requests, subject to the receipt by the Depositary of an opinion of counsel satisfactory to the Depositary (obtained at the expense of the Company) that such action is not in violation of any applicable laws or regulations, sell such securities at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) for the account of the Holders otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash pursuant to Condition 5. The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to Holders in general or to any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

14. Elective Distributions

Wherever the Company intends to distribute a dividend payable at the election of the holders of Shares in cash or in additional Shares and provides a notice to the Depositary indicating that the Company wishes such elective distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall make such elective distribution available to Holders. If the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the elective distribution available to Holders of GDRs, or if the Company requests that such elective distribution not be made available to Holders of GDRs, the Depositary shall, to the extent permitted by law, distribute to the Holders, on the basis of the same determination as is made in Latvia in respect of the Shares for which no election is made, either (X) cash upon the terms described in Condition 5, or (Y) additional GDRs representing such additional Shares upon the terms described in Condition 6. If the above conditions are satisfied, the Depositary shall establish a GDR Record Date in accordance with Condition 10 and establish procedures to enable Holders to elect the receipt of the proposed dividend in cash or in additional GDRs. The Company shall assist the Depositary in establishing such procedures to the extent necessary. If a Holder elects to receive the proposed dividend (X) in cash, the dividend shall be distributed upon the terms described in Condition 5, or (Y) in GDRs, the dividend shall be distributed upon the terms described in Condition 6. Nothing in the Deposit Agreement or this Condition 14 shall obligate the Depositary to make available to Holders a method to receive the elective dividend in Shares (rather than GDRs). There can be no assurance that Holders and Beneficial Owners generally,

or any Holder or Beneficial Owner in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Property.

15. Taxation and Applicable Laws

A. Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Property will be subject to deduction of Latvian and other withholding taxes, if any, at the applicable rates, and notwithstanding any other provision of the Deposit Agreement or the Conditions, the Depositary and the Custodian will be entitled, subject to applicable law, to deduct from any cash dividend or other cash distribution which either of them receives from the Company such amount as is necessary in order to provide for any tax, charge, fee or other amount that is, or could become, payable by or on behalf of the Depositary to fiscal or other governmental authority on account of receiving such cash dividend or other cash distribution.

The Holder or Beneficial Owner of any GDR or any Deposited Property shall be deemed thereby to accept (by virtue of his ownership or deposit, as the case may be) that, in the event that any tax or other governmental charge shall become payable with respect to any GDR, Deposited Property or GDR Certificate, such tax or other governmental charge shall be payable by the Holder and Beneficial Owner to the Depositary. The Custodian may refuse the deposit of Shares and the Depositary may refuse to issue or deliver GDRs, to register the transfer, split-up or combination of GDR Certificates and the withdrawal of Deposited Property until payment in full of such tax, charge, penalty or interest is received. The Depositary may, for the account of the Holder or Beneficial Owner, discharge the same out of the proceeds of sale, subject to Latvian law and regulations, of an appropriate number of Deposited Shares or other Deposited Property with the Holder and Beneficial Owner remaining liable for any deficiency and being entitled to distribution of any surplus. Any such request shall be made by giving notice pursuant to Condition 25.

By virtue of its ownership of any GDR or Deposited Property, each Holder and Beneficial Owner shall be deemed to agree to indemnify the Depositary, the Company, the Custodian, and any of their agents, officers, employees and Affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for such Holder or Beneficial Owner relating to such ownership of any GDR or Deposited Property.

B. If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Latvia in order for the Depositary to receive from the Company Shares to be deposited under the Conditions or in order for Shares, other securities or other property to be distributed under Condition 5, 6, 7, 13 or 14 or to be subscribed under Condition 8, the Depositary shall request that the Company apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property with respect to which such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report.

16. Voting Rights

A. Holders of GDRs will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting of holders of Shares of the Company at which holders of Shares or other Deposited Property are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 16.

As soon as practicable after receipt from the Company of any such notice, the Depositary will fix the GDR Record Date in respect of such meeting or solicitation of consent or proxy in accordance with Condition 10. The Depositary shall, if requested by the Company in writing in a timely manner in accordance with Clause 5.3 of the Deposit Agreement and at the Company's expense and provided no U.S., English or Latvian legal prohibitions exist, distribute to Holders as of the GDR Record Date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the GDR Record Date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Conditions, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given.

B. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreement, the Conditions, the Charter and the provisions of the Deposited Property, if the Depositary has received voting instructions from a Holder as of the GDR Record Date to vote the Deposited Property on or before the date specified by the Depositary, the Depositary shall endeavour, in so far as is practicable and permitted under Latvian law and practice, to vote or cause the Custodian to vote the Shares and/or other Deposited Property represented by such Holder's GDRs for which timely and valid voting instructions have been received in the manner so instructed by such Holder. If the Depositary, in its reasonable opinion, determines that it is necessary in order to comply with Latvian law and/or applicable market practice, prior to carrying out a voting instruction with respect to GDRs the Depositary may (i) require that either the Holder of the GDRs states in its voting instructions that it is the Beneficial Owner of those GDRs or the voting instructions indentify the Beneficial Owner(s) of the GDRs and/or (ii) require that the Holder of the GDRs agrees with the Depositary that the Depositary will block registration of transfer of the relevant GDRs or that transfer of the GDRs will otherwise be blocked to the satisfaction of the Depositary until the conclusion of the meeting at which voting rights are to be exercised on behalf of that Holder and/or (iii) implement such other procedures as it considers reasonably necessary.

C. Neither the Depositary nor the Custodian shall, under any circumstances exercise any discretion as to voting and neither the Depositary nor the Custodian shall vote, attempt to exercise the right to vote, or in any way make use of the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with such instructions from Holders. If the Depositary timely receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder (unless otherwise specified in the notice distributed to Holders) to have instructed the Depositary to vote in favour of the items set forth in such voting instructions. Notwithstanding anything else contained herein, the Depositary shall, if so requested in writing by the Company, represent all Deposited Property (whether or not voting instructions have been received in respect of such Deposited Property from Holders as of the GDR Record Date) for the sole purpose of establishing quorum at a meeting of shareholders.

D. There can be no assurance that Holders generally or any Holder in particular will receive the notice described above with sufficient time to enable the Holder to return voting instructions to the Depositary in a timely manner.

By continuing to hold GDRs, all Holders and Beneficial Owners shall be deemed to have agreed to the provisions of this Condition 16 as it may be amended from time to time in order to comply with applicable Latvian law.

A valid corporate decision of the Company will bind the Depositary (as registered owner of the Shares) and the Holders and Beneficial Owners of GDRs shall be deemed to agree to being bound by such a corporate decision of the Company.

E. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S., English or Latvian laws. The Company agrees to take any and all actions reasonably necessary to enable Holders and Beneficial Owners to exercise the voting rights accruing to the Deposited Property and to deliver to the Depositary an opinion of U.S., English and/or Latvian counsel (obtained at the expense of the Company), if so requested by the Depositary, addressing any actions requested to be taken.

17. Liability

A. Neither the Depositary nor the Company shall be obligated to do or perform any act which is inconsistent with the provisions of the Deposit Agreement or the Conditions or shall incur any liability (i) if the Depositary or the Company shall be prevented or forbidden from, or delayed in, doing any act or thing required by the terms of the Deposit Agreement or the Conditions, by reason of any provision of any present or future law or regulation of the U.S., England, Latvia or any other country, or of any relevant governmental or regulatory authority or stock exchange, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of the Charter or any provision of or governing any Deposited Property or by reason of any other circumstances beyond their control (including, without limitation, acts of God or war, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure), (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement, the Conditions or in the Charter or provisions of or governing Deposited Property, (iii) for any action or inaction in reliance upon the advice or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, any Beneficial Owner or authorised representative thereof, or any other person believed by it in good faith to be competent to give such advice or information, but only insofar as the terms of this subsection (iii) are not prohibited by applicable law, (iv) for the inability by a Holder or Beneficial Owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreement or the Conditions, made available to Holders of GDRs or (v) for any consequential or punitive damages for any breach of the terms of the Deposit Agreement or the Conditions.

B. In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the Beneficial Owners.

C. The Depositary, its controlling persons, its agents, any Custodian and the Company, its controlling persons and its agents may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented by the proper party or parties (including a translation which is made by a translator believed by it to be competent or which appears, having taken reasonable care, to be authentic).

D. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement or the Conditions.

E. Without limitation of the foregoing, neither the Depositary, nor the Company, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited

Property or in respect of the GDRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).

F. The Depositary has no obligation under the Deposit Agreement to take steps to monitor, supervise or enforce the observance and performance by the Company of its obligations under the Deposit Agreement or the Conditions.

G. Neither the Depositary, the Custodian nor any of their agents, officers, directors or employees shall be liable (except by reason of its own negligence, bad faith or wilful default or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

H. The Depositary and each of its agents (and any holding, subsidiary or associated company of the Depositary) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

I. The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 6, 7, 8, 13 or 14 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible.

J. The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder, Beneficial Owner or person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

K. In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement or the Conditions, the Depositary shall not, except as otherwise expressly provided in Condition 24, be obliged to have regard to the consequence thereof for the Holders, Beneficial Owners, a person with an interest in a GDR or any other person.

L. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.

M. The Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Latvian law. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issue of GDRs if notified by the Company, or if the Depositary becomes aware of the fact that such transfer or issue would be in violation of the limitations set forth above or any other applicable laws.

N. The Depositary may call for, and shall be at liberty to accept as sufficient, evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company, by the Supervisory Board of the Company or by a person duly authorised by the Supervisory Board of the Company, or such other certificate from persons which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

O. The Depositary and its agents shall not be liable for any failure to carry out any instructions to vote any of the Deposited Property, or for the manner in which any vote is cast or the effect of any vote (other than where such failure or action is a result of its own negligence, bad faith or wilful default or is not in accordance with the terms of the Deposit Agreement and the Conditions). The Depositary shall not incur any liability (save in the case of its own negligence or bad faith) for any failure to determine that any distribution or action may be lawful or reasonably practicable, for the content of any information submitted to it by the Company for distribution to the Holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Property, for the validity or worth of the Deposited Property, for the creditworthiness of any third party, for any tax consequences that may result from the ownership of GDRs, Shares or Deposited Property, for allowing any rights to lapse upon the terms of the Deposit Agreement and the Conditions, for the failure or timeliness of any notice from the Company.

P. No provision of the Deposit Agreement or the Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

Q. The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance reasonably satisfactory to it, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Save for the failure on the part of the Depositary to exercise reasonable care in the selection or retention of any such agent, the Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

R. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy reporting requirements or obtain regulatory approvals under applicable laws and regulations which shall be the sole responsibility of the Holders and Beneficial Owners as described in Condition 4C.

S. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

T. The Depositary shall not be liable for any acts or omissions made by a predecessor depositary whether in connection with an act or omission of the Depositary or in connection with any matter arising wholly prior to the appointment of the Depositary or after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

18. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the Principal New York Office.

19. GDR Fees and Charges

A. The following GDR fees are payable under the terms of the Deposit Agreement:

(i) Issuance Fee: by any person depositing Shares or to whom GDRs are issued upon the deposit of Shares (excluding issuances pursuant to paragraph (iv) below), a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) so issued under the terms of the Deposit Agreement and the Conditions;

(ii) Cancellation Fee: by any person surrendering GDRs for cancellation and withdrawal of Deposited Property, a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) so surrendered;

(iii) Cash Distribution Fee: by any Holder of GDRs, a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (i.e., upon the sale of rights and other entitlements);

(iv) Stock Distribution/Rights Exercise Fees: by any Holder of GDRs, a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) held for the distribution of GDRs pursuant to stock dividends or other free stock distributions or upon the exercise of rights to purchase additional GDRs;

(v) Other Distribution Fee: by any Holder of GDRs, a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) held for the distribution of securities other than GDRs or rights to purchase additional GDRs;

(vi) GDR Services Fee: by any Holder of GDRs, a fee not in excess of U.S.$5.00 per 100 GDRs (or fraction thereof) held on the applicable record date(s) established by the Depositary; and

(vii) GDR Transfer Fee: by any person presenting a GDR Certificate for transfer, a fee not in excess of U.S.$1.50 per GDR Certificate so presented for transfer.

Certain of the GDR fees and charges (such as the GDR Services Fee) may become payable shortly after the closing of an offering of the GDRs.

In addition, the Company, Holders, Beneficial Owners, and persons depositing Shares for issuance of GDRs or surrendering GDRs for cancellation and withdrawal of Deposited Property (as applicable) shall be required to pay the following charges under the terms of the Deposit Agreement:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the share register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing Shares or of the Holders and Beneficial Owners of GDRs;

(iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;

(v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, Deposited Property, GDRs and GDR Certificates; and

(vi) the fees and expenses incurred by the Depositary, the Custodian or any nominee in connection with the servicing or delivery of Deposited Property.

B. Any other charges and expenses of the Depositary under the Deposit Agreement and the Conditions will be paid by the Company upon prior agreement between the Depositary and the Company. All fees and charges may, at any time and from time to time, be changed by agreement between the Depositary and Company but, in the case of fees and charges payable by Holders or Beneficial Owners, only in the manner contemplated by Condition 24. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request.

C. GDR fees payable upon (i) deposit of Shares against issuance of GDRs and (ii) surrender of GDRs for cancellation and withdrawal of Deposited Property will be payable by the person to whom the GDRs so issued are delivered by the Depositary (in the case of GDR issuance) and by the person who delivers the GDRs for cancellation to the Depositary (in the case of GDR cancellations). In the case of GDRs issued by the Depositary into DTC, Euroclear or Clearstream, the GDR issuance and cancellation fees and charges will be payable by the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) receiving the GDRs from the Depositary or the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) surrendering the GDRs for cancellation, as the case may be, on behalf of the Beneficial Owner(s) and will be charged by the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) to the account(s) of the applicable Beneficial Owner(s) in accordance with the procedures and practices of the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) as in effect at the time. GDR fees in respect of distributions and the GDR services fee are payable by Holders as of the applicable record date established by the Depositary. In the case of distributions of cash, the amount of the applicable GDR fees is deducted from the funds being distributed. In the case of distributions other than cash and the GDR service fee, the Depositary will invoice the applicable Holders as of the record date established by the Depositary, and such GDR service fee may be deducted from distributions made to Holders. For GDRs held through DTC, Euroclear or Clearstream, the GDR fees for distributions other than cash and the GDR service fee are charged to the DTC Participants, Euroclear Participants or Clearstream Participants in accordance with the procedures and practices prescribed by DTC, Euroclear or Clearstream from time to time and the DTC Participants, Euroclear Participants or Clearstream Participants in turn charge the amount of such fees to the Beneficial Owners for whom they hold GDRs.

D. The Depositary may reimburse the Company for certain expenses incurred by the Company in respect of the Global Depositary Receipts program established pursuant to the Deposit Agreement, by making available a portion of the GDR fees charged in respect of the Global Depositary Receipts program or otherwise, upon such terms and conditions as the Company and the Depositary may agree from time to time. The Company shall pay to the Depositary such fees and charges and reimburse the Depositary for such out of pocket expenses as the Depositary and the Company may agree from time to time. Responsibility for payment of such charges may from time to time be changed by agreement between the Company and the Depositary. Unless otherwise agreed, the Depositary shall present its statement for such expenses and fees or charges to the Company once every three (3) months. The charges and expenses of the Custodian are for the sole account of the Depositary.

20. Listing

The Company has undertaken in the Deposit Agreement to use all commercially reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, admission of trading for GDRs on the London Stock Exchange's main market for listed securities and a

listing of the Shares on the NASDAQ OMX Riga. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the London Stock Exchange and the NASDAQ OMX Riga in connection therewith. In the event that such listings are not maintained, the Company has undertaken in the Deposit Agreement to use all commercially reasonable endeavours to obtain and maintain a listing of the GDRs on another internationally recognized investment exchange in Europe designated as a "recognized investment exchange" for the purposes of the United Kingdom Financial Services and Markets Act 2000 and a listing of the Shares on one or more stock exchanges in Latvia.

21. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement. The Custodian shall be responsible solely to the Depositary. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depositary, in its sole discretion, determines that it is in the best interest of the Holders to do so, it may terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall provide notification of such change as soon as is practically possible following such change taking effect to Holders in accordance with Condition 25 and to the Company.

Citibank, N.A. may at any time act as Custodian of the Deposited Securities pursuant to the Deposit Agreement, in which case any reference to Custodian shall mean Citibank, N.A. solely in its capacity as Custodian pursuant to the Deposit Agreement.

22. Resignation and Termination of Appointment of the Depositary

A. The Depositary may at any time resign as Depositary hereunder by written notice of resignation delivered to the Company, which resignation shall be effective on the earlier to occur of (i) the 90th day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

The Depositary may at any time be removed by the Company by written notice of removal delivered to the Depositary, which removal shall be effective on the later to occur of (i) the 90th day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

B. The Company has undertaken in the Deposit Agreement to use its best efforts to procure the appointment of a successor depositary following the receipt of a notice of resignation from the Depositary or the giving of a notice of the termination of the appointment of the Depositary. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 25.

C. Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

23. Termination of Deposit Agreement

A. The Company may at any time terminate the Deposit Agreement. Upon written direction of the Company, the Depositary shall provide notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

If ninety (90) days shall have expired after (i) the Depositary shall have delivered to the Company a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) or (ii) the Company shall have delivered to the Depositary a written notice of the removal of the Depositary pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) and, in either case, a successor depositary shall not have been appointed and accepted its appointment as provided in Clause 11.1 of the Deposit Agreement and Condition 22(B), the Depositary may terminate the Deposit Agreement by providing notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

The date fixed for termination of the Deposit Agreement in any termination notice distributed by the Depositary to the Holders of GDRs is referred to as the "Termination Date". Until the Termination Date, the Depositary shall continue to perform all of its obligations under the Deposit Agreement and the Conditions, and the Holders and Beneficial Owners will be entitled to all of their rights under the Deposit Agreement and the Conditions.

B. If any GDRs shall remain outstanding after the Termination Date, the Registrar and the Depositary shall not, after the Termination Date, have any obligation to perform any further acts under the Deposit Agreement or the Conditions, except that the Depositary shall, subject, in each case, to the terms and conditions of the Deposit Agreement and the Conditions, continue to (i) collect dividends and other distributions pertaining to Deposited Property, (ii) sell securities and other property received in respect of Deposited Property, (iii) deliver Deposited Property, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any securities or other property, in exchange for GDRs surrendered to the Depositary (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), and (iv) take such actions as may be required under applicable law in connection with its role as Depositary under the Deposit Agreement.

At any time after the Termination Date, the Depositary may sell the Deposited Property then held under the Deposit Agreement and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the Deposit Agreement, in an un-segregated account and without liability for interest, for the pro-rata benefit of the Holders whose GDRs have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and the Conditions except (i) to account for such net proceeds and other cash (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), and (ii) as may be required at law in connection with the termination of the Deposit Agreement. After the Termination Date, the Company shall be discharged from all obligations under the Deposit Agreement and the Conditions, except for its obligations to the Depositary under Clause 10 of the Deposit Agreement and Condition 19. The obligations under the terms of the Deposit Agreement and the Conditions of Holders and Beneficial Owners of GDRs outstanding as of the Termination Date shall survive the Termination Date and shall be discharged only when the applicable GDRs are presented by their Holders to the Depositary for cancellation under the terms of the Deposit Agreement and the Conditions.

24. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of the Deposit Agreement and these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty (30) days after such notice shall have been given. Every Holder or Beneficial Owner at the time any amendment or supplement so becomes effective shall be deemed, by continuing to hold GDRs or any beneficial interest therein to consent to and approve such amendment or supplement and to be bound by the terms of the Deposit Agreement and the Conditions as amended and supplemented thereby.

In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Clause 3 of the Deposit Agreement and Condition 2, the Deposited Property attributable to the relevant GDR except in order to comply with mandatory provisions of applicable law.

The parties hereto agree that substantial rights of Holders and Beneficial Owners shall not be deemed materially prejudiced by any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for the GDRs or Shares to be settled in electronic-book entry form and (ii) do not impose or increase any fees or charges to be borne by Holders or Beneficial Owners.

Notwithstanding anything in the Deposit Agreement or the Conditions to the contrary, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement or the Conditions to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement, and the Conditions at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the Conditions in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

25. Notices

Any and all notices to be given to any Holder shall be deemed to have been duly given if (a) personally delivered or sent by mail, air courier or facsimile transmission, confirmed by letter, addressed to such Holder at the address of such Holder as it appears on the books of the Depositary or, if such Holder shall have filed with the Depositary a request that notices intended for such Holder be mailed to some other address, at the address specified in such request, or (b) if a Holder shall have designated such means of notification as an acceptable means of notification under the terms of the Deposit Agreement and the Conditions, by means of electronic messaging addressed for delivery to the e-mail address designated by the Holder for such purpose.

Notice to Holders shall be deemed to be notice to Beneficial Owners for all purposes of the Deposit Agreement and the Conditions. Failure to notify a Holder or any defect in the notification to a Holder shall not affect the sufficiency of notification to other Holders or to the Beneficial Owners of GDRs held by such other Holders.

Delivery of a notice sent by mail, air courier or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a facsimile transmission) is deposited, postage prepaid, in a post office letter box or delivered to an air courier service, without regard for the actual receipt or time of actual receipt thereof by a Holder. The Depositary or the Company may, however, act

upon any facsimile transmission received by it from any Holder, the Custodian, the Depositary or the Company, notwithstanding that such facsimile transmission shall not be subsequently confirmed by letter.

Delivery of a notice by means of electronic messaging shall be deemed to be effective at the time of the initiation of the transmission by the sender (as shown on the sender's records), notwithstanding that the intended recipient retrieves the message at a later date, fails to retrieve such message, or fails to receive such notice on account of its failure to maintain the designated e-mail address, its failure to designate a substitute e-mail address or for any other reason.

26. Reports and Information on the Company

If, so long as any of the Rule 144A GDRs or the Shares represented thereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and the Company is neither a reporting company under Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Company hereby undertakes to provide to any Holder, Beneficial Owner or holder of Shares or any prospective purchaser designated by such Holder, Beneficial Owner or holder of Shares, upon the request of such Holder, Beneficial Owner, holder of Shares or prospective purchaser, copies of the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

27. Copies of Company Notices

On or before the day when the Company first gives notice, by publication, or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary a copy of such notice and any other material in English but otherwise in the form given or to be given to holders of Shares or other Deposited Property.

In addition, the Company will transmit to the Depositary English-language versions of the other notices, reports and communications which are generally made available by the Company to holders of Shares or other Deposited Property. The Depositary will, at the expense of the Company, make available a copy of any such notices, reports or communications issued by the Company and delivered to the Depositary for inspection by the Holders and Beneficial Owners at the Principal New York Office and the Principal London Office, at the office of the Custodian and at any other designated transfer office. The Depositary shall arrange, at the request of the Company and at the Company's expense, for the distribution of copies thereof to all Holders on a basis similar to that for holders of Shares or other Deposited Property or on such other basis as the Company may advise the Depositary.

28. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any holder or any other person for any interest thereon, except as otherwise agreed.

29. Severability

If any one or more of the provisions contained in the Deposit Agreement or in the Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Governing Law

A. The Deposit Agreement, the Conditions, the Deed Poll and the GDRs, and any non-contractual obligations arising out of or in connection with them, are governed by English law, except that the required certifications from the persons making deposits or withdrawals of Shares pursuant to the Deposit Agreement are governed by and shall be construed in accordance with the laws of the State of New York. For the avoidance of doubt, the rights and obligations attaching to the Deposited Shares will be governed by Latvian law.

B. The Company and the Depositary have agreed that the courts of England and the federal or state courts in the Borough of Manhattan in The City of New York shall have exclusive jurisdiction to hear any suit, action or proceeding and to settle any disputes between them that may arise out of, or in connection with, the Deposit Agreement and the Conditions and the legal relationship established by them and accordingly any legal action or proceedings arising out of, or in connection with, the Deposit Agreement, the Conditions or the GDRs and the legal relationship established thereby ("**Proceedings**") may be brought in such courts.

These submissions shall not limit the right of the Depositary to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not) to the extent permitted by law.

31. Contracts (Rights of Third Parties) Act 1999

A person who is not a party to the Deposit Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 (the "Act") of the United Kingdom to enforce any term of the Deposit Agreement but this does not affect any right or remedy granted under the Deed Poll or which otherwise exists or is available apart from the Act.

DEPOSITARY

Citibank, N.A.
388 Greenwich Street
New York, New York 10013
United States of America

CUSTODIAN

Nordea Bank Finland Plc
Aleksis Kiven katu 3-5, VC210
FI00020 Nordea
Helsinki, Finland

and/or such other Depositary and/or such other Custodian or Custodians and/or principal offices as may from time to time be duly appointed and notified to the Holders.

Summary of the Provisions Relating to the Global Depositary Receipts While in Master Form

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as common depositary for Euroclear and Clearstream and the Master Rule 144A GDR will be deposited with the Depositary as custodian for The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co., as nominee for DTC. The Master GDRs contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs (the "**Conditions**") set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

Any increase or decrease in the number of GDRs evidenced thereby from that initially notified to the Holder, as defined in the Conditions, will promptly be notified to the Holder by the Depositary in accordance with the Conditions.

For risks related to potential future limitations on the exercise of voting and/or dividends rights by a GDR holder, see "*Risk Factors—Risks Relating to the Securities and the Trading Market*".

Exchange

The Master GDRs will be exchanged for certificates in definitive registered form representing GDRs only in the circumstances described in (i), (ii), (iii) or (iv) below, in whole but not in part. The Depositary will undertake in the Master GDRs to deliver certificates in definitive registered form in exchange for the relevant Master GDR, to Holders of GDRs within 60 calendar days of the relevant event in the event that:

(i) either DTC (in the case of the Master Rule 144A GDR), or Euroclear or Clearstream (in the case of the Master Regulation S GDR) or any successor notifies Citadele that it is unwilling or unable to continue as a clearing or settlement system and a successor clearing or settlement system is not appointed within 90 calendar days; or

(ii) either DTC (in the case of the Master Rule 144A GDR), or Euroclear or Clearstream (in the case of the Master Regulation S GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form (provided that the Depositary shall have no obligation to so determine or to attempt to so determine).

Any such exchange shall be at the expense of the Holders of GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreements, or any distribution of GDRs pursuant to the Conditions or any reduction in the number of GDRs represented thereby following any

withdrawal of Deposited Property pursuant to Condition 2 or increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered by the Depositary in the books maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered in the books. If the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of Citadele under the corresponding Deposit Agreement and the Conditions and the obligations of the Depositary pursuant to the corresponding Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from Citadele. A free distribution of Shares to the Depositary on behalf of the Holders may result in the books maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream (in the case of GDRs represented by the Master Regulation S GDR), or DTC (in the case of GDRs represented by the Master Rule 144A GDR), on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear or Clearstream, and the Master Rule 144A GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear or Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with the Conditions.

Information

For so long as any of the Rule 144A GDRs or Shares represented thereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a) (3) under the Securities Act, if at any time Citadele is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, Citadele has agreed to supply to the Depositary such information in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of Rule 144A GDRs or to any holder of Shares or prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by Citadele in favour of such persons and to comply with the information delivery

requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A in connection with resales of Rule 144A GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise will comply with the requirements of Rule 144A(d)(4) under the Securities Act.

Governing Law

The Master GDRs, and all non-contractual obligations arising out of or in connection with the Master GDRs, shall be governed by and construed in accordance with English law.

Description of Arrangements to Safeguard the Rights of the Holders of the Global Depositary Receipts

Information relating to the Depositary

The Depositary is Citibank, N.A., a national banking association organised under the laws of the United States. The GDR Depositary is an indirect wholly-owned subsidiary of Citigroup Inc., a Delaware corporation. The GDR Depositary is primarily regulated by the United States Office of the Comptroller of the Currency. See "*Information Relating to the GDR Depositary*". There are no bank or other guarantees attached to the GDRs which are intended to underwrite the GDR Depositary's obligations.

Rights of Holders of GDRs

Relationship of Holders of GDRs with the Depositary

The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreements, which are governed by English law (except that the certifications required to be given upon deposit or withdrawal of Shares are governed by the laws of the State of New York). The Depositary and Citadele are parties to the Deposit Agreements. Holders of GDRs have contractual rights against the Depositary under the Conditions in relation to cash held by the Depositary, and rights against the Depositary under the Conditions under a bare trust in respect of Deposited Property other than cash (including Deposited Shares, which are Shares of Citadele represented by GDRs) deposited with the Depositary under the Deposit Agreement, and certain limited rights against Citadele by virtue of the Deed Poll. The Depositary will hold the Deposited Property as bare trustee for the Holders; however, the GDR Depositary does not otherwise assume any relationship of trust for or with the Holders or the beneficial owners of the GDRs or any other person.

Although the Deposit Agreements and the Conditions are governed by English law and Citadele and the Depositary have agreed to resolve any disputes thereunder in the courts of England or the federal or state courts in the Borough of Manhattan in The City of New York, if a proceeding were to be brought before a Latvian court relating to the Deposit Agreement, the GDRs, the Shares or the GDR Holders' respective rights thereunder, the GDR Holders may be required by such Latvian court to show that they are the beneficial owners of the relevant underlying Shares that have been deposited with the Depositary. In order to confirm their beneficial ownership of the underlying Shares, GDR Holders may need to submit to such Latvian court documents confirming that the deposited shares are held by the Depositary or its nominee in connection with the issue of the GDRs. These documents may include certificates, extracts and records from the relevant registries and book-entry accounts and systems evidencing the rights of the GDR Holders, as well as a copy of the Deposit Agreement and/or any deed poll confirming that deposit arrangements for the Shares are in place (see "*Settlement and Delivery—The Clearing Systems—Registration and form*").

Voting

With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreements provide that, if instructed by Citadele, the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose voting materials and instructions for voting. The Deposit Agreements and the Conditions provide that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with the voting instructions it has received from Holders, subject to the requirements contained in the Conditions and applicable Latvian laws.

Delivery of Shares

The Deposit Agreements and the Conditions provide that the Deposited Shares can only be delivered out of the Regulation S GDR facility and the Rule 144A GDR facility to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs.

Rights of Citadele

Citadele has broad rights to remove the Depositary under the terms of the Deposit Agreements, but no specific rights under the Deposit Agreements which are triggered in the event of the insolvency of the Depositary.

Insolvency of the Depositary

Applicable insolvency law

If the Depositary becomes insolvent, the insolvency proceedings will be governed by the U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current U.S. law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash, and such cash would also be available to general creditors of the Depositary or the U.S. Federal Deposit Insurance Corporation ("**FDIC**").

Effect of applicable insolvency law in relation to non-cash assets

The Deposit Agreements state that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's liquidator to deliver to them such Depositary Shares and other non-cash assets, and such Depositary Shares and other non-cash assets would be unavailable to general creditors of the Depositary or the FDIC.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Conditions or otherwise engages in a default for which it would be liable under the Conditions or the Deposit Agreements, the Depositary will be in breach of its contractual obligations under the Conditions and the Deposit Agreements. In such case, Holders will have a claim under English law against the Depositary to the extent that the Depositary is in breach of its contractual obligations under the Conditions and the relevant Deposit Agreements.

The Custodian

The Custodian is Nordea Bank Finland plc. The Custodian holds securities for the Depositary subject to a custody agreement between the Custodian and the Depositary, which is governed by New York law.

Relationship of Holders of GDRs with the Custodian

The Holders do not have any contractual relationship with, or rights enforceable against, Nordea Bank Finland plc in its capacity as the Custodian. The Custodian will hold the Deposited Shares via Swedbank AS, as sub-custodian of the Custodian, and via "Swedbank" AS as sub-custodian to Swedbank AS. The Deposited Shares will be recorded in the book-entry systems of the LCD in the name of Swedbank AS and deposited in the Regulation S facility and Rule 144A facility.

Default of the Custodian

Failure to deliver cash

Dividend payments made to the Depositary denominated in euro or any other currency which are made in accordance with the Depositary's current procedures and pursuant to the terms of the Deposit Agreements and Conditions will not be made through the Custodian. Rather, payments in euro or any other currency other than U.S. dollars are expected to be made to an account outside of Latvia, converted into U.S. dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders. Any dividend payments made in U.S. dollars will be made directly from Citadele to an account in New York and then credited to the U.S. dollar denominated accounts of the Holders.

Failure to deliver non-cash assets

If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary, the Custodian will be in breach of its obligations to the Depositary. Subject to the Conditions, the Depositary can remove the Custodian and appoint a successor custodian and may exercise such rights as it deems necessary.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that the Depositary has failed to use reasonable care in the selection of the Custodian.

Insolvency of the Custodian

Applicable law

If the Custodian becomes insolvent, the insolvency proceedings will be governed by Finnish law. If Swedbank AS, as sub-custodian, becomes insolvent, the insolvency proceedings will be governed by Estonian law. If "Swedbank" AS, as sub-custodian to Swedbank AS, becomes insolvent, the insolvency proceedings will be governed by Latvian law.

Effect of applicable insolvency law in relation to cash

For the reasons set forth above, it is not expected that any claim for cash will subsist against the Custodian as Citadele will make payments directly to the Depositary or its nominee, as the case may be, and no cash will be paid to the Custodian.

Effect of applicable insolvency law in relation to non-cash assets

The Deposited Shares will be registered in the Latvian Central Depository in the name of the Custodian on behalf of the Depositary or its nominee, as the case may be. The Depositary or its nominee, as the case may be, will have ownership rights over the Deposited Shares or other non-cash assets held by the Custodian at the time of its insolvency and will be able to request the Custodian to deliver such Deposited Shares or other non-cash assets to it. If the Custodian fails or refuses, such non-delivery will not affect the Depositary's or its nominee's, as the case may be, legal title to or ability to transfer the underlying shares of Citadele. As the Depositary holds legal title to the Deposited Shares, in the event the Custodian becomes insolvent, the Deposited Shares would be deemed to form part of the assets of the Depositary (on behalf of the Holders) and the general creditors of the Custodian would not have a claim in respect of the Deposited Shares.

The Depositary's obligations

The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Holders have no direct recourse to the Custodian.

PERSONS HOLDING TITLE TO GDRs OR BENEFICIAL INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISERS IN MAKING A DETERMINATION.

Taxation

The following is a summary of certain U.S. federal, United Kingdom and Latvian tax consequences of ownership of the Securities based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date hereof. 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 Securities, 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 address all tax aspects that may be relevant to a holder of the Securities. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Securities, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as at the date hereof, and of any actual changes in applicable tax laws after such date.

Latvian Tax Considerations

General

Prospective purchasers of the Securities are advised to consult their own tax advisers as to the consequences of a purchase of the Securities under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of dividends, including interim dividends, or any interest and the sale or redemption of the Securities.

This summary is based on Latvian tax laws, regulations and the published practice, administrative practice and judicial decisions of the State Revenue Service of the Republic of Latvia ("**SRS**") in effect at the date of this Prospectus. The following statements do not constitute tax advice and do not address all aspects of Latvian taxation and are intended only as a general guide.

In relation to the jurisdiction of Latvia and respective practices of the SRS, it should be noted that to avoid any additional application of taxes, it would be advisable to obtain an advance tax ruling from the SRS, which would provide the investor with certainty as to the exact application of the Latvian domestic tax laws in respect of their specific situation.

The summary below deals with the tax consequences of ownership of shares under Latvian law. By analogy, ownership of GDRs should also be treated in the same manner, but there is no express treatment of GDRs in Latvian tax laws. Accordingly, there is a risk that any exemption mentioned below in relation to taxation of income or capital arising from shares may not apply to income or capital arising from GDRs and they may be taxed in accordance with the Latvian tax laws.

Disposal of the Securities

Resident Entities

An entity will be considered as a resident of Latvia for tax purposes if it is or should have been established and registered in the Republic of Latvia in accordance with the legislative acts of the Republic of Latvia. This may also include permanent establishments of foreign entities in Latvia.

In accordance with the law on Corporate Income Tax of the Republic of Latvia, income from the sale of shares is tax exempt for corporate income tax ("**CIT**") purposes in Latvia, unless the income is generated by the disposal of shares of a company which is located or established in a low-tax or tax-free country or territory referred to in the Regulations of the Cabinet of Ministers of the Republic of Latvia No. 276 of 26 June 2001 (the "**Cabinet Regulations**"), such as the US Virgin Islands, the British Virgin Islands, the Bailiwick of Jersey and Sint Maarten (among others). If this is the case, CIT at the rate of 15% would be applicable.

Furthermore, a disposal of securities which are listed on a regulated market in the EU or EEA are not subject to CIT in Latvia. If the securities are not listed on a regulated market in the EU or EEA, income from such disposal should be included in the taxable income of the respective holder and should be subject to CIT at the rate of 15%.

Non-Resident Entities

The income from the disposal of Securities will not be subject to tax in Latvia except where the purchaser is a Latvian resident and the receiver of the income is located or established in a low-tax or tax-free country or territory as determined by the Cabinet Regulations. In such a case, withholding tax at a rate of 15% would be applicable if the purchaser is a Latvian resident entity, or 23% if the purchaser is a Latvian private individual engaged in business activities, unless relief is received from the SRS. The liability of a purchaser which is a Latvian resident entity will not be applicable if the payment to a recipient concerns the purchase of public circulation securities of the EU or EEA, provided that such securities have been purchased for the market price.

Resident Individuals

An individual will be considered as a resident of Latvia for taxation purposes if: (i) his permanent place of residence is in the Republic of Latvia; (ii) he stays in the Republic of Latvia for 183 days or more within any 12 month period, starting or ending in the taxation year; or (iii) he is a citizen of the Republic of Latvia employed abroad by the Government of the Republic of Latvia.

In accordance with the Law on Personal Income Tax of the Republic of Latvia, the sale of Securities should be treated as a sale of capital assets, where the capital gains would be subject to personal income tax ("**PIT**") at a rate of 15%

Non-Resident Individuals

The income from the disposal of the Securities will not be subject to tax in Latvia, except where the purchaser is a Latvian resident and the receiver of income is located or established in low-tax or tax-free countries or territories as determined by the Cabinet Regulations. If this is the case, withholding tax at a rate of 15% would be applicable if the purchaser is a Latvian resident entity or 23% if the purchaser is a Latvian private individual engaged in business activities, unless relief is received from the SRS. The liability of a purchaser which is a Latvian resident entity will not be applicable if the payment to a recipient concerns the purchase of public circulation securities of the EU or EEA, provided that such securities have been purchased for the market price.

Certain provisions of FATCA (as defined under "*—Foreign Account Tax Compliance Act*") are in force in Latvia and impose (i) certain reporting and due diligence requirements on foreign financial institutions, and (ii) potentially require such foreign financial institutions to deduct a 30% withholding tax from (a) certain payments from sources within the United States, and (b) "foreign passthru payments" made to certain non-US financial institutions that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information.

Stamp duty and other transfer taxes

There are no stamp duties or transaction taxes in Latvia in relation to transfer of the Securities.

Taxation of dividends

Resident Entities

Dividends received by resident entities are not subject to CIT in Latvia, unless the dividends are received from a company located or established in low-tax or tax-free countries or territories referred to in the Cabinet Regulations. In such case the dividends should be subject to 15% CIT.

Non-Resident Entities (other than tax havens)

Dividends paid by resident entities to non-resident entities are not subject to withholding tax in Latvia.

However, the holder of the securities account who settles the payments with the non-resident is obliged to withhold and pay into the State budget the tax on dividends that have been disbursed by stock companies with shares available for public circulation to a non-resident (shareholder or intermediary) who is domiciled, established or founded in the low-tax or tax-free countries or territories. Exception is for payments in respect of the publicly listed securities of the EU or EEA, provided that such securities have been purchased at the market price.

Resident Individuals

Dividends received by resident private individuals are taxed as PIT at a flat rate of 10%. The day of obtaining income from dividends and accordingly also the day of disbursement of the dividend income is considered as the day when the dividends are calculated. If dividends are calculated for stocks in public circulation, the day of earning an income from dividends and, therefore, the day of disbursement of income from dividends is considered as the day when the dividends are disbursed and the holder of a securities account who performs settlements with the payer has the duty to withhold the tax from dividends disbursed to a stockholder or an intermediary for stocks in public circulation and transfer it to the State budget.

Non-Resident Individuals (other than tax havens)

If dividends are calculated for stocks in public circulation the holder of a securities account who performs settlements with the payer has the duty to withhold the tax from dividends disbursed to a stockholder or an intermediary for stocks in public circulation and transfer it to the State budget. Dividends paid by resident entities to non-resident private individuals are subject to 10% to be withheld at source. If dividends are paid out to a non-resident private individual from the low-tax or tax-free countries or territories, then according to the most recent practice of the State Revenue Service of Latvia, the PIT in the amount of 10% and the CIT in the amount of 5% (instead of 15% CIT due to the aforementioned 10% PIT rate) should be withheld by the payer of the income.

Final dividends paid to persons resident in tax havens

Without prejudice to any other provisions of the Latvian Law on Corporate Income Tax of the Republic of Latvia, CIT shall be deducted at the rate of 15% from all payments made by residents of Latvia to legal, natural or other persons who are located or established in low-tax or tax-free countries or territories referred to in the Cabinet Regulations, such as the US Virgin Islands, the British Virgin Islands, the Bailiwick of Jersey and Sint Maarten, including payments made to representatives of such persons or into bank accounts of third parties and payments made by way of mutual accounting settlements except for payments in respect of the publicly listed securities of the EU or EEA (including the Securities), provided that such securities have been purchased at the market price. This exemption does not apply to dividends.

Interim dividends paid to persons resident in tax havens

CIT shall be deducted at the tax rate of 30% from the interim dividends paid to legal, natural or other persons who are located or established in low-tax or tax-free countries or territories referred to in the Cabinet Regulations, such as the US Virgin Islands, the British Virgin Islands, the Bailiwick of Jersey and Sint Maarten, including payments made to the representatives of such persons or payments made to bank accounts of third parties, and the payments effected by way of the mutual settlement of accounts. There is no direct exemption in Latvian domestic tax laws applicable to interim dividends in relation to payments made to tax havens.

Withholding tax implications regarding disposal of GDRs

Any person who receives income in Latvia is subject to CIT or PIT, unless there is an applicable exemption in the specific tax laws. As a general rule, CIT shall be withheld from specific payments that are paid by residents and permanent establishments to non-residents if PIT has not been deducted from such payments, or in specific cases, tax will be withheld and transferred to the State budget by the holder of the securities account who performs settlements with the tax payer.

Disposals of securities which are listed on a regulated market in the EU or EEA are not subject to CIT in Latvia. If the securities are not listed on a regulated market in the EU or EEA, income from such disposal should be included in the taxable income of the respective holder and will be subject to CIT at a rate of 15%. By analogy, the disposal of GDRs should be treated in the same manner, but there is no express exemption under Latvian law exempting capital gains on disposals of GDRs from tax. Moreover, the provisions of the tax laws in Latvia are usually interpreted narrowly. Considering that income arising from certain types of securities, including GDRs, is not directly addressed in the national tax laws, there is a risk that the income derived from the disposal of such securities might be taxed in accordance with Latvian tax laws. Moreover, due to the possible narrow interpretation of the relevant tax laws by the national tax administration, there is a risk that, in relation to such payments, especially those made to tax havens, tax will be withheld and transferred to the State budget by the holder of the securities account who performs settlements with the tax payer.

In addition, the taxable income of a private individual, whether they are a resident or a non-resident, includes, income from the alienation of specific capital assets, dividends, interest income and income equivalent thereto, as well as income related to the interest income. An exception to the above is that income, interest income and income equivalent thereto from the alienation of financial instruments in public circulation will not constitute taxable income for non-resident private individuals.

Similarly, there is no express exemption under the Latvian tax laws exempting disposals of GDRs from capital gains tax. Therefore, the payer of the income may have to withhold the tax from the income paid to a non-resident private individual (2% of the disbursed remuneration with the right to recalculate the taxable income and apply 15% PIT on capital gains); in such case the tax will be withheld and transferred to the State budget by the holder of the securities account who performs settlements with the tax payer.

Material United States Federal Income Tax Consequences

The following summary describes the material United States federal income tax consequences relating to an investment in GDRs or Shares as of the date hereof. This discussion is limited to consequences relevant to a U.S. Holder (as defined below) who is eligible for the benefits of the income tax treaty between the United States and Latvia, and does not address the effects of any United States federal tax laws other than United States federal income tax laws (such as estate and gift tax laws). This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), existing final and temporary U.S. Treasury regulations promulgated thereunder (the "**Treasury Regulations**"), published notices, rulings and judicial decisions, all as in effect on the date of this Prospectus and all of which are subject to prospective and retroactive rulings and changes.

This summary does not purport to address all United States federal income tax consequences that may be relevant to a particular investor in light of such investor's particular circumstances, including the impact of the Medicare tax on net investment income, and investors are urged to consult their own tax advisors regarding their specific tax situation. The summary applies only to investors who own GDRs or Shares as "capital assets" (generally, property held for investment) under the Code, and does not address the tax consequences that may be relevant to investors in special tax situations, including for example:

- banks or certain other financial institutions;

- insurance companies;
- regulated investment companies and real estate investment trusts;
- tax-exempt organizations;
- broker-dealers;
- traders in securities that elect to mark-to-market;
- partnerships or other pass-through entities and any owners thereof;
- United States investors whose functional currency is not the United States dollar;
- certain former citizens or residents of the United States subject to Section 877 of the Code;
- U.S. Holders that are resident of or have a permanent establishment in a jurisdiction outside of the United States;
- persons liable for alternative minimum tax;
- persons that hold GDRs or Shares as part of a hedge, straddle or conversion transaction; or
- persons that own, directly, indirectly or constructively 10.0% or more of Citadele's total combined voting stock.

Further, this summary does not address the indirect consequences to owners of equity or partnership interests in entities that own GDRs or Shares. In addition, this summary does not address any state, local and other foreign tax consequences of an investment in GDRs or Shares.

Investors should consult their own tax advisors regarding the United States federal, state, local and foreign and other tax consequences of purchasing, owning and disposing of GDRs or Shares in their particular circumstances.

Taxation of U.S. Holders

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of GDRs or Shares who is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to United States federal income tax regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust has made a valid election to be treated as a United States person.
- If a partnership holds GDRs or Shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding GDRs or Shares should consult their own tax advisors.
- For United States federal income tax purposes, a U.S. Holder of GDRs will generally be treated as the owner of the Shares represented by such GDRs. Accordingly, no gain or loss will be recognized upon the exchange of GDRs for Shares. A U.S. Holder's adjusted basis in the Shares will be the same as the adjusted basis in the GDRs surrendered therefor, and the holding period in the Shares will include the period during which the holder held the surrendered GDRs.

Passive Foreign Investment Company ("PFIC")

General

In general, a non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income for such taxable year is passive income (the "**gross income test**"); or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "**asset test**").

Passive income for this purpose generally, among other things, includes interest, dividend, royalties, rents and gains from commodities and securities transactions. In determining whether a non-U.S. corporation is a PFIC, such non-U.S. corporation will be treated as owning the proportionate share of the income and assets of any other corporation in which it owns, directly or indirectly, at least 25% (by value) of the stock of such corporation.

Citadele is not a bank licensed in the United States and the application of the PFIC rules to banks that are not licensed in the United States is unclear under present United States federal income tax law. Banks generally derive a substantial part of their income from assets that are interest-bearing or that otherwise could be considered passive assets under the PFIC rules. The Internal Revenue Service (the "**IRS**") has issued a notice and the United States Department of the Treasury has proposed Treasury Regulations that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the "**active bank exception**"). The IRS notice and the proposed Treasury Regulations have different requirements for qualifying as a foreign bank, and for determining the banking income that may be excluded from passive income under the active banking exception. Moreover, the proposed Treasury Regulations have been outstanding since 1995 and will not be effective unless finalized. Because final Treasury Regulations have not been issued and because the notice and the proposed Treasury Regulations are inconsistent in certain respects, Citadele's status under the PFIC rules is subject to uncertainty.

Based on Citadele's current expectations regarding the sources and nature of its income and the value and nature of its assets during the current taxable year, Citadele believes that, under the asset test, it is currently a PFIC, and that there is a significant risk that Citadele will continue to be a PFIC in subsequent taxable years. However, because PFIC classification for a taxable year is determined annually and generally after the close of such taxable year, Citadele's classification as a PFIC for this taxable year and subsequent taxable years cannot be determined with certainty as of the date of this Prospectus.

If Citadele is a PFIC for any year during which U.S. Holders hold GDRs or Shares, Citadele generally will continue to be treated as a PFIC with respect to them for all succeeding years during which such U.S. Holders hold GDRs or Shares. However, if Citadele ceases to be a PFIC, U.S. Holders may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the GDRs or the Shares. If such election is made, such U.S. Holders will be deemed to have sold the GDRs or the Shares they hold at their fair market value as of the last day of the last taxable year for which Citadele was a PFIC, and any gain from such deemed sale would be subject to the tax consequences described in the following paragraph. After the deemed sale election, such U.S. Holders' GDRs or Shares with respect to which the deemed sale election was made would not be treated as shares in a PFIC and they would not be subject to the rules described below. The rules dealing with deemed sale elections are complex and U.S. Holders are urged to consult their own tax advisors as to the possibility and consequences of making a deemed sale election if Citadele is not or ceases to be a PFIC.

For each taxable year Citadele is treated as a PFIC with respect to U.S. Holders, such U.S. Holders will be subject to special tax rules with respect to any "excess distribution" they receive and any gain they realize from a sale, exchange or other disposition (including a pledge) of the GDRs or the Shares, unless they make a "QEF" election or "mark-to-market" election as discussed below.

Distributions U.S. Holders receive in a taxable year that are greater than 125% of the average annual distributions they received during the shorter of the three preceding taxable years or their holding period for the GDRs or the Shares will be treated as an excess distribution. Under these special tax rules, if U.S. Holders receive any excess distribution or realize any gain from a sale, exchange or other disposition of the GDRs or the Shares:

- the excess distribution or gain will be allocated ratably over their holding period for the GDRs or the Shares;
- the amount allocated to the current taxable year, and any taxable year before the first taxable year in which Citadele was a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and an interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years before the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the GDRs or the Shares cannot be treated as capital, even if U.S. Holders hold such GDRs or Shares as capital assets. If Citadele is treated as a PFIC with respect to U.S. Holders for any taxable year, to the extent any of Citadele's subsidiaries are also PFICs, such U.S. Holders will be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by Citadele in the proportion that the value of the GDRs or the Shares they own bears to the value of all of the GDRs and the Shares, and they may be subject to the rules described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs they would be deemed to own. U.S. Holders are urged to consult their own tax advisors regarding the application of the PFIC rules to any of Citadele's subsidiaries.

QEF Election

Alternatively, U.S. Holders of stock in a PFIC may make an election to treat the PFIC as a "Qualified Electing Fund" for U.S. federal income tax purposes (a "**QEF Election**"). U.S. Holders making this election are required to report each year their allocable share of Citadele's ordinary earnings and net capital gain for the taxable year that ends with or within the U.S. Holder's taxable year, regardless of whether Citadele makes any distributions in that year. These income inclusions are not eligible for the preferential rates applicable to QDI (as defined below under "Distributions on GDRs or Shares"). U.S. Holders making a QEF Election would increase their adjusted tax basis in their GDRs and Shares to reflect any taxed but undistributed income. Distributions of earnings and profits that had previously been taxed would result in a corresponding reduction in the adjusted tax basis in the GDRs and Shares and would not be taxed again once distributed. U.S. Holders making a QEF Election generally recognize capital gain or loss on the sale, exchange or other disposition of GDRs and Shares.

A QEF Election may be made for any taxable year of a U.S. Holder. If the U.S. Holder does not make a timely QEF Election for the first taxable year in which the U.S. Holder holds GDRs or Shares, however, that U.S. Holder will be subject to the tax treatment for PFICs discussed above under "General". Additionally, if any of Citadele's subsidiaries are or become PFICs, a QEF Election with respect to Citadele will not be effective with respect to a U.S. Holder's deemed ownership of the stock of that subsidiary, and a separate QEF Election with respect to that subsidiary is required.

U.S. Holders make a QEF Election by completing and filing IRS Form 8621 with their U.S. Federal income tax return for the tax year for which the election is to be made in accordance with the relevant instructions. Citadele intends to provide all necessary information to any U.S. Holder who requests such information in order to make the QEF Election described above with respect to Citadele and any relevant subsidiaries for tax years in which Citadele determines it is a PFIC.

The rules dealing with QEF Elections are complex and U.S. Holders should consult their own tax advisors as to the possibility and consequences of making a QEF Election.

Mark-to-Market Election

Lastly, U.S. Holders of "marketable stock" in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment for PFICs discussed above under "*—General*". The GDRs and Shares generally will be "marketable stock" if the GDRs and Shares are regularly traded on a qualified exchange or other market. For this purpose, a "qualified exchange or other market" includes a securities exchange in a foreign country that is regulated by such foreign country's governmental authority, provided that (i) the foreign exchange has certain requirements in place designed to prevent fraudulent and manipulative acts and practices, remove impediments to and perfect the mechanism of a free, open, fair, and orderly market, and protect investors (and the laws of the foreign country and the rules of the foreign exchange ensure that such requirements are actually enforced), and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks. If the GDRs and Shares are traded on such a qualified exchange or other market, the GDRs and Shares generally will be "regularly traded" for any calendar year during which the GDRs and Shares are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. The GDRs are expected to be listed on the London Stock Exchange, and the Shares are expected to be listed on the Nasdaq Riga. U.S. Holders should consult their own tax advisors to determine whether the GDRs or Shares are regularly traded on a qualified exchange.

If U.S. Holders make a mark-to-market election for the GDRs or the Shares, they will include in income for each year Citadele is a PFIC, an amount equal to the excess, if any, of the fair market value of the GDRs or the Shares as of the close of their taxable year over their adjusted basis in such GDRs or Shares. Such U.S. Holders are allowed a deduction for the excess, if any, of the adjusted basis of the GDRs or the Shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the GDRs or the Shares included in their income for prior taxable years. Amounts included in their income under a mark-to-market election, as well as gain on the actual sale, exchange or other disposition of the GDRs or the Shares are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the GDRs or the Shares, as well as to any loss realized on the actual sale, exchange or other disposition of the GDRs or the Shares to the extent the amount of such loss does not exceed the net mark-to-market gains previously included for such GDRs or Shares. Such U.S. Holders' basis in the GDRs or the Shares will be adjusted to reflect any such income or loss amounts. If U.S. Holders make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by Citadele, except the lower applicable tax rate for QDI (as defined below under "*—Distributions on GDRs or Shares*") would not apply. If any of Citadele's subsidiaries are or become PFICs, the mark-to-market election will not be available with respect to the shares of such subsidiaries that are treated as owned by U.S. Holders. Consequently, U.S. Holders could be subject to the PFIC rules with respect to income of the lower-tier PFICs the value of which already had been taken into account indirectly via mark-to-market adjustments.

The rules dealing with mark-to-market elections are complex and U.S. Holders should consult their own tax advisors as to the possibility and consequences of making a mark-to market election.

U.S. Holders generally will be required to file an IRS Form 8621 if they hold GDRs or Shares in any year in which Citadele is classified as a PFIC.

U.S. HOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE IMPACT OF CITADELE'S POSSIBLE PFIC STATUS ON THEIR INVESTMENT IN THE GDRS AND SHARES AS WELL AS APPLICATION OF THE PFIC RULES TO THEIR INVESTMENT IN THE GDRS AND SHARES.

Distributions on GDRs or Shares

Subject to the PFIC rules discussed above, the gross amount of cash distributions made by Citadele to U.S. Holders with respect to GDRs or Shares (including amounts withheld to pay

Latvian withholding taxes) generally will be taxable to such U.S. Holders as ordinary dividend income when such U.S. Holders receive the distribution, actually or constructively, to the extent paid out of Citadele's current or accumulated earnings and profits (as determined for United States federal income tax purposes). Dividends paid on the GDRs or Shares will generally be treated as "passive category" foreign source income, which may be relevant to certain U.S. Holders in computing their foreign tax credit limitations.

Distributions in excess of Citadele's current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated first as a non-taxable return of capital reducing such U.S. Holders' adjusted basis in the GDRs or the Shares. Any distribution in excess of such adjusted basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether U.S. Holders held the GDRs or the Shares for more than one year. However, Citadele currently does not, and does not intend to, calculate its earnings and profits under United States federal income tax principles. Therefore, U.S. Holders should expect that a distribution generally will be reported as dividend income. Dividends paid by Citadele generally will not be eligible for the dividends-received deduction available to certain corporate U.S. Holders.

With respect to individual U.S. Holders of GDRs or Shares, these dividends may constitute qualified dividend income ("**QDI**") and, thus, may be taxed at a reduced rate, provided that (1) Citadele is eligible for the benefits of the United States-Latvia income tax treaty, (2) Citadele is not a PFIC in the taxable year in which it pays the dividends or in the preceding taxable year, and (3) certain holding period requirements are met. Citadele expects to be eligible for the benefits of the United States-Latvia income tax treaty. However, as discussed above in *"—Passive Foreign Investment Company,"* Citadele believes it is a PFIC for the current taxable year, and may remain a PFIC in subsequent taxable years. U.S. Holders should consult their own tax advisors regarding the availability of a reduced rate under their particular circumstances.

The amount of any cash distribution paid in currency other than the United States dollar will equal the United States dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depositary, in the case of GDRs, or by the U.S. Holders, in the case of Shares, regardless of whether the payment is in fact converted to United States dollars at that time. Generally, U.S. Holders should not recognize any foreign currency gain or loss if such foreign currency is converted into United States dollars on the date received. It is expected that the depositary will in the ordinary course convert foreign currency received by it as distributions into United States dollars on the date of receipt. If the foreign currency is not converted into United States dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of such foreign currency. Such foreign currency gain or loss, if any, will be United States source ordinary income or loss.

Sale, Exchange or Other Taxable Disposition of GDRs or Shares

Subject to the PFIC rules discussed above, U.S. Holders will generally recognize capital gain or loss upon the sale, exchange or other taxable disposition of GDRs or Shares measured by the difference between the United States dollar value of the amount received and the U.S. Holders' adjusted basis (determined in United States dollars) in the GDRs or the Shares. Any gain or loss will be long-term capital gain or loss if the GDRs or the Shares in the sale, exchange or other taxable disposition have been held for more than one year and will generally be United States source gain or loss. The holding period for Shares withdrawn from the depositary facility will include the holding period of the GDRs exchanged therefor. U.S. Holders' ability to deduct capital losses is subject to limitations.

To the extent the GDRs or the Shares are considered traded on an established securities market within the meaning of Treasury Regulations applicable to foreign currency transactions, cash-basis U.S. Holders who receive foreign currency in connection with a sale, exchange or other taxable disposition of GDRs or Shares will determine their amount realized based upon the United States dollar value of the foreign currency received with respect to such GDRs or Shares on the settlement date of such sale, exchange or other taxable disposition.

Accrual-basis U.S. Holders may elect the same treatment required of cash-basis taxpayers with respect to a sale, exchange or other taxable disposition of GDRs or Shares, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the IRS. Accrual-basis U.S. Holders that do not elect to be treated as cash-basis taxpayers for this purpose may have a foreign currency gain or loss for United States federal income tax purposes because of differences between the United States dollar value of the foreign currency received prevailing on the date of such sale, exchange or other taxable disposition and the value prevailing on the date of payment. Any such foreign currency gain or loss will generally be treated as ordinary income or loss that is United States source, in addition to the gain or loss, if any, recognized on the sale, exchange or other taxable disposition of GDRs or Shares.

Information with Respect to Foreign Financial Assets

Individuals (and, under proposed Treasury Regulations, certain entities) who are U.S. Holders that own "specified foreign financial assets", including stock of a non-U.S. corporation not held through a financial institution, with an aggregate value in excess of certain dollar thresholds may be required to file an information report with respect to such assets on IRS Form 8938 with their United States federal income tax returns. Penalties apply for failure to properly complete and file IRS Form 8938. U.S. Holders should consult their tax advisors regarding the application of this reporting requirement to their ownership of GDRs or Shares.

Backup Withholding and Information Reporting

In general, dividends on GDRs or Shares, and payments of the proceeds of a sale, exchange or other taxable disposition of GDRs or Shares, paid to a U.S. Holder within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a rate currently equal to 28.0% unless the U.S. Holder:

- is a corporation or other exempt recipient; or
- provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding applies to such U.S. Holder.

Backup withholding is not an additional tax. U.S. Holders generally will be allowed a credit of the amount of any backup withholding against their United States federal income tax liability or may obtain a refund of any amounts withheld.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code and the Treasury Regulations promulgated thereunder (provisions commonly known as "**FATCA**") impose (a) certain reporting and due diligence requirements on foreign financial institutions and, (b) potentially require such foreign financial institutions to deduct a 30% withholding tax from (i) certain payments from sources within the United States, and (ii) "foreign passthru payments" (which are not yet defined in current guidance) made to certain non-U.S. financial institutions that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information. The United States has entered into a number of intergovernmental agreements with other jurisdictions, including Latvia, with respect to FATCA (the "**IGAs**") which may modify the operation of these rules. Investors are urged to consult their own tax advisors on how the FATCA rules may apply to payments they receive in respect of the GDRs or Shares.

Should any withholding tax in respect of FATCA be deducted or withheld from any payments arising to any investor, no additional amounts will be paid as a result of the deduction or withholding.

United Kingdom Tax Considerations

The following statements do not constitute tax advice and are intended only as a general guide to current United Kingdom law in force and HMRC published practice, which may not be binding on HMRC, as at the date of this document (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the United Kingdom tax treatment of holders of Securities and are intended to apply only to holders of Securities who are resident only in the United Kingdom for United Kingdom tax purposes (unless the context requires otherwise) and, if individuals, who are domiciled in the United Kingdom and to whom split-year treatment does not apply and who are and will be the absolute beneficial owners of the Securities (otherwise than through an Individual Savings Account, a New Individual Savings Account or a Self Invested Personal Pension) and who hold, and will hold, the Securities as investments (and not as securities to be realised in the course of a trade). They are not exhaustive and may not apply to certain holders of Securities, such as dealers in securities, broker dealers, insurance companies and collective investment schemes, holders of Securities who are exempt from taxation and holders of Securities who have (or are deemed to have) acquired their Securities by virtue of an office or employment. Such persons may be subject to special rules.

Holders of Securities who are in any doubt as to their present or future tax position, or who are subject to tax in any jurisdiction other than the United Kingdom, should consult an appropriate professional adviser.

Taxation of dividends

General

There is no United Kingdom withholding tax on dividends, including dividends paid to holders of Securities who are not resident (for tax purposes) in the United Kingdom.

Individual holders of Securities

When Citadele pays a dividend to a holder of Securities who is an individual resident (for tax purposes) in the United Kingdom, the holder of Securities will be entitled to a tax credit equal to one-ninth of the dividend received.

The dividend received plus the related tax credit (the "**gross dividend**") will be part of the holder of Securities' total income for United Kingdom income tax purposes and will be regarded as the top slice of that income. However, in calculating the holder of Securities' liability to income tax in respect of the gross dividend, the tax credit (which equates to 10% of the gross dividend) is set off against the tax chargeable on the gross dividend.

Basic Rate Taxpayers

In the case of a holder of Securities who is liable to income tax at the basic rate, the holder of Securities will be subject to tax on the gross dividend at the rate of 10% The tax credit will, in consequence, satisfy in full the holder of Securities' liability to income tax on the gross dividend.

Higher Rate Taxpayers

In the case of a holder of Securities who is liable to income tax at the higher rate, the holder of Securities will be subject to tax on the gross dividend at the rate of 32.5%, to the extent that the gross dividend falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the holder of Securities' income. This means that the tax credit will satisfy only part of the holder of Securities' liability to income tax on the gross dividend, so that the holder of Securities will have to account for income tax equal to 22.5% of the gross dividend (which equates to 25% of the dividend received). For example, a dividend of £90 from Citadele would

represent a gross dividend of £100 (after the addition of the tax credit of £10 (being one-ninth of £90)) and the holder of Securities would be required to account for income tax of £22.50 on the dividend, being £32.50 (i.e. 32.5% of £100) less £10 (the amount of the tax credit).

Additional Rate Taxpayers

In the case of a holder of Securities who is liable to income tax at the additional rate, the holder of Securities will be subject to tax on the gross dividend at the dividend additional rate of 37.5%, to the extent that the gross dividend falls above the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the holder of Securities' income. This means that the tax credit will satisfy only part of the holder of Securities' liability to income tax on the gross dividend, so that the holder of Securities will have to account for income tax equal to 27.5% of the gross dividend (which equates to approximately 30.6% of the dividend actually received). For example, a dividend of £90 from Citadele would represent a gross dividend of £100 (after the addition of the tax credit of £10 (being one-ninth of £90)) and the holder of Securities would be required to account for income tax of £27.50 on the dividend, being £37.50 (i.e. 37.5% of £100) less £10 (the amount of the tax credit).

Changes to the UK dividend regime from 6 April 2016

The UK's Chancellor of the Exchequer announced in his Budget of 8 July 2015 substantial changes in relation to the taxation of dividends for individuals. From 6 April 2016 the dividend tax credit discussed above is to be abolished and replaced with a new annual dividend allowance of £5,000 for all taxpayers. The tax rates for dividend income exceeding that allowance will become 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Corporate holders of Securities

Holders of Securities within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally be subject to tax on dividends from Citadele.

Holders of Securities within the charge to United Kingdom corporation tax will not be subject to tax on dividends (including dividends from Citadele) so long as the dividends fall within an exempt class and certain conditions are met. In general, dividends paid on non-redeemable shares that do not carry any present or future preferential rights to dividends or to the company's assets on its winding up and dividends paid to a person holding less than 10% of the issued share capital of the payer (or any class of that share capital) are examples of dividends that fall within an exempt class.

A holder of Securities will need to ensure that they satisfy the requirements of an exempt class before treating any dividend as exempt, and seek appropriate professional advice where necessary.

Tax Credit

A holder of Securities (whether an individual or a company) who is not liable to tax on dividends from Citadele will not be entitled to claim payment of the tax credit in respect of those dividends. In any case, the dividend tax credit system is expected to be abolished from 6 April 2016.

Taxation of chargeable gains

Individual holders of Securities

A disposal of Securities may give rise to a chargeable gain (or allowable loss) for the purposes of United Kingdom capital gains tax, depending on the circumstances and subject to any available exemption or relief.

Corporate holders of Securities

Where a holder of Securities is within the charge to corporation tax, including cases where it is not resident (for tax purposes) in the United Kingdom, a disposal of Securities may give rise to a chargeable gain (or allowable loss) for the purposes of United Kingdom corporation tax, depending on the circumstances and subject to any available exemption or relief. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax, but may not create or increase any allowable loss on the disposal of the Securities.

Holders of Securities resident outside the United Kingdom

Subject to the paragraph below (dealing with temporary non-residents), a holder of Securities that is not resident in the United Kingdom and, in the case of an individual, is not temporarily non-resident for United Kingdom tax purposes, and whose Securities are not held in connection with carrying on a trade, profession or vocation in the United Kingdom generally will not be subject to United Kingdom tax on chargeable gains on the disposal of Securities.

A holder of Securities who is an individual and who is temporarily non-resident for tax purposes in the United Kingdom may, in certain circumstances, be subject to United Kingdom taxation.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The comments in this section relating to stamp duty and SDRT apply whether or not a holder of Securities is resident or domiciled in the United Kingdom.

No stamp duty or SDRT will be payable by holders of Securities on the allotment, issue or registration of the Securities.

The transfer on sale of Securities could give rise to a liability to United Kingdom stamp duty at the rate of 0.5% of the amount or value of the consideration given for the sale. However, assuming that any document effecting a transfer of, or containing an agreement to transfer, one or more of the Securities is neither (i) executed in the United Kingdom nor (ii) relates to any property situate, or to any matter or thing to be done in the United Kingdom (which may include involvement of United Kingdom bank accounts in payment mechanics), then no United Kingdom stamp duty should be payable on such a document.

No SDRT should be payable in respect of any agreement to transfer the Securities.

Estonian Tax Considerations

General

Prospective purchasers of the Securities are advised to consult their own tax advisers as to the consequences of a purchase of the Securities under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of dividends, including interim dividends, or any interest and the sale or redemption of the Securities.

Taxation of income under Estonian tax laws differentiates between (i) resident legal entities and permanent establishments of non-resident legal entities; (ii) resident individuals; and (iii) non-residents.

Resident entities and permanent establishment of non-resident legal entities

A legal person is deemed to be an Estonian resident if it is established pursuant to Estonian law. Furthermore, European public limited companies (SE) and European associations (SCE) whose seat is registered in Estonia are also deemed to be Estonian residents. A legal person which does not fulfil these requirements is a non-resident for the Estonian tax purposes.

If the residency determined on the basis of an international agreement to which Estonia is a party differs from the residency determined pursuant to the Estonian Income Tax Act, the provisions of the international agreement apply.

A resident legal entity (and a non-resident legal entity with a permanent establishment in Estonia in respect of the income of this permanent establishment) is required to pay Estonian corporate income tax only upon making certain payments specified under Estonian law, which include fringe benefits, gifts and donations and reception costs, dividends and other profit distributions, transfer pricing adjustments, expenses and other payments not related to the business.

Therefore, if a resident legal entity (or permanent establishment of a non-resident legal entity) receives any kind of income, including interest on securities, dividends or gain from disposing securities or shares this income is not subject to Estonian income tax as long as the resident legal entity or the permanent establishment does not make the above payments.

The relevant taxation period is a calendar month. A corporate income tax return must be submitted by the 10th day of the month following the taxation period. The tax due must be paid by the same date.

Resident individuals

An individual is an Estonian tax resident if his/her place of residence is in Estonia or if they reside in Estonia for at least 183 days over the course of a period of 12 consecutive calendar months. An individual who does not correspond to these requirements is a non-resident for the Estonian tax purposes.

If the residency determined on the basis of an international agreement to which Estonia is a party differs from the residency determined pursuant to the Estonian Income Tax Act, the provisions of the international agreement apply.

A resident individual is required to pay income tax on all income received by him/her in Estonia or outside Estonia, regardless of whether this income is specifically named in the income tax act.

Therefore, a resident individual is obliged to pay income tax, inter alia, on: (i) gains arising from a disposal of shares or other securities (the gain or loss from sale of any asset is the difference between the acquisition cost and the selling price of the sold asset); (ii) interest accrued on loans, securities, leases, deposits and other debt obligations; and (iii) dividends and other profit distributions received from a foreign legal entity in monetary form or non-monetary form.

The relevant taxation period is a calendar year. Income tax returns must be submitted by 31 March of the year following the taxation period. The tax due must be generally paid by 1 July of the year following the taxation period (in case of gains from disposal of assets the tax due must be paid by 1 October of the year following the taxation period).

Non-residents

A non-resident is required to pay Estonian income tax only on income derived from Estonian sources, which are specifically set forth in the income tax act. For example, dividends received by a non-resident (paid either by an Estonian company or foreign company) are exempted from the Estonian income tax, including withholding income tax.

Interest and gains from the sale of shares are only subject to Estonian income tax if the interest is received in connection with a holding in an Estonian real estate fund, or if the object of the sale was the holding in an Estonian real estate fund or company. In the case of GDRs, there is no express provision under Estonian Law recognizing that interest and gains from the sale of GDRs shall be treated in the same manner as interest and gains from the sale of shares. Accordingly, there is a risk that the above-mentioned exemption may not apply to income received through GDRs and they may be taxed in accordance with the Estonian tax laws.

The term *"Estonian real estate fund or company"* means a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer/payment of interest or during a period within two years before transfer/payment of interest, more than 50% was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10% at the time of transfer/payment of interest.

The relevant taxation period is a calendar year. Income tax returns must be submitted by 31 March of the year following the taxation period and the tax due must be generally paid within three months after the due date for submitting the income tax return.

Withholding income tax obligations

In certain cases, the income tax obligations of a resident individual and non-resident (other than a non-resident with a permanent establishment in Estonia) are fulfilled by withholding agents.

A resident legal entity, state or local government authority and a non-resident with a permanent establishment in Estonia who makes payments to a resident individual or non-resident is regarded as a withholding agent. Attention should be paid to the fact that a non-resident with a permanent establishment in Estonia is only regarded as a withholding agent if the payment is paid by or through the permanent establishment.

A withholding agent is required, inter alia, to withhold income tax from interest, subject to income tax, payable to a resident individual or non-resident. There is no withholding income tax obligation in respect to dividends or gain from the sale or exchange of securities or shares.

Taxation period for withholding income tax is a calendar month. A withholding agent must submit income tax return by the 10th day of the month following the taxation period. Further, a withholding agent must pay the withheld income tax to the Tax and Customs Board by the due date for submitting the income tax return.

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 Securities and is intended to apply only to entities and individuals who are holders of Securities and are resident or domiciled only in Lithuania for Lithuanian tax purposes.

Prospective purchasers of the Securities are advised to consult their own tax advisers as to the consequences of a purchase of the Securities under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of dividends, including interim dividends, or any interest and the sale or redemption of the Securities.

In accordance with the Law on Tax Administration of the Republic of Lithuania 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 the Republic of Lithuania, the rules of such international treaties shall prevail.

Disposal of the Securities

Entities

An entity will be considered as a resident of Lithuania for tax purposes if it is or should have been established and registered in the Republic of Lithuania in accordance with the legislative acts of the Republic of Lithuania. This may also include permanent establishments of foreign entities in Lithuania.

Capital gains received upon the sale of securities by legal persons are subject to 15% corporate income tax. Capital gains refer to the difference between the price of the sale or other transfer of the title to assets (shares) and the acquisition price of such assets. The acquisition price of assets comprises expenses incurred in the course of acquiring assets, including the commission fees paid.

Capital gains resulting from the transfer of shares is not subject to corporate income tax if the following conditions are met: (i) the entity the shares of which are being transferred is registered in the EEA Member State or a country with which Lithuania has concluded a treaty for the avoidance of double taxation; and this entity is a payer of corporate income or equivalent tax; and (ii) the entity transferring the shares has been in control of more than 25% of voting shares for an uninterrupted period of at least 2 years. By analogy, the disposal of GDRs should also be treated in the same manner, but there is no express exemption under Lithuanian Law exempting capital gains on transfer of GDRs from corporate income tax. Considering that income arising from certain types of security, including GDRs, is not directly addressed in the national tax laws, there is a risk that the income derived from the transfer of GDRs may be taxed in accordance with the Lithuanian tax laws.

Losses incurred as a result of transfer of securities can be carried forward to the following taxable years (but no longer than 5 years), however, such losses may be only offset against income received from the transfer of securities and/or derivative financial instruments.

Permanent establishments of foreign entities shall have their capital gains on disposal of securities taxed in Lithuania if such disposal of securities is connected to activities of the permanent establishment in Lithuania.

Individuals

An individual shall be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the following criteria: (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.

A 15% personal income tax is imposed on capital gains from the sale of securities. When calculating the tax, the acquisition price of securities, commissions and other related charges may be deducted if they are substantiated by the documents that meet the requirements of accounting laws.

Capital gains from the sale of securities received by natural persons are non-taxable if the difference between the proceeds of the sale and the permitted deductions (i.e. the acquisition price of securities, commissions and other related charges provided they are substantiated by the documents that meet the requirements of accounting laws) does not exceed EUR 3,000 per tax period. This exemption is not available when the issuer is established in a tax haven; when a shareholder sells shares to the entity that has issued them; when shares are regarded as sold due to liquidation of the issuer; and when shareholder sells shares that were acquired for free when the issuer upon increase of authorized capital has issued additional shares and distributed them pro-rata to existing shareholders.

Residents of Lithuania as well as non-residents acting through a fixed base in Lithuania have an obligation to calculate, declare and transfer to the budget personal income tax on capital gains themselves.

Stamp duty and other transfer taxes

There are no stamp duties or transaction taxes in Lithuania in relation to transfer of the Securities.

Taxation of dividends

Income by individuals, who are tax residents in Lithuania, received from distributed profits is subject to personal income tax at a rate of 15%.

Dividends received by Lithuanian entities are subject to corporate income tax at a rate of 15%. Dividends are not subject to corporate income tax when the issuer is established in a member state of EEA and the profit of the issuer was taxed by profit tax or another equivalent tax. Additionally, dividends are not subject to corporate income tax when a recipient (the Lithuanian entity) has been in control of more than 10% of voting shares of the foreign issuer for an uninterrupted period of at least 12 months, the profit of the foreign issuer was taxed by profit tax or an equivalent tax and the issuer is not registered in a tax haven jurisdiction. In the case of GDRs, there is no express provision under Lithuanian Law recognizing that dividends received through GDRs shall be treated in the same manner as dividends on shares. Accordingly, there is a risk that the above-mentioned exemption may not apply to dividends received through GDRs and they may be taxed in accordance with the Lithuanian tax laws.

Certain ERISA Considerations

General

The following is a summary of certain material considerations associated with the purchase of Securities by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is subject to Title I of ERISA, or a tax-qualified retirement plan or an individual retirement account, individual retirement annuity, medical savings account, education individual retirement account or similar account that is subject to Section 4975 of the Code, a plan such as a "governmental plan" (as defined in Section 3(32) of ERISA), or a "church plan" (as defined in Section 3(33) of ERISA that has made no election under Section 410(d) of the Code) or any other arrangement that is exempt from all or certain provisions of ERISA and Section 4975 of the Code but is subject to provisions under applicable federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (each, a "Plan"). This discussion does not address all aspects of ERISA or Section 4975 of the Code or, to the extent not pre-empted, state law that may be relevant to a particular Plan in light of its particular circumstances.

Plans should also consider the entire discussion under the heading "*Taxation—Certain U.S. Federal Income Tax Consequences*", as material contained in that section is relevant to any decision by a Plan to purchase Securities.

Fiduciary Obligations

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (collectively, an "ERISA Plan") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in Securities of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any similar law relating to the fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable similar laws.

Prohibited Transaction and Related Issues

In addition to ERISA's general fiduciary standards, Section 406 of ERISA and Section 4975 of the Code prohibit ERISA plans from engaging in certain specified transactions involving Plan assets with persons who are parties in interest within the meaning of Section 3(14) of ERISA or disqualified persons within the meaning of Section 4975 of the Code with respect to the Plan, which we refer to as parties in interest. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain Plans including those that are governmental plans (as defined in Section 3(32) of ERISA and Section 414(d) of the Code), certain church plans (as defined in Section 3(33) of ERISA and Section 414(e) of the Code with respect to which the election provided by Section 410(d) of the Code has not been made) and foreign plans (as described in Section 4(b)(4) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under similar laws.

The acquisition or holding of Securities by an ERISA Plan with respect to which Citadele or certain of its affiliates is or becomes a party in interest may constitute or result in prohibited transactions

under Section 406 of ERISA or Section 4975 of the Code, unless the Securities are acquired or held pursuant to and in accordance with an applicable exemption. Accordingly, Securities may not be purchased or held by any Plan or any person investing Plan assets of any Plan, unless the purchase or holding is eligible for the exemptive relief available under a Prohibited Transaction Class Exemption ("**PTCE**"), such as PTCE 96-23, PTCE 95-60, PTCE 91-38, PTCE 90-1 or PTCE 84-14 issued by the U.S. Department of Labor or the purchase and holding of Securities is not prohibited on some other basis, such as the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, for certain transactions with non-fiduciary service providers for transactions that are for adequate consideration.

Each purchaser or holder of Securities or any interest therein, and each person making the decision to purchase or hold Securities on behalf of any such purchaser or holder will be deemed to have represented and warranted in both its individual capacity and its representative capacity (if any), that on each day from the date on which the purchaser or holder acquires its interest in Securities to the date on which the purchaser disposes of its interest in Securities, that such purchaser and holder, by its purchase or holding of Securities or any interest therein that:

- its purchase and holding of Securities is not made on behalf of or with Plan assets of any Plan, or
- if its purchase and holding of Securities is made on behalf of or with Plan assets of a Plan, then (1) its purchase and holding of Securities will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code and (2) neither Citadele nor any of its affiliates is acting as a fiduciary (within the meaning of Section 3(21) of ERISA) in connection with the purchase or holding of Securities and has not provided any advice that has formed or may form a basis for any investment decision concerning the purchase or holding of Securities.

Each purchaser and holder of Securities or any interest therein on behalf of any governmental plan will be deemed to have represented and warranted by its purchase or holding of Securities or any interest therein that such purchase and holding does not violate any applicable similar laws or rules.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Securities on behalf of, or with "Plan assets" of, any Plan or Plan asset entity, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any similar laws to such investment and the availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

Subscription and Sale

General information about the Offer

Citadele will offer for subscription up to 100,000,000 Shares in the form of Shares and GDRs, representing 50% of the total number of existing shares issued by Citadele. Each GDR represents an interest in 6 Shares.

The Securities will be offered at the Offer Price Range and will be sold at the Offer Price.

Citadele, Citigroup Global Markets Limited, EFG Hermes Promoting and Underwriting SAE (acting as an underwriter), EFG Hermes UAE Limited (as joint bookrunner), AS LHV Pank, Mediobanca – Banca di Credito Finanziario S.p.A. and Raiffeisen Bank International AG (together, the "**Managers**") will enter into an underwriting agreement dated on or about the date of this Prospectus in relation to the sale and offer of Securities offered in the Institutional Tranche (see "*Underwriting Agreement for Institutional Tranche*" below). EFG Hermes UAE Limited is acting as a joint bookrunner in connection with the Institutional Tranche of the Offer, but not as an underwriter. EFG Hermes Promoting and Underwriting SAE, an affiliate of EFG Hermes UAE Limited, is assigned certain responsibilities in connection with the Institutional Tranche of the Offer pursuant to the Institutional Underwriting Agreement. References to the Managers in this Prospectus should be construed accordingly.

Citadele and AS LHV Pank will also enter into an underwriting agreement dated on or around the date of this Prospectus in relation to the sale and offer of Shares offered in the Retail Tranche (see "*Underwriting Agreement for Retail Tranche*" below").

The Offer comprises: (i) a public offering of Shares in Latvia, Lithuania and Estonia; and (ii) an offering of Shares (in the form of Shares and GDRs) to qualified investors in and outside of Latvia, Lithuania and Estonia. The Securities are being offered outside the United States in reliance on Regulation S and the Securities are being offered within the United States to certain QIBs, as defined in, and in reliance on, Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act.

The issuance of the Shares is scheduled to occur after subscription for and payment of the Shares on or about 4 November 2015, subsequent registration of the increase of the share capital in the Latvian Commercial Register, and registration of the Shares with the LCD.

The issuance of the GDRs is scheduled to occur after issuance and registration of the Shares.

The total commission payable to the Managers is up to EUR 4 million (assuming that the proceeds of the Offer are EUR 115 million and no Stabilisation Purchases are made).

Tranches

The Offer consists of two tranches: (i) a tranche of Shares (in the form of Shares and GDRs) will be initially be offered in the Institutional Tranche by way of a private placement to Institutional Investors in and outside Latvia, Lithuania and Estonia; and (ii) a tranche of Shares will initially be offered in the Retail Tranche in a public offering to Retail Investors in Latvia, Lithuania and Estonia.

The number of Shares to be offered in the Institutional Tranche and the Retail Tranche, respectively, have not been pre-determined. Citadele, in consultation with the Sole Global Coordinator, may re-allocate Shares from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription for each Tranche.

Offer Period

Subscriptions for Securities can be made from 10:00 (Latvian time) on 23 October 2015 until 15:00 (Latvian time) on 3 November 2015 inclusive (the "**Offer Period**"). The bookbuilding period is

expected to start on 23 October 2015 and end on 3 November 2015. Citadele may extend the Offer Period or change other dates related to the Offer, in compliance with Latvian legislation.

Offer Price Range and Offer Price

Offer Price Range per Share is EUR 1.15 to EUR 2.00,

Offer Price Range per GDR is USD 7.797 to USD 13.56.

The final Offer Price at which the GDRs and the Shares will be sold may be set at any point within the Offer Price Range and will be agreed between Citadele and the Sole Global Coordinator. The number of Securities may be decreased prior to the date on which the final Offer Price is set. A number of factors will be considered in determining the Offer Price, the amount to be raised by Citadele pursuant to the Offer and the basis of allocation to investors, including the level and nature of the demand for the Securities during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Securities.

The Offer Price and the final number of Securities offered in the Institutional Tranche and the Retail Tranche is expected to be announced on or around 4 November 2015 via the regulatory information service of the London Stock Exchange and the news service of the Nasdaq Riga (if available to Citadele), and will be published on Citadele's website (www.citadele.lv). The Pricing Notification will also be available free of charge at the registered office of Citadele at Republikas laukums, 2A, Riga, LV-1010, Latvia.

Any notices relating to the approval of the Prospectus and its supplements (if any) which have to be published by the FCMC in accordance with Latvian law will be published on its website (www.fktk.lv).

Allocation of Securities

The Securities will be allocated to investors by Citadele, upon the recommendation of the Sole Global Coordinator which is expected to occur on or around 4 November 2015 (the "**Allocation Date**"). The final number of the Securities and the final size of each tranche will be decided on the Allocation Date by Citadele upon the recommendation of the Managers, based on the level of subscriptions. As part of the allocation process, Citadele may reject any subscriptions for Securities at its sole discretion, other than: (i) a subscription by a Retail Investor for Shares up to a value of EUR 50 through the submission of a valid Subscription Order; and (ii) a subscription by a Retail Investor who is an employee of Citadele Group and resident in Latvia, Lithuania or Estonia only for Shares up to a value of EUR 1,000 through the submission through Citadele or AB Citadele bankas of a valid Subscription Order (on which the relevant employee represents to Citadele that they are currently employed by Citadele Group), subject to certain conditions as set out in "*Guaranteed allocations*" below. Citadele expects to announce the results of the Offer, including the total amount of Shares allocated in the Institutional Tranche and in the Retail Tranche on or about 4 November 2015 in electronic form on Citadele's website at www.citadele.lv.

Guaranteed allocations

Notwithstanding Citadele's general discretion to reject offers for subscription at its sole discretion:

(i) any Retail Investor who submits a valid Subscription Order for Shares with a total subscription price of at least EUR 50 is guaranteed to receive a number of Shares equal to EUR 50 divided by the Offer Price (other than where such division would result in a fraction of a Share, in which case the total number of Shares allocated to that Retail Investor shall be rounded down to the nearest whole number); and

(ii) any Retail Investor who is also an employee of Citadele Group, and resident in Latvia, Lithuania or Estonia only, who submits through Citadele or AB Citadele bankas a valid

Subscription Order for Shares with a total subscription price of at least EUR 1,000 subject to the remainder of this paragraph (ii), is guaranteed to receive not less than a number of Shares equal to EUR 1,000 divided by the Offer Price (other than where such division would result in a fraction of a Shares, in which case the total number of Shares allocated to that Retail Investor shall be rounded down to the nearest whole number), provided that such Retail Investor represents to Citadele or AB Citadele bankas, as applicable, that he/she is an employee of Citadele Group at the time at which the Subscription Order is placed. The total number of Shares allocated to employees of Citadele Group in this paragraph (ii) shall not exceed 1% of the total Securities allocated on the Allocation Date. To the extent that the offers for subscription for Shares by employees of Citadele Group would, if accepted, result in an allocation to such employees in excess of 1% of the total Shares (in the form of Shares or GDRs) to be allocated in connection with the Offer, the guaranteed allocations for each individual employee in connection with the Offer will be reduced pro-rata such that the total allocation to such persons does not exceed 1% of the total number of Shares (in the form of Shares or GDRs) allocated in connection with the Offer.

Proceeds from the Offer and Expenses

The total amount of gross proceeds from the Offer will be EUR 115 million (assuming no Stabilisation Purchases are made and all Shares (in the form of Shares and GDRs) offered under the Offer are sold). Stabilisation Purchases may be made by the Stabilisation Managers (or their agents or someone acting on its behalf) as agent for Citadele, as described in "*Stabilisation*", which may reduce the number of Securities in issue following the Offer by up to 10,271,739 Shares (assuming an Offer Price at the mid-point of the Offer Price Range).

The total underwriting commissions, fees and expenses payable by Citadele in connection with the Offer are expected to be approximately EUR 11 million (assuming an Offer Price at the mid-point of the Offer Price Range, that no Stabilisation Purchases are made and that all Shares (in the form of Shares and GDRs) offered under the Offer are sold). All expenses of the Offer will be borne by Citadele. No commissions, fees or expenses in connection with the Offer will be charged to investors by Citadele.

The net proceeds that Citadele will receive from the Offer after deduction of underwriting commissions, fees and expenses are expected to be approximately EUR 104 million (assuming no Stabilisation Purchases are made and all Shares (in the form of Shares and GDRs) offered under the Offer are sold).

Prefunding

In order to expedite the registration and listing of the Shares and GDRs, it is expected that the Sole Global Coordinator, in its capacity as a prefunding bank, will pre-fund such Shares on 4 November 2015 (the **"Prefunding Date"**), acting for the account of the final subscribers (being the Retail Investors and Institutional Investors to whom the Securities have been allocated). Payment for the Shares by the prefunding bank is expected to be made to Citadele's account and the Shares will come into existence once registered at the Latvian Commercial Register and recorded in book-entry form with LCD. Following allocation, the Shares will be delivered to AS LHV Pank and to the Custodian to be held on behalf of the Depositary, each acting for the account of the final subscribers as soon as possible after the prefunding by Citigroup Global Markets Limited on the Prefunding Date. Once registration of the share capital increase relating to the Offer with the Latvian Commercial Registry has occurred, the Offer cannot be terminated or revoked.

Underwriting Agreement for the Institutional Tranche

Citadele and the Managers will enter into an underwriting agreement dated on or about the date of this Prospectus (the "**Institutional Underwriting Agreement**") pursuant to which, on the terms and subject to certain conditions contained therein (which are customary in agreements of

this nature), each of the Managers will agree severally and not jointly or jointly and severally to procure purchasers for, or failing which to purchase, the final number of Shares (in the form of Shares and GDRs) offered in the Institutional Tranche and set forth in the Pricing Notification.

The Institutional Underwriting Agreement does not relate to the Retail Tranche and the Managers are not under any obligation to procure purchasers for, or to purchase any, Shares offered in the Retail Tranche under the terms of the Institutional Underwriting Agreement.

In the Institutional Underwriting Agreement, Citadele has made certain representations and warranties and agreed to indemnify the Managers severally against certain liabilities, including liability under the Securities Act. The obligations of the Managers are subject to approval of legal matters by counsel, including the validity of the Shares and GDRs, and other conditions contained in the Institutional Underwriting Agreement, including setting of the final Offer Price for the Shares and GDRs.

The Sole Global Coordinator, on behalf of the Managers may terminate the Institutional Underwriting Agreement prior to the time of registration of the share capital increase relating to the Offer with the Latvian Commercial Registry under certain specified conditions that are typical for an agreement of this nature. If any of the conditions are not satisfied or waived, or if the Institutional Underwriting Agreement is otherwise terminated prior to such date, then the Offer will be terminated.

Underwriting Agreement for the Retail Tranche

Citadele and AS LHV Pank will enter into an underwriting agreement dated on or about the date of this Prospectus (the "**Retail Underwriting Agreement**") pursuant to which, on the terms and subject to certain conditions contained therein (which are customary in agreements of this nature), AS LHV Pank will agree to procure purchasers for, or failing which to purchase, the final number of Shares offered in the Retail Tranche and set forth in the Pricing Notification.

The Retail Underwriting Agreement does not relate to the Institutional Tranche and AS LHV Pank is not under any obligation to procure purchasers for, or to purchase any, Shares offered in the Institutional Tranche under the terms of the Retail Underwriting Agreement.

AS LHV Pank, subject to a prior consent of the Sole Global Coordinator, may terminate the Retail Underwriting Agreement prior to the time of registration of the share capital increase relating to the Offer with the Latvian Commercial Registry under certain specified conditions that are typical for an agreement of this nature. If any of the conditions are not satisfied or waived, of if the Retail Underwriting Agreement is otherwise terminated prior to such date, then the Offer will be terminated.

Subscription of Institutional Tranche

Subscription of Shares and GDRs by Institutional Investors

By subscribing for Shares and/or GDRs, each Institutional Investor confirms they have read this Prospectus, accepted the terms and conditions set out in this Prospectus and made the subscription according to the terms included in this Prospectus.

Valid subscriptions for Shares and/or GDRs by Institutional Investors will be collected in the book of investor demand managed by the Joint Bookrunners (the "**Book**"). Neither the contents of the Book nor any information related to subscriptions for Shares and/or GDRs by Institutional Investors (including, but not limited to, the subscription level) will be made public. No minimum subscription requirement applies to Institutional Investors. Institutional Investors may submit multiple subscriptions for Shares and/or GDRs. Subscriptions of Shares and/or GDRs within the Institutional Tranche can only be made through the Managers. Institutional Investors can subscribe for Shares during the entire Offer Period during the working hours of the Managers.

Allocations shall be announced to Institutional Investors on the Allocation Date (as defined above). In circumstances where, during the period starting on Allocation Date and until the Closing Date, there will be Institutional Investors which will not provide the payment evidence required by the Managers, the Managers will reallocate the relevant Shares to other Institutional Investors.

For the avoidance of doubt, the price for the subscribed GDRs must be paid in US dollars.

Subscription of Retail Tranche

Subscription of Shares by Retail Investors

The Retail Tranche of the Offer is directed to all natural and legal persons in Estonia, Latvia and Lithuania who do not qualify as qualified investors pursuant to the laws of any of Estonia, Latvia and Lithuania (and who is thus a Retail Investor).

For the purposes of this Prospectus a person shall be deemed to be "in Latvia" if such person has a securities account with (i) the one of the registered securities account operators in Estonia, i.e. a participant of the ECRS, (ii) one of the registered securities account operators in Latvia, i.e. a participant of the LCD, or (iii) one of the registered securities account operators in Lithuania, i.e. a participant of the CSDL and, according to the data regarding his or her relevant securities account in Estonia (ECRS), or the records of his or her securities account operator in Latvia (LCD) or Lithuania (CSDL):

- if such person is a natural person, such person's address is located in Latvia; or
- if such person is a legal person, such person's registered address is located in Latvia or its registration code is the registration code of the Latvian Commercial Register.

For the purposes of this Prospectus a person shall be deemed to be "in Estonia" if such person has a securities account with (i) one of the registered securities account operators in Estonia, i.e. a participant of the ECRS, (ii) one of the registered securities account operators in Latvia, i.e. a participant of the LCD or (iii) one of the registered securities account operators in Lithuania, i.e. a participant of the CSDL and, according to the data regarding his or her relevant securities account in Estonia (ECRS) or the records of his or her securities account operator in Latvia (LCD) or Lithuania (CSDL):

- if such person is a natural person, such person's address is located in Estonia; or
- if such person is a legal person, such person's registered address is located in Estonia and/or its registration code is the registration code of the Estonian Commercial Register.

For the purposes of this Prospectus a person shall be deemed to be "in Lithuania" if such person has a securities account with (i) one of the registered securities account operators in Estonia, i.e. a participant of the ECRS, (ii) one of the registered securities account operators in Lithuania, i.e. with a participant CSDL or (iii) one of the registered securities account operators in Latvia, i.e. with an LCD Custodian and, according to the data regarding his or her relevant securities account in Estonia (ECRS) or the records of his or her securities account operator in Latvia (LCD) or Lithuania (CSDL):

- if such person is a natural person, such person's address is located in Lithuania; or
- if such person is a legal person, such person's registered address is located in Lithuania or its registration code is the registration code of the Lithuanian Commercial Register.

For the purpose of determining whether an investor has the right to participate in the Retail Tranche of the Offer, the securities account through which the person places their order for subscription for the Shares (a "**Subscription Order**") shall be considered as the relevant securities account of such person.

Subscription Orders for Shares by Retail Investors may be placed within the Offer Period. In order to place a Subscription Order, the Retail Investors may be asked to present and/or submit certain identification documentation along with the Subscription Order. Retail Investors must subscribe for Shares at the fixed price of EUR 2.00 per Share, this sum being the top of the Offer Price Range for Shares). There is no minimum number of Shares which may be subscribed for by a Retail Investor.

A Retail Investor must ensure that the data provided in the Subscription Order is correct, complete and readable. An uncompleted, incorrect or unclear Subscription Order may be rejected by Citadele. A Retail Investor may submit the Subscription Order either personally or through a representative which has been duly authorised by the Retail Investor (in the form required by law) to submit the Subscription Order and make the relevant payments.

By placing Subscription Orders through the submission of a Subscription Form and subscribing for Shares, each Retail Investor:

- confirms that such Retail Investor has read the Prospectus in English and the Prospectus summary translated into English, Estonian, Lithuanian or Latvian (as applicable), including, without limitation, the "*Risk Factors*" section and the description of rights and obligations resulting from ownership of the Shares and accepts the terms and conditions of this Prospectus and agrees with Citadele on the application of them;
- acknowledges that the Retail Tranche of the Offer does not entitle the respective Retail Investor to acquire the Shares or to subscribe for the Shares nor result in the agreement for sale of Shares, and that by submitting of a Subscription Order the respective Retail Investor undertakes to acquire the Shares to the maximum amount indicated in the Subscription Order on the terms of this Prospectus;
- accepts that the number of Shares indicated by the respective Retail Investor in the Subscription Order will be regarded as the maximum number of Shares which the respective Retail Investor wishes to acquire and that the investor may receive less (but no more) Shares than this maximum number of Shares;
- undertakes to acquire and pay for any number of Shares allocated to it/him/her in accordance with the terms and conditions of this Prospectus;
- authorises and instructs the relevant operator of the Retail Investor's securities account (or the operator of the relevant nominee account) opened with the ECRS, LCD or CSDL (the "**Securities Custodian**") to forward the registered transaction instruction to the ECRS, LCD or CSDL and then to ECRS;
- irrevocably authorizes each of the owners of relevant nominee accounts and the Securities Custodian to amend the data in the respective Retail Investor's transaction instruction regarding the amount of Shares to be received, price per Share and total transaction amount on the basis of the Offer Price and results of allocation;
- confirms, that such Retail Investor is not a US person within the meaning of Regulation S and not subject to any other jurisdiction in which the placing of the Subscription Order shall be deemed to be in breach of law, and confirms that such Retail Investor is authorised to place a Subscription Order in accordance with the Prospectus;
- confirms his/her/its awareness that the Subscription Order shall be unconditional, shall not include any reservations, and shall be irrevocable during the time when the Subscription Orders are binding on the investors, subject to the provisions of the Prospectus;
- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience; and
- agrees that his/her/its Subscription Order may be submitted to, and his/her/its personal data contained therein may be transferred to Citadele and the Managers for the purposes of processing the Subscription Order.

A Subscription Order shall be considered submitted and becomes effective at the moment when the transaction instruction of respective Retail Investor has been delivered to the ECRS, LCD on CSDL, as applicable, the basis of the respective order received from the investor's Securities Custodian or relevant subscription place.

By submitting a Subscription Order, a Retail Investor authorises and instructs the credit institution operating the respective Retail Investor's cash bank account connected to its/his/her securities account (which may or may not also be the investor's Securities Custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with the terms of this Prospectus. The transaction amount to be blocked will be equal to the specified amount of Shares multiplied by the top price of the Offer Price Range for Shares. A Retail Investor may submit a Subscription Order only when there are sufficient funds on the cash account connected to its/his/her securities account. The transaction currency for all Retail Investors is EUR.

Any fees charged by the respective credit institution or financial intermediary where the Subscription Order is processed is borne solely by the Retail Investor.

Payment for the Securities subscribed for and settlement is described in "*Settlement and Delivery*" below.

10 Detailed instructions to Retail Investors in Latvia

In order to place a Subscription Order for the Shares, a Retail Investor in Latvia must have a securities account opened with: (a) any Securities Custodian that is a participant of the LCD; (b) any Securities Custodian that is a participant of the ECRS who has a cash agent in Latvia; or (c) one of the registered securities account operators in Lithuania that is a participant of the CSDL who has a cash agent in Latvia.

Subscriptions via securities account opened through a Securities Custodian that is a participant of the LCD and AS LHV Pank

As of the date of this Prospectus, the following banks and investment firms operate as Securities Custodians and LCD participants and have confirmed they will be accepting subscriptions for Shares:

Name	Address	Telephone	E-mail, Internet
Citadele banka AS	Republikas laukums 2A, Riga, LV 1010, Latvia	+371 6701 0555	broker@citadele.lv www.citadele.lv

Additional participants of the LCD may be found at the following link: http://www.nasdaqomxbaltic.com/en/csds/latvian-csd/lcd-participants/list-of-participants/. However, as at the date of this Prospectus, participation of these additional LCD participants in accepting subscriptions for this Offer has not been confirmed.

A Retail Investor wishing to subscribe for the Shares should contact their relevant Securities Custodian that operates as an LCD participant or the office of AS LHV Pank (branch in Latvia) (address: Duntes Street, Riga, LV-1013; Telephone: +371 67 502 100; Email: info@lhv.lv; www.lhv.lv) and submit a Subscription Order. The Subscription Order must be submitted to the Securities Custodian or AS LHV Pank (branch in Latvia) by the end of the Offer Period.

The Retail Investor may use any method that such investor's Securities Custodian or AS LHV Pank (branch in Latvia) offers to submit the Subscription Order (whether physically in a branch, online or otherwise). The Subscription Order in the form of Subscription Order must include the following information:

Owner of the securities account:	*name and personal ID code or registration number of the Retail Investor*
Securities account:	*number of the Retail Investor's account*
Custodian:	*name and registration number of the Retail Investor's Securities Custodian*
Security:	Citadele ordinary B shares
ISIN code:	LV0000101558
Amount of securities:	*the number of Shares for which the Retail Investor wishes to subscribe*
Price (per share):	*top price of the Offer Price Range for Shares*
Transaction amount:	*the number of Shares for which the Retail Investor wishes to subscribe multiplied by the top price of the Offer Price Range for Shares*
Counterparty:	AS LHV Pank (nominee account)
Securities account of counterparty:	99100287190
Custodian of the counterparty:	AS LHV Pank (BIC: LHVBEE22)
Value date of the transaction:	9 November 2015
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

A Retail Investor may submit a Subscription Order via a nominee account only if such Retail Investor authorises the owner of the nominee account to disclose the Retail Investor's identity and the amount of Shares subscribed for by such investor to the LCD, Citadele and AS LHV Pank, and the owner of the nominee account has this permission in writing. Subscription Orders submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the respective Retail Investor and the amount of Shares subscribed for by such investor to their Securities Custodian in writing. Among other information, it is also requested to disclose both a permanent address and personal identification code in cases of the Retail Investor being a natural person or a registration number and registered address where the Retail Investor is a legal entity. The respective Securities Custodian will forward this information to the LCD.

A Subscription Order is deemed submitted from the moment the LCD receives a duly completed transaction instruction from the Securities Custodian of the respective Retail Investor. The Subscription Order can be changed or withdrawn as described below. A Retail Investor will be liable for the payment of all fees charged by the Securities Custodian in connection with the submission, changing or withdrawing of the Subscription Order.

Subscriptions by Latvian Retail Investors via Estonian or Lithuanian Securities Custodian

If a Retail Investor in Latvia wishes to place a Subscription Order for the Shares via a securities account opened with an ECRS participant, the Retail Investor must place it in accordance with the procedures identified in "*Detailed instructions to Retail Investors in Estonia*" below. If a Retail Investor in Latvia wishes to place a Subscription Order for the Shares via a securities' account opened with one of the registered securities account operators in Lithuania, the investor must place it in accordance with the procedures identified in "Detailed instructions to Retail Investors in Lithuania" below.

B. Detailed instructions to Retail Investors in Estonia

In order to place a Subscription Order for the Shares, a Retail Investor in Estonia must have a securities account opened with: (a) any Securities Custodian that is an LCD participant; (b) any Securities Custodian that is a participant of the ECRS who has a cash agent in Latvia; or (c) one of the registered securities account operators in Lithuania that is a participant of the CSDL, who has a cash agent in Latvia.

Subscriptions via securities' account opened through any Securities Custodian that is a participant of the ECRS

As of the date of this Prospectus, the following banks and investment firms operate as Securities Custodians and ECRS participants and have confirmed they will be accepting subscriptions for Shares:

Name	Address	Telephone	E-mail, Internet
AS LHV Pank	Tartu Mnt 2, Tallinn, 10145, Estonia	+372 6 800 400	info@lhv.ee www.lhv.ee

Additional participants of the ECRS may be found at the following link: https://www.e-register.ee/index.php?id=10992. However, as at the date of this Prospectus, participation of these additional participants of the ECRS in accepting subscriptions for this Offer has not been confirmed.

A Retail Investor wishing to place a Subscription Order for the Shares should contact their relevant Securities Custodian that operates as an ECRS participant or the office of AS LHV Pank in Estonia and submit a Subscription Order. The Subscription Order must be submitted to the Securities Custodian or the office of AS LHV Pank in Estonia by the end of the Offer Period.

The Retail Investor may use any method that such investor's Securities Custodian or the office of AS LHV Pank in Estonia offers to submit the Subscription Order (whether physically in branch, online or otherwise). The Subscription Order must include the following information:

Owner of the securities account:	*name and personal ID code or registration number of the Retail Investor*
Securities account:	*number of the Retail Investor's account*
Custodian:	*name and registration number of the Retail Investor's Securities Custodian*
Security:	Citadele ordinary B shares
ISIN code:	LV0000101558
Amount of securities:	*the number of Shares for which the Retail Investor wishes to subscribe*
Price (per share):	*top price of the Offer Price Range for Shares*
Transaction amount:	*the number of Shares for which the Retail Investor wishes to subscribe multiplied by the top price of the Offer Price Range for Shares*
Counterparty:	AS LHV Pank (nominee account)
Securities account of counterparty:	99100287190
Custodian of the counterparty:	AS LHV Pank (BIC: LHVBEE22)
Value date of the transaction:	9 November 2015
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

A Retail Investor may submit a Subscription Order via a nominee account only if such Retail Investor authorises the owner of the nominee account to disclose the Retail Investor's identity and the amount of Shares subscribed for by such investor to the ECRS, Citadele and AS LHV Pank,

and the owner of the nominee account has this permission in writing. Subscription Orders submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the respective Retail Investor and the amount of Shares subscribed for by such investor to their Securities Custodian in writing. Among other information it is also requested to disclose both a permanent address and personal identification code in cases of the Retail Investor being a natural person or a registration number and registered address where the Retail Investor is a legal entity. The Securities Custodian will then forward this information to the ECRS.

A Subscription Order is deemed submitted from the moment the ECRS receives a duly completed transaction instruction from the Securities Custodian of the respective Retail Investor. The Subscription Order can be changed or withdrawn as described below. A Retail Investor will be liable for the payment of all fees charged by the Securities Custodian in connection with the submission, changing or withdrawing of the Subscription Order.

Subscriptions via Latvian or Lithuanian Custodian

If a Retail Investor in Estonia wishes to place a Subscription Order for the Shares via a securities account opened with an LCD participant, the Retail Investor must place it in accordance with the procedures identified in "*Detailed instructions to Retail Investors in Latvia*" above. If a Retail Investor in Estonia wishes to place a Subscription Order for the Shares via a securities account opened with one of the registered securities account operators in Lithuania, the investor must place it in accordance with the procedures identified in "*Detailed instructions to Retail Investors in Lithuania*" below.

C. Detailed instructions to Retail Investors in Lithuania

In order to place a Subscription Order for the Shares, a Retail Investor in Lithuania must have a securities account opened with: (a) any Securities Custodian that is an LCD participant (b) any Securities Custodian that is a participant of the ECRS who has a cash agent in Latvia; or (c) one of the registered securities account operators in Lithuania that is a participant of the CSDL, who has a cash agent in Latvia.

Subscriptions via securities' account opened through any Custodian that is a participant of the CSDL and AS LHV Pank

As of the date of this Prospectus, the following banks and investment firms operate as Securities Custodians and CSDL participants and have confirmed they will be accepting subscriptions for Shares:

Name	Address	Telephone	E-mail, Internet
AB Citadele bankas	K. Kalinausko g. 13, 03107 Vilnius, Lithuania	+370 52664784	makleris@citadele.lt www.citadele.lt

Additional Securities Custodians and CSDL participants may be found at the following link: http://www.lcvpd.lt/en/general/statistic/vpsaug.php, However, as of the date of this Prospectus participation of these participants of the CSDL in accepting subscriptions for this Offer has not been confirmed.

A Retail Investor wishing to subscribe for the Shares should contact their relevant Securities Custodian that operates a securities account in the CSDL or the office of AS LHV Pank in Lithuania (address: Gyneju 16, Vilnius, LT-01109, Lithuania; Telephone +370 5 204 7 204; Email: info@lhv.lt; www.lhv.lt) and submit a Subscription Order. The Subscription Order must be submitted to the Custodian or the office of AS LHV Pank in Lithuania by the end of the Offer Period.

The Retail Investor may use any method that such investor's Securities Custodian or the office of AS LHV Pank in Lithuania offers to submit the Subscription Order (whether physically in a branch, online or otherwise). The Subscription Order must include the following information:

Owner of the security account:	*name and personal ID code or registration number of the Retail Investor*
Securities account:	*number of the Retail Investor's account*
Custodian:	*name and registration number of the Retail Investor's Securities Custodian*
Security:	Citadele ordinary B shares
ISIN code:	LV0000101558
Amount of securities:	*the number of Shares for which the Retail Investor wishes to subscribe*
Price (per share):	*top price of the Offer Price Range for Shares*
Transaction amount:	*the number of Shares for which the Retail Investor wishes to subscribe multiplied by the top price of the Offer Price Range for Shares*
Counterparty:	AS LHV Pank (nominee account)
Securities account of counterparty:	99100287190
Custodian of the counterparty:	AS LHV Pank (BIC: LHVBEE22)
Value date of the transaction:	9 November 2015
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

A Retail Investor may submit a Subscription Order via a nominee account only if such Retail Investor authorises the owner of the nominee account to disclose the Retail Investor's identity and the amount of Shares subscribed for by such investor to the CSDL, Citadele and AS LHV Pank, and the owner of the nominee account has this permission in writing. Subscription Orders submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the respective Retail Investor and the amount of Shares subscribed for by such investor to their Securities Custodian in writing. Among other information, it is also requested to disclose both a permanent address and personal identification code in cases of the Retail Investor being a natural person or a registration number and registered address where the Retail Investor is a legal entity. The Securities Custodian will then forward this information to the CSDL.

A Subscription Order is deemed submitted from the moment the CSDL receive a duly completed transaction instruction from the Securities Custodian of the respective Retail Investor. The Subscription Order can be changed or withdrawn as described below. A Retail Investor will be liable for the payment of all fees charged by the Securities Custodian in connection with the submission, changing or withdrawing of the Subscription Order.

Subscriptions via Latvian or Estonian Custodian

If a Retail Investor in Lithuania wishes to place a Subscription Order for the Shares via a securities account opened with an LCD participant, the investor must place it in accordance with the procedures identified in "*Detailed instructions to Retail Investors in Latvia*" above. If a Retail Investor in Lithuania wishes to place a Subscription Order for the Shares via a securities' account opened with the ECRS, the investor must place it in accordance with the procedures identified in "*Detailed instructions to Retail Investors in Estonia*" above.

Change and withdrawal of subscriptions

Institutional Investors may change or withdraw their initial Subscription Orders for Securities until the last day of the Offer Period (inclusive). This change of subscriptions will be subject to the same submission, processing and validation requirements as the ones for initial subscription. A Retail Investor may change or withdraw a Subscription Order until the last day of the Offer Period (inclusive). To do so the investor must contact the Securities Custodian or subscription place through which the respective Subscription Order has been made, and carry out the procedures required by the Securities Custodian or relevant subscription place. The procedures for amending and cancellation of the Subscription Order may differ between different Securities Custodians and subscription places. All fees payable as a result of an amendment and/or cancellation of a Subscription Order shall be payable by the respective Retail Investor according to the applicable price list of the Securities Custodian or the relevant subscription place. Any amendment to or cancellation of the Subscription Order becomes effective at the moment when the transaction instruction of the respective Retail Investor has been reinstructed or cancelled in the LCD, ECRS, or CSDL, respectively, on the basis of the respective order received from the respective Retail Investor's Securities Custodian or relevant subscription place.

If the Prospectus is subject to an amendment, subscriptions may be withdrawn by an investor within two business days from the date when the respective amendment to the Prospectus was published. In such case, Retail Investors may withdraw their Subscription Orders by filling in a revocation form with the Securities Custodian or subscription place through which the respective Subscription Order has been made.

Return of funds to Retail Investors

If the Offer Price for Shares is lower than the top price of the Offer Price Range for Shares and the respective Retail Investor's Subscription Order is accepted by Citadele, an amount equal to the difference between the latter and the former will be unblocked and released on the respective Retail Investor's cash bank account by the Securities Custodian until the settlement date. Certain bank commissions may be applicable and will be wholly borne by the Retail Investor.

If a Subscription Order is fully cancelled or amended to the effect that the number of subscribed Shares decreases and the respective Retail Investor's Subscription Order is accepted by Citadele, a corresponding amount of funds blocked and released on the investor's cash account will be unblocked on the respective Retail Investor's cash bank account by the Securities Custodian until the settlement date. Additional funds will be blocked in the case of increasing a Subscription Order to the effect of the consideration of the number of additional Shares subscribed. Certain bank commissions may be applicable and will be wholly borne by the Retail Investor.

If the respective Retail Investor's Subscription Order is rejected by Citadele or if the allocation deviates from the amount of Shares subscribed for by the respective Retail Investor, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Shares) will be blocked and released by the Securities Custodian not later than in one business day after the settlement date. Certain bank commissions may be applicable and will be wholly borne by the Retail Investor.

Citadele shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

Lock-up Provisions

Each of Citadele, the members of the Management Board, the members of the Supervisory Board, RA Citadele Holdings, LLC and the EBRD has agreed with the Managers that neither it, nor, with respect to Citadele, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until, in the case of Citadele, the Management Board and the Supervisory Board, 360 days after the Closing Date, and in the case of the EBRD and RA Citadele Holdings, LLC, 180 days after the Closing date, in each case, without the prior written consent of the Sole Global Coordinator, directly or indirectly:

(i) issue (in the case of Citadele only), offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue (in the case of Citadele only), sell any option or contract to purchase,

purchase any option or contract to sell, issue (in the case of Citadele only), transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of Citadele or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of Citadele;

(ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs of Citadele, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of Citadele or such other securities, in cash or otherwise; or

(iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of Citadele, or make any announcement or other publication of the intention to do any of the foregoing (each of the above, a "**Disposal**"),

other than, in respect of Citadele only, in relation to: (a) the cancellation of Shares (including Shares represented by GDRs) acquired as a result of Stabilisation Purchases (if any); (b) the issuance of Shares in connection with the LTIP; or (c) the repurchase and cancellation of the ordinary C shares following the end of the Stabilisation Period.

In addition, RA Citadele Holdings, LLC and the consortium of co-investors has agreed with the Latvian Privatisation Agency under the terms of the acquisition of its stake in Citadele that neither RA Citadele Holdings, LLC and the co-investors nor any of their subsidiaries, affiliates or any person acting on their behalf will, until 20 April 2017, effect any sale or transfer of more than 10% of the shares in Citadele, other than with the consent of the Latvian Privatisation Agency or in other limited circumstances. The EBRD has also agreed with RA Citadele Holdings, LLC (on behalf of itself and the co-investors) that it will not effect a sale or transfer of its shares in Citadele until 20 April 2017.

Stabilisation

In connection with the Offer, Citadele has authorised: (i) Citigroup Global Markets Limited (the "**GDR Stabilisation Manager**") (or any agent or other person acting on behalf of the GDR Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the GDRs on the London Stock Exchange to the extent permitted by applicable laws and regulations, including Regulation (EC) No 2273/2003 (the "**Buy-back and Stabilisation Regulation**"); and (ii) AS LHV Pank (the "**Share Stabilisation Manager**" and, together with the GDR Stabilisation Manager, the "**Stabilisation Managers**") (or any agent or other person acting on behalf of the Share Stabilisation Manager) to act as its agent for the purposes of effecting purchases of the Shares on the Nasdaq Riga to the extent permitted by applicable laws and regulations, including the Buy-back and Stabilisation Regulation. These purchases of Securities (the "**Stabilisation Purchases**") (if any) will be made solely for the purpose of supporting the market price of the Securities at a level higher than which might otherwise prevail in the open market for a limited period after the issue date, which period shall not exceed 30 days from the date commencing on the admission of the Securities to trading on the London Stock Exchange and the Nasdaq Riga (the "**Stabilisation Period**"). The Securities which may be acquired by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele pursuant to the Stabilisation Purchases will not be purchased at a price higher than the Offer Price for Shares and GDRs, respectively. Stabilisation Purchases may be effected by the Stabilisation Managers using proceeds of up to EUR 15 million from the Offer. Any Securities purchased by the Stabilisation Managers (or their agents or anyone acting on their behalf) as agent for Citadele are intended to be cancelled by Citadele after repurchase (and the number of Securities in issue will be reduced accordingly). The cancellation of the Shares acquired as a result of Stabilisation Purchases, if any, is subject to the prior approval of the FCMC, at its discretion. If no Stabilisation Purchases are made by the Stabilisation Managers, the full number of Securities issued in connection with the Offer will remain in issue. The Stabilisation Managers will not be required to undertake any Stabilisation

Purchases. If any Stabilisation Purchases are undertaken by the Stabilisation Managers, they may be discontinued at any time prior to the end of the Stabilisation Period. Save as required by law or regulation, neither the Stabilisation Managers nor any of their respective agents intend to disclose the extent of any Stabilisation Purchases under the Offer.

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

In connection with the Offer, certain existing shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the Securities. See "Risk factors—An active and liquid market for either the shares or the GDRs may not develop and the value of the securities may fluctuate significantly, particularly given that certain shareholders or their respective affiliates may subscribe for a meaningful proportion (but not a majority) of the securities".

Other relationships

The Managers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Managers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for Citadele from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for Citadele in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve Citadele's securities and instruments.

The Sole Global Coordinator is an affiliate of the Depositary.

Selling and Transfer Restrictions

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs (together, the "**Securities**"), or distribution of this Prospectus or any supplementary prospectus or any amendment or supplement thereto in connection with the proposed resale of the Securities or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Securities 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 Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the Securities offered in the Offer, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the Securities offered in the Offer to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

No person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by Citadele or the Managers. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in Citadele's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

United States

None of the GDRs, the Shares or any other securities of Citadele described in this Prospectus has been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and, subject to certain exceptions, may not be offered or sold within the United States except under exemption from the registration requirements of the Securities Act. In connection with the Offer, information concerning the Offer will be provided only: (i) outside of the United States in offshore transactions (as defined in Regulation S) in accordance with Regulation S; and (ii) to QIBs in the United States as defined under and in accordance with Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereof. In addition, until 40 days after the commencement of the Offer, any offer or sale of Securities within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or otherwise than pursuant to the exemption from the registration requirement under the Securities Act.

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 Securities offered in the Offer or determined that this Prospectus is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

Any offers and sales of the Securities in the United States will be conducted by broker-dealers registered with the U.S. Securities and Exchange Commission. EFG Hermes UAE Limited and EFG Hermes Promoting and Underwriting SAE are expected to make offers and sales in the United States through their selling agent, Auerbach Grayson & Company, Inc., a US registered broker-dealer.

United Kingdom

Each of the Managers has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which section 21(1) of the FSMA does not apply to Citadele; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

European Economic Area

Each of the Managers has represented and agreed in relation to each Member State of the European Economic Area 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**"), it has not made and will not make an offer of any Securities which are the subject of the Offer contemplated herein to the public in that Relevant Member State, except in the cases of Latvia, Lithuania and Estonia, and except that Citadele may make an offer of Securities 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 the Managers 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 the Managers for any such offer,

provided that no such offer of Securities shall result in a requirement for the publication by Citadele or any Manager 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 Securities 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 Securities to be offered so as to enable an investor to decide to purchase or subscribe for any Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that 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 Securities 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 Securities 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 Securities 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 the Sole Global Coordinator has been obtained to each such proposed offer or resale. Citadele and the Managers and their respective affiliates, and others will rely (and Citadele acknowledges that the Managers and their 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 the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase Securities.

Latvia

Latvia has fully implemented in its local legislation the Prospectus Directive; therefore the provisions of the Prospective Directive shall be taken into account.

In the case of any subsequent resale of securities which were previously the subject of one or more of the exceptions mentioned above, the FCMC shall evaluate whether that resale is an offer of securities to the public according to the Latvian Financial Instruments Market Law. The placement of securities through financial intermediaries shall be subject to publication of a prospectus if none of the conditions above is met for the final placement.

Japan

The Securities offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Managers represents and agrees that the Securities which it subscribes for will be subscribed for by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) has been or will be lodged with, or registered by, the Australian Securities and Investments Commission ("**ASIC**") in relation to the Offer of the Securities. This Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

Each of the Managers has represented and agreed that this document is being distributed in Australia by the Managers to persons (the "**Exempt Investors**") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act. The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the Securities without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute this document to any other person.

Each of the Managers has represented and agreed that any of the Securities applied for by Exempt Investors in Australia will not be offered for sale in Australia for 12 months from the date of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act. This document is not supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act. Any person acquiring the Securities will be required to observe such Australian on-sale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisers.

Canada

The Securities may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Securities must be made in accordance with an

exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offer.

Egypt

Securities may only be offered or sold in Egypt through a private placement to Egyptian QIBs, Professional High Net Worth Investors, or Professionally Experienced Investors (each as defined under applicable Egyptian law) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments for the purposes of their business and only in accordance with the applicable Egyptian law and regulations including the applicable provisions of the Capital Market Law, its Executive Regulations as amended, the EGX Listing Rules and the provisions of the Capital Market Authority's (EFSA predecessor) Directives no. 31 for the year 2002 concerning private placements.

Each purchaser of Securities in Egypt will be deemed to have represented that it is either an Egyptian QIB, a Professional High Net Worth Investor or a Professionally Experienced Investor within the meaning of the EFSA Directives no. 31 for the year 2002 concerning private placements.

United Arab Emirates (excluding the Dubai International Financial Centre)

This Prospectus has not been approved by or filed with the UAE Central Bank, the SCA or any other authorities in the UAE, nor have the Managers received authorisation or licensing from the UAE Central Bank, SCA or any other authorities in the UAE to market or sell the Securities within the UAE. No marketing of any financial products or services has been or will be made from within the UAE other than in compliance with the laws of the UAE and no subscription to Securities may or will be consummated within the UAE. It should not be assumed that any of the Managers is a licensed broker, dealer or investment advisor under the laws applicable in the UAE, or that any of them advise individuals resident in the UAE as to the appropriateness of investing in or purchasing or selling securities or other financial products. The Securities may not be offered or sold directly or indirectly to the public in the UAE. This does not constitute a public offer of securities in the UAE in accordance with the Companies Law or otherwise.

Dubai International Financial Centre

The Securities have not been offered and will not be offered to any persons in the Dubai International Financial Centre except on that basis that an offer is:

10 an "Exempt Offer" in accordance with the Markets Rules (MKT) module of the DFSA; and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

This Prospectus may not be distributed in the KSA, except to such persons as are permitted under the Saudi Regulations issued by the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008.

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective investors of the Securities should conduct their own diligence on the accuracy of the information relating to the Securities. If a prospective purchaser does not understand the contents of this Prospectus, he or she should consult an authorised financial adviser.

The Securities must not be advertised, offered or sold and no memorandum, information circular, brochure or any similar document has or will be distributed, directly or indirectly, to any person in the KSA other than to Sophisticated Investors within the meaning of Article 10 of the Saudi Regulations.

The offer of Securities in the KSA shall not, therefore, constitute a "public offer" pursuant to the Saudi Regulations. Prospective investors are informed that Article 17 of the Saudi Regulations places restrictions on secondary market activity with respect to the Securities. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above stated jurisdictions shall not be recognised by Citadele.

Lebanon

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any Securities in the Lebanese territory, nor shall it (or any part of it), nor the fact of its distribution, form the basis of, or be relied on in connection with, any subscription.

Citadele has not been, and will not be, authorised or licenced by the Central Bank of Lebanon and its Securities cannot be marketed and sold in Lebanon. No public offering of the Securities is being made in Lebanon and no mass-media means of contact are being employed. This Prospectus is aimed at institutions and sophisticated, high net worth individuals only, and this Prospectus will not be provided to any person in Lebanon except upon the written request of such person.

Recipients of this Prospectus should pay particular attention to the section titled "Risk Factors" in this Prospectus. Investment in the Securities is suitable only for sophisticated investors with the financial ability and willingness to accept the risks associated with such an investment, and said investors must be prepared to bear those risks.

Oman

This Prospectus does not constitute a public offer of securities in the Sultanate of Oman, as contemplated by the Commercial Companies Law of Oman (Royal Decree No. 4/1974) or the Capital Market Law of Oman (Royal Decree No. 80/1998) and Ministerial Decision No.1/2009 or an offer to sell or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman.

This Prospectus is strictly private and confidential. It is being provided to a limited number of sophisticated investors solely to enable them to decide whether or not to make an offer to Citadele to enter into commitments to invest in the Securities outside of the Sultanate of Oman, upon the terms and subject to the restrictions set out herein and may not be reproduced or used for any other purpose or provided to any person other than the original recipient.

Additionally, this Prospectus is not intended to lead to the making of any contract within the territory or under the laws of the Sultanate of Oman.

The Capital Market Authority and the Central Bank of Oman take no responsibility for the accuracy of the statements and information contained in this Prospectus or for the performance of Citadele with respect to the Securities nor shall they have any liability to any person for damage or loss resulting from reliance on any statement or information contained herein.

Bahrain

The Securities have not been offered or sold, and will not be offered or sold to any person in the Kingdom of Bahrain except on a private placement basis to persons who are "accredited investors".

For this purpose, an "accredited investor" means:

10 an individual holding financial assets (either singly or jointly with a spouse) of USD 1,000,000 or more;

(ii) a group, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than USD 1,000,000; or

10 a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kuwait

The Securities have not been and will not be offered, sold, promoted or advertised in Kuwait except on the basis that an offer is made in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities. No private or public offering of the Securities is being made in Kuwait, and no agreement relating to the sale of the Securities will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Securities in Kuwait.

Qatar

The Securities have not been offered or sold, and will not be offered or sold or delivered, directly or indirectly, in the State of Qatar including the Qatar Financial Centre, other than on the basis that an offer is made: (i) in compliance with all applicable laws and regulations of the State of Qatar including the Qatar Financial Centre; and (ii) through persons or corporate entities authorised and licenced to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Jordan

Any marketing of the Securities to Jordanian investors shall be done by way of private placement only. The Securities are being offered in Jordan on a cross border basis based on one-on-one contacts to no more than 30 potential investors and accordingly the Securities will not be registered with the Jordanian Securities Commission and a local prospectus in Jordan will not be issued.

Hong Kong

The Securities may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to "professional investors" within the

meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in this Prospectus being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the SFA; (2) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, Securities, debentures and units of Securities and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the securities under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Transfer Restrictions

None of the GDRs, the Shares or any other securities of Citadele described in this Prospectus has been and will be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Offer is being made, with respect to the Shares and the Rule 144A GDRs, within the United States only to QIBs in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act and, with respect to the Shares and the Regulation S GDRs, outside the United States in offshore transactions in reliance on Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

If a purchaser of Securities is acquiring such Securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Securities to be sold in the United States

Each purchaser of Securities in the Rule 144A Offering, by its acceptance of delivery of this Prospectus and the Securities, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser is not an "affiliate" (as defined in Rule 144A under the Securities Act) of Citadele or acting on behalf of Citadele and (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Securities has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such Securities for its own account or for the account of one or more QIBs, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, and (iv) if it is acquiring such Securities for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the Securities, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to certain restrictions on transfer and, unless so registered, the Securities may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable state securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth herein, and are being offered in the United States only in transactions not involving any public offering in the United States and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act (the "**Restricted Securities**").

3. The purchaser and any subsequent transferee of Securities (or any interest therein) will be deemed by their purchase or acquisition of Securities (or any interest therein) to have represented and warranted, on each day from the date on which the purchaser or transferee disposes of such Securities (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Securities (or any interest therein), either that (a) it is not and is not acting directly or indirectly on behalf of, and for so long as it holds Securities (or any interest therein) will not be, and will not be acting directly or indirectly on behalf of, a Plan, and no portion of the assets used to acquire Securities (or any interest therein) constitutes Plan assets of any Plan or (b) its purchase, holding and disposition of such Securities (or any interest therein) will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable similar law and neither Citadele nor any of its affiliates is acting as a fiduciary (within the meaning of Section 3(21) of ERISA) in connection with the purchase or holding of such Securities (or any interest therein) and has not provided any advice that has formed or may form a basis for any investment decision concerning the purchase or holding of such Securities (or any interest therein).

4. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act (or if the purchaser is acting for the account of another person, such other person has confirmed to its understanding that), such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or

transaction not subject to, the registration requirements of the Securities Act, will bear unless otherwise determined by Citadele and the Depositary in accordance with applicable law:

THIS MASTER RULE 144A GDR CERTIFICATE, THE RULE 144A GLOBAL DEPOSITARY RECEIPTS ("GDRS") EVIDENCED HEREBY AND THE ORDINARY SHARES OF CITADELE (THE "COMPANY") REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRS WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT.

NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF AS THE COMPANY AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS. THE COMPANY MAY FROM TIME TO TIME REQUEST HOLDERS TO PROVIDE INFORMATION (A) AS TO THE CAPACITY IN WHICH SUCH HOLDERS OR BENEFICIAL OWNERS OWN OR OWNED GDRS, (B) REGARDING THE IDENTITY OF ANY OTHER PERSONS THEN OR PREVIOUSLY INTERESTED IN SUCH GDRS AND (C) REGARDING THE NATURE OF SUCH INTEREST AND VARIOUS OTHER MATTERS PURSUANT TO APPLICABLE LAW OR THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY, ALL AS IF SUCH GDRS WERE TO THE EXTENT PRACTICABLE THE UNDERLYING SHARES. EACH HOLDER AND BENEFICIAL OWNER AGREES TO PROVIDE PROMPTLY ANY INFORMATION AS REQUIRED AND REQUESTED BY THE COMPANY OR THE DEPOSITARY. AT THE COMPANY'S WRITTEN INSTRUCTIONS THE DEPOSITARY WILL DISTRIBUTE ANY SUCH REQUESTS TO HOLDERS AND RETURN TO THE COMPANY ANY RESPONSES TO SUCH REQUESTS RECEIVED BY THE DEPOSITARY. IN ADDITION, HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR COMPLIANCE WITH RESTRICTIONS ON, AND

NOTIFICATION OBLIGATIONS RELATED TO, THE OWNERSHIP OF THE UNDERLYING SHARES IMPOSED FROM TIME TO TIME BY LATVIAN, LITHUANIAN, EU OR SWISS LAW OR BY ANY LATVIAN, LITHUANIAN, EU OR SWISS REGULATORY AUTHORITY OR OTHERWISE. IN PARTICULAR HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR ENSURING THAT THEY DO NOT: (A) INDIRECTLY OR DIRECTLY OWN, AND/OR HAVE THE ABILITY TO EXERCISE VOTING RIGHTS IN RESPECT OF SHARES OR GDRS OR A COMBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10%, (ii) 20%, (iii) 33%, AND/OR (iv) 50% (OR SUCH OTHER PERCENTAGE THRESHOLDS THAT MAY BE IMPOSED FROM TIME TO TIME BY LATVIAN, SWISS OR EU LAW OR BY ANY LATVIAN, SWISS OR EU REGULATORY AUTHORITY OR OTHERWISE) OF THE CAPITAL OR VOTING RIGHTS IN THE COMPANY, OR (B) ACQUIRE THE SAME, IN EACH CASE AT ANY TIME WITHOUT THE PRIOR WRITTEN APPROVAL OF THE ECB (OR ANY SUCCESSOR AUTHORITY FROM TIME TO TIME) AND SHALL NOTIFY THE COMPANY UPON RECEIPT OF SUCH APPROVAL.

BY ITS PURCHASE AND HOLDING OF GDRS (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT, AND IS NOT ACTING DIRECTLY OR INDIRECTLY ON BEHALF OF, AND FOR SO LONG AS IT HOLDS SUCH GDRS (OR ANY INTEREST THEREIN) WILL NOT BE, AND WILL NOT BE ACTING DIRECTLY OR INDIRECTLY ON BEHALF OF, (I) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT SECURITY ACT OF 1974, AS AMENDED (ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A PLAN, ACCOUNT OR OTHER ARRANGEMENT SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE CODE), (III) A PLAN, SUCH AS A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA) AND CERTAIN CHURCH PLANS (AS DEFINED IN SECTION 3(33) OF ERISA), OR OTHER ARRANGEMENT THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE OR (IV) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA, THE CODE OR ANY SIMILAR LAW TO INCLUDE "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN, ACCOUNT OR ARRANGEMENT, EACH AS DESCRIBED IN (I), (II) OR (III), AND NO PORTION OF THE ASSETS USED TO ACQUIRE SUCH GDRS (OR ANY INTEREST THEREIN) CONSTITUTES "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN, ACCOUNT OR ARRANGEMENT, OR (B) ITS PURCHASE, HOLDING OR DISPOSITION OF SUCH GDRS (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION UNDER ANY APPLICABLE SIMILAR LAW. AND NEITHER THE COMPANY NOR ANY OF ITS AFFILIATES IS ACTING AS A FIDUCIARY (WITHIN THE MEANING OF SECTION 3(21) OF ERISA) IN CONNECTION WITH THE PURCHASE OR HOLDING OF SUCH GDRS (OR ANY INTEREST THEREIN) AND HAS NOT PROVIDED ANY ADVICE THAT HAS FORMED OR MAY FORM A BASIS FOR ANY INVESTMENT DECISION CONCERNING THE PURCHASE OR HOLDING OF SUCH GDRS (OR ANY INTEREST THEREIN).

5. For so long as the Shares are Restricted Securities, it will not deposit such Shares into any unrestricted depositary receipt facility in respect of shares established and maintained by a depositary bank unless and until such time as the Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

6. Citadele and each of the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements in the foregoing paragraphs and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the GDRs is no longer accurate, it shall promptly notify the Managers. If it is acquiring GDRs for the account of one or more persons, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the GDRs purchased within the United States pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Securities to be sold outside the United States

Each purchaser of Securities in the Regulation S Offering, by its acceptance of the delivery of this Prospectus and the Securities, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of Securities and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;

2. the purchaser is aware that the Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, unless so registered, the Securities may not be offered, sold or otherwise transferred within the United States except in compliance with the registration requirements of the Securities Act or any other applicable state securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth herein, and are being offered outside the United States in reliance on Regulation S;

3. the purchaser and any subsequent transferee of Securities (or any interest therein) will be deemed by their purchaser or acquisition of Securities (or any interest therein) to have represented and warranted, on each day from the date on which the purchaser or transferee disposes of such Securities (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Securities (or any interest therein), either that (a) it is not and is not acting directly or indirectly on behalf of, and for so long as it holds Securities (or any interest therein) will not be, and will not be acting directly or indirectly on behalf of, a Plan, and no portion of the assets used to acquire Securities (or any interest therein) constitutes Plan assets of any Plan or (b) its purchase, holding and disposition of such Securities (or any interest therein) will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable similar law and neither Citadele nor any of its affiliates is acting as a fiduciary (within the meaning of Section 3(21) of ERISA) in connection with the purchase or holding of such Securities (or any interest therein) and has not provided any advice that has formed or may form a basis for any investment decision concerning the purchase or holding of such Securities (or any interest therein);

4. any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by Citadele;

5. Citadele and each of the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements in the foregoing paragraphs and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Securities is no longer accurate, it shall promptly notify the Managers. If it is acquiring Securities for the account of one or more persons, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

6. the purchaser understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

THIS MASTER REGULATION S GDR CERTIFICATE, THE REGULATION S GLOBAL DEPOSITARY RECEIPTS ("GDRS") EVIDENCED HEREBY AND THE ORDINARY B SHARES OF AS CITADELE BANKA (THE "COMPANY") REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE COMPANY MAY FROM TIME TO TIME REQUEST HOLDERS TO PROVIDE INFORMATION (A) AS TO THE CAPACITY IN WHICH SUCH HOLDERS OR BENEFICIAL OWNERS OWN OR OWNED GDRS, (B) REGARDING THE IDENTITY OF ANY OTHER PERSONS THEN OR PREVIOUSLY INTERESTED IN SUCH GDRS AND (C) REGARDING THE NATURE OF SUCH INTEREST AND VARIOUS OTHER MATTERS PURSUANT TO APPLICABLE LAW OR THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY, ALL AS IF SUCH GDRS WERE TO THE EXTENT PRACTICABLE THE UNDERLYING SHARES. EACH HOLDER AND BENEFICIAL OWNER AGREES TO PROVIDE PROMPTLY ANY INFORMATION AS REQUIRED AND REQUESTED BY THE COMPANY OR THE DEPOSITARY. AT THE COMPANY'S WRITTEN INSTRUCTIONS THE DEPOSITARY WILL DISTRIBUTE ANY SUCH REQUESTS TO HOLDERS AND RETURN TO THE COMPANY ANY RESPONSES TO SUCH REQUESTS RECEIVED BY THE DEPOSITARY. IN ADDITION, HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR COMPLIANCE WITH RESTRICTIONS ON, AND NOTIFICATION OBLIGATIONS RELATED TO, THE OWNERSHIP OF THE UNDERLYING SHARES IMPOSED FROM TIME TO TIME BY LATVIAN, LITHUANIAN, EU OR SWISS LAW OR BY ANY LATVIAN, LITHUANIAN, EU OR SWISS REGULATORY AUTHORITY OR OTHERWISE. IN PARTICULAR HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR ENSURING THAT THEY DO NOT: (A) INDIRECTLY OR DIRECTLY OWN, AND/OR HAVE THE ABILITY TO EXERCISE VOTING RIGHTS IN RESPECT OF SHARES OR GDRS OR A COMBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10%, (ii) 20%, (iii) 33%, AND/OR (iv) 50% (OR SUCH OTHER PERCENTAGE THRESHOLDS THAT MAY BE IMPOSED FROM TIME TO TIME BY LATVIAN, SWISS OR EU LAW OR BY ANY LATVIAN, SWISS OR EU REGULATORY AUTHORITY OR OTHERWISE) OF THE CAPITAL OR VOTING RIGHTS IN THE COMPANY, OR (B) ACQUIRE THE SAME, IN EACH CASE AT ANY TIME WITHOUT THE PRIOR WRITTEN APPROVAL OF THE ECB (OR ANY SUCCESSOR AUTHORITY FROM TIME TO TIME) AND SHALL NOTIFY THE COMPANY UPON RECEIPT OF SUCH APPROVAL.

BY ITS PURCHASE AND HOLDING OF GDRS (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT, AND IS NOT ACTING DIRECTLY OR INDIRECTLY ON BEHALF OF, AND FOR SO LONG AS IT HOLDS SUCH GDRS (OR ANY INTEREST THEREIN) WILL NOT BE, AND WILL NOT BE ACTING DIRECTLY OR INDIRECTLY ON BEHALF OF, (I) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT SECURITY ACT OF 1974, AS AMENDED (ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A PLAN, ACCOUNT OR OTHER ARRANGEMENT SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE CODE), (III) A PLAN, SUCH AS A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA) AND CERTAIN CHURCH PLANS (AS DEFINED IN SECTION 3(33) OF ERISA), OR OTHER ARRANGEMENT THAT IS

SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE OR (IV) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA, THE CODE OR ANY SIMILAR LAW TO INCLUDE "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN, ACCOUNT OR ARRANGEMENT, EACH AS DESCRIBED IN (I), (II) OR (III), AND NO PORTION OF THE ASSETS USED TO ACQUIRE SUCH GDRS (OR ANY INTEREST THEREIN) CONSTITUTES "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN, ACCOUNT OR ARRANGEMENT, OR (B) ITS PURCHASE, HOLDING OR DISPOSITION OF SUCH GDRS (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION UNDER ANY APPLICABLE SIMILAR LAW. AND NEITHER THE COMPANY NOR ANY OF ITS AFFILIATES IS ACTING AS A FIDUCIARY (WITHIN THE MEANING OF SECTION 3(21) OF ERISA) IN CONNECTION WITH THE PURCHASE OR HOLDING OF SUCH GDRS (OR ANY INTEREST THEREIN) AND HAS NOT PROVIDED ANY ADVICE THAT HAS FORMED OR MAY FORM A BASIS FOR ANY INVESTMENT DECISION CONCERNING THE PURCHASE OR HOLDING OF SUCH GDRS (OR ANY INTEREST THEREIN).

10 If a purchaser of Securities is acquiring such Securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Other provisions regarding transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Depositary Agreements) from the transferor and the transferee to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor and the transferee (in the forms provided in the Depositary Agreements) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other GDR will, upon transfer, cease to be an interest in the GDRs represented by such first GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other GDR for so long as it remains such an interest.

Settlement and Delivery

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear and Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear and Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised Citadele as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "*Taxation*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR registered in the name of Citivic Nominees Limited, as nominee of

Citibank Europe plc, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary in New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on its books for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from Citadele for holders holding through Euroclear and Clearstream are credited to Euroclear and Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from Citadele for holders holding through DTC are received by DTC.

The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Grand Duchy of Luxembourg, Luxembourg.

Citadele will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements and the Conditions.

Global Clearance and Settlement Procedures

Initial settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see "*Terms and Conditions of the Global Depositary Receipts*" and "*Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not

effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the DTC participant, as the case may be. In addition, on the settlement date, Euroclear or Clearstream will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear or Clearstream and represented by the Master Regulation S GDR.

Trading between Euroclear/Clearstream seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Citadele, the Managers, the Depositary or, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement and delivery of Shares

Shares allocated to the Institutional Investors and Retail Investors shall be transferred by AS LHV Pank to the securities accounts of such investors on or about 9 November 2015 simultaneously with such investors effecting the payment for such Shares through the "delivery versus payment" method. Upon receipt of the Shares, each investor shall be entitled to transfer the Shares from its securities account to other investor's securities accounts. However, the investor's rights and

obligations pertaining to the Shares will legally arise only upon the registration of the increase of the Citadele's share capital in the Latvian Commercial Register.

The final amount payable by an investor for the Shares will be calculated by multiplying the number of Shares allocated to such investor with the Offer Price. Any amounts previously paid by a Retail Investor in excess of the amount due in respect of the Shares allocated to him/it will be released to the respective Retail Investor by the relevant Custodian on or about 10 November 2015 (one business day after the settlement date). In the event that an investor's Subscription Order is rejected, the funds will be released in full by the relevant Custodian one business day after the settlement date.

Book-entry System of LCD

According to the Latvian Financial Instruments Market Law, only dematerialised book-entry securities are eligible for public circulation in Latvia. The LCD is responsible for effecting book entries of, and accounting for, financial instruments that are in public circulation. Consequently, securities exist as an electronic entry in a securities account with an LCD Custodian and this entry is the proof of a title to securities.

In order to effect any transactions in relation to the Shares, an investor must open a book-entry account with an LCD Custodian. All transactions involving the transfer of Shares will be executed as electronic book-entry transfers. The holders of Shares are entitled to receive statements from their LCD Custodian confirming the book-entry transfers as well as periodical or on-the-date statements of their total or separate holdings. Title to the Shares is evidenced by the record in the book-entry account with the LCD Custodian. Holders of Shares are, however, entitled to appoint a nominee to hold their Shares, in which case the book-entry account in which the securities are recorded must be identified as such.

The following principles apply to the securities accounting at the LCD's book-entry system:

- **Double entry—**the LCD and LCD Custodians follow the double entry accounting principle, i.e. there must be debit and credit entry for each transaction.
- **Separate accounting for each securities issue**—the LCD opens corresponding accounts for each type of security in the LCD Custodian's custody.
- **Registration of title on settlement day—**according to the Latvian Financial Instruments Market Law, title to securities changes at the moment when the securities are recorded in the securities account of the securities owner (buyer).
- **Parallel cash and securities accounting—**securities and cash book-entries related to the same securities trade are made simultaneously.
- **Segregation of securities owned by the LCD Custodian and owned by its clients** —the LCD Custodians are only custodians of the securities owned by their clients. They have the right to operate with the securities owned by the client only with the client's permission or upon the client's instructions. Securities owned by the LCD Custodian and securities owned by its clients are legally segregated and the securities owned by its clients may not be used to satisfy the claims of the respective LCD Custodian's creditors. For that purpose, LCD opens a separate corresponding account for the securities owned by the LCD Custodian and separate corresponding account for securities owned by its clients.
- **Book-entries according to the source documents**—each book-entry is made only in accordance with the instructions in the source documents. The source documents must be kept by LCD Custodian for not less than 10 years.

The opening of a book-entry account is subject to certain client identification rules. In addition, the opening of a nominee account is permitted, provided that the holder of such account is subject to regulatory requirements that provide no less stringent client identification rules than those applicable in Latvia.

The LCD and the LCD Custodian are required to observe strict confidentiality. Information about the holders of Shares and their transactions may not be disclosed to any third party unless the LCD Custodian has been expressly authorised to do so by the holder of the Shares. LCD Custodians are, however, required to disclose the information required by certain state authorities to the extent such information is necessary for the compliance with their statutory duties. Citadele may also obtain information about its shareholders.

The LCD has signed cooperation agreements with the ECRS, the CSDL and Clearstream Banking Luxembourg, allowing LCD Custodians to act as custodians with regard to the financial instruments registered with a counterpart depository.

To facilitate pan-Baltic cross-border trading, the LCD, ECRS and CSDL have established a pan-Baltic free-of-payment ("**FOP**") link for cross-border deliveries and a delivery-versus-payment ("**DVP**") settlement link for stock exchange transactions. Members of the Baltic stock exchanges and their customers do not need to open securities and cash accounts in each and every Baltic State to settle local stock exchange transactions. All they require is a single securities and cash account in one Baltic State to settle cross-border securities transactions between Estonia, Latvia and Lithuania. In practice, this means that members can trade and settle securities listed in one of the Baltic States via their own securities and cash account opened in another of the Baltic countries. Payment is made in local currency (euro) via commercial banks or, in the case of Lithuania, also via non-banking brokerage companies, in the national central bank. In the process of harmonizing post-trading rules and practices, the Baltic central depositories and stock exchanges have introduced a common clearing and settlement time schedule for stock exchange transactions effective since April 2006. From that day, the cut-off and confirmation times for stock exchange trades are the same in all Baltic markets.

Trading and Settlement

Nasdaq Riga employs two trading systems:

- **INET Nordic:** the electronic trading system used for trading in equity-market instruments; and
- **Genium INET:** the electronic trading system used for trading in fixed-income instruments, as well as for the execution of auctions and Special Procedures (tender offers, public share sales, IPOs).

INET Nordic is the Nasdaq trading platform for Nordic and Baltic equities trading. Trades on Nasdaq Riga may be effected as automatically matched trades or manual trades. Orders entered into the order book participate in the opening call auction at the beginning of the trading hours, automatic matching in the trading system during the continuous trading, and the closing auction conducted after the trading hours. As a result, **automatically matched trades** can be concluded. **Manual trades** are trades concluded outside the order book. A manual trade can be standard or non-standard. A **standard trade is a** trade concluded on standard market terms in respect of price, time of the trade, and with standard delivery and settlement schedule.

The Genium INET trading platform is designed to be one of the fastest and most functionally-complete multi-asset trading systems. It supports multiple markets simultaneously on a single platform—including all trading from traditional cash and fixed-income securities, derivatives, and commodities.

The official trading, clearing and settlement currency of Nasdaq Riga is the euro. For the securities traded in dollars on the Nasdaq Riga market, payment will be in the respective currency.

The INET Nordic electronic trading system is used for trading in the equities market. The trading day structure for the equities market consists of the following phases:

09:00 – 0:00	Period before Opening Call Auction ("**Pre-Open**")
10:00	Opening Call Auction ("**Uncross**")
10:00 – 15:55	Continuous Trading
15:55 – ~16:00	Period before Closing Call Auction ("**Pre-Close**")
16:00[1]	Closing Call Auction (Uncross)
~16:00 – 16:30	Post—Trading Session
16:30 – 09:00	Market closed

(1) Randomly picked by the system between 15:59:30 and 16:00:00.

Pre-Open (from 9:00 to 10:00) is a time period when transaction orders are placed, modified and cancelled. Manual trades can also be reported. During this trading phase there is Market by Order dissemination of the order book. The Market by Order shows displayed volume and limit price and does not include On-open, On-close, Non-displayed, Market and Hidden iceberg volumes. From 09:45 to 10:00, equilibrium data—including equilibrium price if established—is disseminated for all issues, and is updated once a second if information is changed.

Uncross starts at 10:00 and order books are transferred to the continuous trading. The uncross lasts a short time, usually a fraction of a second. A random uncross sequence for the Order Books is applied. In the course of the opening call, order books are transferred to continuous trading. As a result orders are matched in the order book according to the equilibrium price. The equilibrium price is established when in a particular order book's buy and sell order prices overlap e.g. the buy price is higher than or equal to the sell price.

Continuous trading (from 10:00 to 15:55) is the period for entering transaction orders in the trading system and negotiating trades. Transactions can be negotiated in two ways:

- Automatic matching: buy and sell orders are matched by the trading system automatically according to price, displayed volume and time priorities; or
- Manual trades: manual trades are negotiated between stock exchange members outside of the trading system and then brokers enter the deal in the trading system within three minutes after its conclusion. During trading hours, standard manual trades in compliance to standard requirements with regard to price, time and settlement can be reported. Standard manual trades below the Block transaction limits have to be made within the volume-weighted average spread. Where it is impossible to establish the volume-weighted average spread, the manual trade shall be executed at a price that reflects the current market value.

Period before Closing Call (from 15:55 to ~16:00) is the time before the closing call when transaction orders are placed, modified and cancelled. During this period there is no auto matching of orders. During this trading phase there is Market by Order dissemination of the order book. From 15:55, equilibrium data—including equilibrium price if established—is disseminated for all issues, and is updated once a second if information is changed.

In the course of the Closing Call Auction (Uncross), transaction orders are matched in the order book according to the equilibrium price. The equilibrium price is calculated by the same principles as in the Opening Call. The Closing Call Auction takes place from 15:59:30 until 16:00:00. A random uncross sequence for the Order Books is applied. The exact point in time when the uncross takes place in the Closing Call is randomized within the last 30 seconds.

The Post-Trading Session (from ~16:00 to 16:30) is an after-market trading period when only manual trades can be reported and submitted orders can be cancelled.

Automatically matched trades are always settled on the second day after the trade (T+2), where T is the day of conclusion of the transaction. The ownership right to securities is transferred on the

settlement day. The default settlement day for negotiated deals is also T+2; however in Nasdaq Riga negotiated deals may have a settlement day between T+0 (inclusive for local members, exclusive for cross-members) and T+40 (inclusive). Settlement of the trades in the case of a public sale of shares, a tender offer or a public offering of a share issue is made on the second working day (T+2) after the conclusion of the trade through the clearing bank.

Dividends

See "Dividends policy—Distribution of Dividends".

Voting Rights

Citadele will identify the holders of Shares eligible to participate at a GMS through the LCD and the LCD Custodians. To that end, Citadele may instruct the LCD to prepare a list of holders of the Shares. The LCD issues corresponding instructions to the LCD Custodians, who in turn inform the holders of the Shares. To be eligible to participate at a GMS, the holder must hold Shares on the record date, being a day six business days before a GMS. On that date, the holder of the Shares and the number of Shares held by such holder shall be fixed as at the end of the day for participation in the GMS. The LCD Custodians provide the LCD with a list of the holders of Shares on the record date, and the LCD consolidates such lists into one list to be provided to Citadele.

Information Relating to the Depositary

The Depositary is the issuer of the GDRs.

Citibank, N.A. ("**Citibank**") has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organised on 16 June 1812 and is now a national banking association organised under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043.

Citibank's consolidated balance sheets are set forth in Citigroup's most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited), each on file on Form 10-K and Form 10-Q, respectively, with the U.S. Securities and Exchange Commission.

Citibank's articles of association and by-laws, each as currently in effect, together with Citigroup's Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, NY 10013, United States of America.

Holders of GDRs may contact Citibank, N.A. as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the GDR Depositary's principal administrative establishment located at 388 Greenwich Street, 14th Floor, New York, NY 10013, United States of America.

Legal Matters

Certain legal matters with respect to the Offer will be passed upon for Citadele in respect of the laws of England by Slaughter and May, in respect of the laws of the United States by Cravath, Swaine & Moore LLP and in respect of the laws of Latvia by Eversheds Bitans. Certain legal matters with respect to the Offer will be passed upon for the Managers in respect of the laws of England and the United States by Shearman & Sterling (London) LLP and in respect of the laws of Latvia by Borenius Attorneys.

Independent Auditors

The 2014 and 2013 Audited Consolidated Financial Statements were audited by KPMG Baltics SIA, which also reviewed (but did not audit) the Reviewed Consolidated Interim Financial Statements. The Reviewed Consolidated Interim Financial Statements were reviewed in accordance with the International Standard on Review Engagements 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The scope of a review is substantially less comprehensive than the scope of an audit conducted in accordance with International Standards on Auditing. The separate report of KPMG Baltics SIA herein states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The address of KPMG Baltics SIA is Vesetas iela 7, Riga LV 1013, Latvia. KPMG Baltics SIA is included in the register of audit firms maintained by The Latvian Association of Certified Auditors.

The 2012 Audited Consolidated Financial Statements were audited by PricewaterhouseCoopers SIA, which was Citadele's independent auditor at that time. In 2013, pursuant to the provisions of a shareholders' agreement among the previous shareholders of Citadele, namely the Latvian Privatisation Agency and the EBRD, Citadele's Supervisory Board initiated on 1 January 2013 a change of Citadele's independent auditor from PricewaterhouseCoopers SIA, which audited the 2012 Audited Consolidated Financial Statements, to KPMG Baltics SIA, which audited the 2014 and 2013 Audited Consolidated Financial Statements and reviewed (but did not audit) the Reviewed Consolidated Interim Financial Statements. The segment results presented as at and for the years ended 31 December 2014 and 2013 were produced for purposes of this Prospectus and have not been reviewed or audited by KPMG Baltics SIA or PricewaterhouseCoopers SIA. The segment results presented as at and for the six months ended 30 June 2015 and 2014 are included in the Reviewed Consolidated Interim Financial Statements. The address of PricewaterhouseCoopers SIA is Kr. Valdemara iela 21-21, Riga LV 1010, Latvia. PricewaterhouseCoopers SIA is included in the register of audit firms maintained by The Latvian Association of Certified Auditors.

General Information

1. It is expected that the: (i) Shares will be admitted to listing and trading on the Main List of the Nasdaq Riga; and (ii) GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List, in each case on or about 10 November 2015. Application will be made for the GDRs to be traded on the regulated market of the London Stock Exchange through its IOB. Prior to Admission to the Official List, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when-issued basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.

2. Citadele has obtained the consents, approvals and authorisations required under Latvian law in connection with the issue of the new Shares and the issue of the GDRs, and entry into the Institutional Underwriting Agreement, the Retail Underwriting Agreement and the Deposit Agreements other than the approval of its shareholders to a share capital increase. The share capital increase required for the issuance of the Shares (including those underlying the GDRs) is intended to be authorised by the resolution of the GMS on 4 November 2015.

3. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of Citadele for a period of 12 months from the date of publication of this Prospectus:

   - this Prospectus;
   - Citadele's Articles of Association;
   - the Deposit Agreements;
   - the Deed Poll;
   - Citadele's Audited Consolidated Financial Statements, together with the independent auditors' report relating thereto; and
   - Citadele's Reviewed Consolidated Interim Financial Statements as of and for the six-month period ended 30 June 2015, together with the review report relating thereto.

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

4. If definitive certificates are issued in exchange for the Master GDRs, Citadele will appoint an agent in the United Kingdom.

5. There has been no significant change in the financial or trading position of Citadele since 30 June 2015, the end of the last financial period for which financial information has been published.

6. 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 are 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.

7. Citadele is of the opinion that the working capital available to it is sufficient for the present requirements of Citadele Group, that is, for at least 12 months from the date of this Prospectus.

8. The Shares are denominated in Euro with a nominal value of EUR 0.10. The GDRs are denominated in US Dollars and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offer will be made public by Citadele through a press release and notice on Citadele's website (www.citadele.lv) and to the regulatory information service of the London Stock Exchange and the news service of the Nasdaq Riga (if available to Citadele) promptly upon the closing of the Offer.

9. The ISIN for the Rule 144A GDRs is US00215D1028, the Common Code for the Rule 144A GDRs is 130853242, the CUSIP number for the Rule 144A GDRs is 00215D102 and the SEDOL for the Rule 144A GDRs is BZBWZ37.

10. The ISIN for the Regulation S GDRs is US00215D2018, the Common Code for the Regulation S GDRs is 130853285, the CUSIP number for the Regulation S GDRs is 00215D201 and the SEDOL for the Regulation S GDRs is BZBWZ48.

11. The ISIN for the Shares is LV0000101558, the CUSIP number for the Shares is X02308108 and the SEDOL for the Shares is BYYMZ59.

12. The GDRs will be traded on the London Stock Exchange under the symbol "CBL".

13. The Shares will be traded on the Nasdaq Riga under the symbol "CBLBR".

Glossary of Terms

Articles of Association or Charter	Citadele's constitutional document
2012 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as at and for the year ended 31 December 2012 as set out in pages F226 to F310 of this Prospectus
2013 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as at and for the year ended 31 December 2013 as set out in pages F139 to F225 of this Prospectus
2014 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as at and for the year ended 31 December 2014 as set out in pages F47 to F138 of this Prospectus
2015 Reviewed Consolidated Interim Financial Statements	Citadele's unaudited condensed Reviewed Consolidated Interim Financial Statements as at and for the six-month period ended 30 June 2015, which have been reviewed (but have not been audited) by KPMG Baltics SIA, as set out in pages F2 to F46 of this Prospectus
Advanced Measurement Approach	The most sophisticated and risk sensitive of the three operational risk measurement techniques that can be used under Basel II
ALCO	Assets and Liabilities Management Committee of Citadele's Management Board
Audited Consolidated Financial Statements	Collectively the 2012 Audited Consolidated Financial Statements, the 2013 Audited Consolidated Financial Statements and the 2014 Audited Consolidated Financial Statements
Baltic States	Latvia, Lithuania and Estonia
Bank of Latvia	Latvijas Banka, the central bank of Latvia
Basic Indicator Approach	The simplest of the three operation risk measurement techniques that can be used under Basel II
BIS	Bank for International Settlements
Branch	A customer service centre operated by a member of Citadele Group to provide its services and products to customers
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
Citadele	AS "Citadele banka" and, where the context requires, its Estonian branch
Citadele Group	Citadele and its directly owned and indirectly owned subsidiaries
Closing Date	10 November 2015

Co-lead Managers	AS LHV Pank, Mediobanca – Banca di Credito Finanziario S.p.A. and Raiffeisen Bank International AG
CRA Regulation	Regulation (EU) No 513/2011 of the European Parliament of the Council of 11 May 2011 amending Regulation (EC) No 1060/2009 on credit rating agencies
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
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2014 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
Custodian	Nordea Bank Finland plc as custodian (acting through Swedbank AS and "Swedbank" AS as sub-custodians)
Deposit Agreements	The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement, each dated on or around 5 November 2015 and each entered into between Citadele and the Depositary
Depositary	Citibank, N.A.
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EEA	The European Economic Area
EU	The European Union
FCA	United Kingdom Financial Conduct Authority
FCMC	Financial and Capital Markets Commission of Latvia
FIU	Latvia's Financial Intelligence Unit
FMCRC	The Financial Market and Counterparty Risk Committee of Citadele's Management Board
FSMA	Financial Services and Markets Act 2000 (as amended)
GDRs	In connection with the Offer the Global Depositary Receipts representing the Shares. One GDR represents an interest in 6 Shares

GDR Admission	Admission of the GDRs to the Official List and unconditional trading on the London Stock Exchange
GDR Stabilisation Manager	Citigroup Global Markets Limited
GIC	The Group Investment Committee of Citadele's Management Board
GMS	General Meeting of Shareholders
Government	Government of Latvia
HMRC	HM Revenue and Customs
IFRS	International Financial Reporting Standards as adopted by the EU
IMF	International Monetary Fund
Independent Auditor's Report	The audit report appearing in the Prospectus, prepared by (i) KPMG Baltics SIA, as independent auditors of Citadele's audited consolidated financial statements as of and for the years ended 31 December 2014 and 2013, and; (ii) PricewaterhouseCoopers SIA, as independent auditors of Citadele's audited consolidated financial statements as of and for the year ended 31 December 2012
IOB	The International Order Book of the London Stock Exchange
Joint Bookrunners	Citigroup Global Markets Limited and EFG Hermes UAE Limited
LPA Subordinated Debt	The tranche of subordinated debt owed to the Latvian Privatisation Agency of EUR 34,728,000 as at 30 June 2015 which carries a coupon of 7.13% and which matures on 20 December 2017
Managers	Citigroup Global Markets Limited, EFG Hermes UAE Limited (acting as Joint Bookrunner) and EFG Hermes Promoting and Underwriting SAE, AS LHV Pank, Mediobanca – Banca di Credito Finanziario S.p.A. and Raiffeisen Bank International AG EFG Hermes UAE Limited is acting as a joint bookrunner in connection with the Institutional Tranche of the Offer but not as an underwriter. EFG Hermes Promoting and Underwriting SAE, an affiliate of EFG Hermes UAE Limited, has been assigned certain responsibilities in connection with the Institutional Tranche of the Offer pursuant to the Institutional Underwriting Agreement. References to the Managers in this Prospectus should be construed accordingly.
Master GDRs	The Master Regulation S GDR and the Master Rule 144A GDR

Master Regulation S GDR	The master Regulation S global depositary receipt evidencing the GDRs being offered and sold outside the United States in reliance on Regulation S
Master Rule 144A GDR	The master Rule 144A global depositary receipt deposited with the Depositary as custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC evidencing the GDRs offered and sold in the United States
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
MLRO	Money Laundering and Reporting Officer
OECD	Organisation for Economic Cooperation and Development
OFAC	The Office of Foreign Assets Control of the US Department of the Treasury
Offer	The Offer by Citadele, of up to 100,000,000 Shares with a nominal value of EUR 0.10 per Share in the form of Shares and GDRs
Offshore transactions for the purposes of Regulation S	For purposes of Regulation S under the Securities Act ("Regulation S"), (1) An offer or sale of securities is made in an "offshore transaction" if: (i) The offer is not made to a person in the United States; and (ii) Either: (A) At the time the buy order is originated, the buyer is outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer is outside the United States; or (B) For purposes of: (x) Section 903 of Regulation S, the transaction is executed in, on or through a physical trading floor of an established foreign securities exchange that is located outside the United States; or (y) Section 904 of Regulation S, the transaction is executed in, on or through the facilities of a designated offshore securities market described in paragraph (b) of Section 902 of Regulation S, and neither the seller nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States.

	(2) Notwithstanding paragraph (1), offers and sales of securities specifically targeted at identifiable groups of U.S. citizens abroad, such as members of the U.S. armed forces serving overseas, shall not be deemed to be made in "offshore transactions." (3) Notwithstanding paragraph (1), offers and sales of securities to persons excluded from the definition of "U.S. person" pursuant to Section 902(k)(2)(vi) of Regulation S or persons holding accounts excluded from the definition of "U.S. person" pursuant to Section 902(k)(2)(i) of Regulation S, solely in their capacities as holders of such accounts, shall be deemed to be made in "offshore transactions." (4) Notwithstanding paragraph (1), publication or distribution of a research report in accordance with Rule 138(c) promulgated under the Securities Act or Rule 139(b) promulgated under the Securities Act by a broker or dealer at or around the time of an offering in reliance on Regulation S will not cause the transaction to fail to be an offshore transaction as defined in Section 902 of Regulation S.
Official List	The official list of the FCA
Order	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
PEP	Politically exposed persons
QIBs	Qualified institutional buyers within the meaning of Rule 144A under the Securities Act
Qualified Investors	Qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive
Regulated Market	The London Stock Exchange's regulated market for listed securities which is a regulated market for the purposes of Directive No 2004/39/EC (the Markets in Financial Instruments Directive)
Regulation S	Regulation S under the Securities Act
Regulation S GDRs	The GDRs being offered outside the United States in reliance on Regulation S or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act
Regulation S Offering	The offering of Securities outside the United States in reliance on Regulation S or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act
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
Restricted Securities	For the purposes of Rule 144A GDRs, restricted securities within the meaning of Rule 144(a)(3) under the Securities Act

Rule 144A	Rule 144A under the Securities Act
Rule 144A GDRs	The GDRs offered and sold in the United States in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act
Rule 144A Offering	The offering of Securities in the United States in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act
Securities Act	The United States Securities Act of 1933, as amended
Shares	The ordinary B shares of Citadele or those ordinary B shares of Citadele being offered in the Offer, as the context requires
Share Admission	Admission of the Shares to the Main List of the Nasdaq Riga
Share Stabilisation Manager	AS LHV Pank
SME	Small and medium sized enterprises, being entities with annual turnover between EUR 0.4 million and EUR 7 million
Sole Global Coordinator	Citigroup Global Markets Limited
SRS	The State Revenue Service of the Republic of Latvia
Stabilisation Period	The period beginning on the date on which the Securities are admitted to trading on the London Stock Exchange or the Nasdaq Riga and ending no later than 30 calendar days thereafter for the purposes of stabilising transactions
UKLA	The United Kingdom Listing Authority
UN	The United Nations
Underwriting Agreements	The institutional underwriting agreement dated on or around 23 October 2015 entered into by Citadele and the Managers and the retail underwriting agreement dated on or around 23 October 2015 entered into by Citadele and LHV Pank
United Kingdom or U.K.	The United Kingdom of Great Britain and Northern Ireland
United States or U.S.	The United States of America
United States (for the purposes of Regulation S)	For purposes of Regulation S under the Securities Act ("Regulation S"), "United States" means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.
VAT	Value added tax

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Citadele

AS Citadele banka
Condensed Interim Income Statement for the 6 Month Periods Ended 30 June 2015 and 2014

	Notes	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
					EUR 000's
Interest income	5	39,570	38,585	32,078	32,286
Interest expense	5	(10,027)	(9,058)	(8,349)	(7,634)
Net interest income		**29,543**	**29,527**	**23,729**	**24,652**
Commission and fee income		24,500	22,956	18,481	17,453
Commission and fee expense		(7,287)	(6,722)	(6,168)	(5,647)
Net commission and fee income		**17,213**	**16,234**	**12,313**	**11,806**
Gain on transactions with financial instruments, net	6	6,286	6,900	4,184	5,565
Other income		1,533	1,351	1,098	2,495
Other expense		(306)	(584)	(184)	(235)
Administrative expenses		(32,800)	(30,766)	(24,747)	(22,990)
Amortisation and depreciation charge		(2,315)	(2,828)	(803)	(645)
Impairment charges and reversals, net	7	(2,789)	(2,843)	(4,379)	(4,070)
Profit before taxation		**16,365**	**16,991**	**11,211**	**16,578**
Income tax		(1,433)	(2,553)	(1,127)	(2,442)
Net profit for the period		**14,932**	**14,438**	**10,084**	**14,136**
Basic earnings per share in EUR		0.0992	0.0985	0.0670	0.0965
Weighted average number of shares outstanding during the period in thousands	14	150,478	146,556	150,478	146,556

The notes on pages 6 to 30 are an integral part of these interim condensed financial statements.

The Supervisory Board and the Management Board of the Bank approved the issue of these interim financial statements as presented from page 1 to 30 on 21 August 2015. The financial statements are signed on behalf of the Supervisory Board and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Citadele

AS Citadele banka
Condensed Interim Statement of Comprehensive Income for the 6 Month Periods Ended 30 June 2015 and 2014

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Net profit for the period	**14,932**	**14,438**	**10,084**	**14,136**
Other comprehensive income:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	65	266	42	225
Deferred income tax charged directly to equity	(3)	(1)	–	–
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(2,333)	(1,654)	(785)	(696)
Change in fair value of available for sale securities	1,229	3,079	571	1,953
Deferred income tax charged / (credited) directly to equity	111	103	(16)	63
Other reserves				
Foreign exchange revaluation and other reserves	2,717	57	–	–
Other comprehensive income / (loss) for the period	**1,786**	**1,850**	**(188)**	**1,545**
Total comprehensive income for the period	**16,718**	**16,288**	**9,896**	**15,681**

Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to income statement when specific conditions are met.

Citadele

AS Citadele banka
Condensed Interim Balance Sheet as at 30 June 2015 and 31 December 2014

	Notes	30/06/2015 Group	31/12/2014 Group	30/06/2015 Bank	31/12/2014 Bank
					EUR 000's
Assets					
Cash and balances with central banks		324,554	225,399	223,958	142,650
Balances due from credit institutions		296,922	509,404	328,360	464,273
Securities held for trading:					
- fixed income	8	15,603	20,295	–	–
- shares and other non-fixed income		5,439	3,655	–	–
Derivative financial instruments		2,003	5,929	2,013	5,963
Financial assets designated at fair value through profit or loss:	8				
- fixed income		85,139	84,851	–	–
- shares and other non-fixed income		17,147	12,598	–	–
Available for sale securities:					
- fixed income	8	542,325	541,591	435,175	433,337
- shares and other non-fixed income		17,499	16,605	11,924	11,081
Loans and receivables from customers	9	1,081,752	1,075,701	909,115	941,329
Held to maturity securities	8	251,024	229,252	211,647	192,977
Property and equipment		42,773	42,525	3,943	3,651
Intangible assets		1,796	1,708	1,523	1,456
Investment property		403	409	–	–
Investments in subsidiaries	10	–	–	61,595	61,605
Current income tax assets		272	437	–	–
Deferred income tax assets		29,010	30,073	27,638	28,735
Other assets		54,310	54,163	43,496	43,604
Total assets		**2,767,971**	**2,854,595**	**2,260,387**	**2,330,661**
Liabilities					
Derivative financial instruments		2,859	1,647	2,860	3,567
Financial liabilities designated at fair value through profit or loss	11	30,052	24,594	–	–
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks		30,799	25,036	93,152	116,997
- deposits from customers	12	2,408,256	2,517,107	1,899,552	1,948,751
- other financial liabilities		13,691	12,235	–	–
Current income tax liabilities		76	187	–	–
Other liabilities		24,833	23,482	17,654	14,453
Subordinated liabilities	13	53,976	73,596	53,976	73,596
Total liabilities		**2,564,542**	**2,677,884**	**2,067,194**	**2,157,364**
Equity					
Paid-in share capital	14	156,556	146,556	156,556	146,556
Reserves		2,323	545	1,806	1,994
Retained earnings		44,550	29,610	34,831	24,747
Total equity		**203,429**	**176,711**	**193,193**	**173,297**
Total liabilities and equity		**2,767,971**	**2,854,595**	**2,260,387**	**2,330,661**

The notes on pages 6 to 30 are an integral part of these interim condensed financial statements.

Citadele

AS Citadele banka
Condensed Interim Balance Sheet as at 30 June 2015 and 31 December 2014

The Supervisory Board and the Management Board of the Bank approved the issue of these interim condensed financial statements as presented from page 1 to 30 on 21 August 2015. The financial statements are signed on behalf of the Supervisory Board and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Citadele

AS Citadele banka
Condensed Interim Statement of Changes in Equity for the 6 Month Periods Ended 30 June 2015 and 2014

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank						
	Issued share capital	Securities fair value revaluation reserve	Foreign exchange reserves	Other reserves	Restructuring reserve	Retained earnings/ (accumulated losses)	Total equity
							EUR 000's
Balance as at 31 December 2013	**146,556**	**2,933**	**1,781**	**170**	**(4,710)**	**(3,282)**	**143,448**
Total comprehensive income for the period							
Net profit for the period	–	–	–	–	–	14,438	14,438
Other comprehensive income / (loss) for the period	–	1,793	57	–	–	–	1,850
Transactions with shareholders							
Transfer to other reserve	–	–	–	89	–	(89)	–
Balances as at 30 June 2014	**146,556**	**4,726**	**1,838**	**259**	**(4,710)**	**11,067**	**159,736**
Balance as at 31 December 2014	**146,556**	**3,062**	**1,934**	**259**	**(4,710)**	**29,610**	**176,711**
Total comprehensive income for the period							
Net profit for the period	–	–	–	–	–	14,932	14,932
Other comprehensive income / (loss) for the period	–	(931)	2,697	–	–	20	1,786
Transactions with shareholders							
Transfer to other reserve	–	–	–	12	–	(12)	–
Shares issued (see *Note 14*)	10,000	–	–	–	–	–	10,000
Balances as at 30 June 2015	**156,556**	**2,131**	**4,631**	**271**	**(4,710)**	**44,550**	**203,429**

Changes in the Bank's equity are as follows:

	Attributable to equity holders of the Bank			
	Issued share capital	Securities fair value revaluation reserve	Retained earnings/ (accumulated losses)	Total equity
				EUR 000's
Balance as at 31 December 2013	**146,556**	**1,538**	**(4,498)**	**143,596**
Total comprehensive income for the period				
Net profit for the period	–	–	14,136	14,136
Other comprehensive income / (loss) for the period	–	1,545	–	1,545
Balances as at 30 June 2014	**146,556**	**3,083**	**9,638**	**159,277**
Balance as at 31 December 2014	**146,556**	**1,994**	**24,747**	**173,297**
Total comprehensive income for the period				
Net profit for the period	–	–	10,084	10,084
Other comprehensive income / (loss) for the period	–	(188)	–	(188)
Transactions with shareholders				
Shares issued (see *Note 14*)	10,000	–	–	10,000
Balances as at 30 June 2015	**156,556**	**1,806**	**34,831**	**193,193**

The notes on pages 6 to 30 are an integral part of these interim condensed financial statement.

Citadele

AS Citadele banka
Statement of Cash Flows for the 6 Month Periods Ended 30 June 2015 and 2014

	Notes	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
					EUR 000's
Cash flows from operating activities					
Profit before tax		16,365	16,991	11,211	16,578
Dividends received		–	–	(238)	(1,690)
Amortisation of intangible assets, depreciation of property, equipment and investment property		2,315	2,828	803	645
Change in impairment allowances and other provisions		2,789	2,843	4,379	4,070
Interest income		(39,570)	(38,585)	(32,078)	(32,286)
Interest expense		10,027	9,058	8,349	7,634
Other non-cash items*		(29,362)	1,276	(20,918)	1,059
Cash flows before changes in assets and liabilities		**(37,436)**	**(5,589)**	**(28,492)**	**(3,990)**
Change in derivative financial instruments		5,138	(1,107)	3,243	(1,690)
(Increase) / decrease in other assets		(411)	124	125	2,965
Increase / (decrease) in other liabilities		2,808	6,306	3,201	2,297
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		3,529	(22,588)	–	–
(Increase) / decrease in balances due from credit institutions		346,586	15,203	116,623	378
(Increase) / decrease in loans and receivables from customers		(10,521)	(38,200)	27,627	(30,783)
Increase / (decrease) in balances due to credit institutions and central banks		984	(14,087)	11,337	(16,056)
Increase / (decrease) in deposits from customers		(109,734)	(20,470)	(50,217)	(83,973)
Cash generated from operating activities before corporate income tax		**200,943**	**(80,408)**	**83,447**	**(130,852)**
Interest received during the period		39,748	36,399	32,162	30,228
Interest paid during the period		(10,380)	(8,987)	(8,571)	(7,763)
Corporate income tax paid during the period		(218)	–	(47)	–
Net cash flows from operating activities		**230,093**	**(52,996)**	**106,991**	**(108,387)**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(650)	(1,225)	(422)	(764)
Proceeds from disposal of property and equipment		10	70	10	–
Purchase of held-to-maturity securities		(38,831)	(45,937)	(37,476)	(30,116)
Proceeds from held-to-maturity securities		22,616	39,837	19,860	33,990
Purchase of available-for-sale securities		(150,201)	(179,201)	(95,142)	(118,082)
Cash inflows from available-for-sale securities		173,837	145,293	111,538	107,085
Dividends received		–	–	238	1,690
Acquisitions and investments in subsidiaries		–	–	–	(8)
Net cash flows from investing activities		**6,781**	**(41,163)**	**(1,394)**	**(6,205)**
Cash flows from financing activities					
Issued share capital		10,000	–	10,000	–
Repayment of subordinated liabilities		(18,400)	–	(18,400)	–
Net cash flow from financing activities		**(8,400)**	**–**	**(8,400)**	**–**
Net cash flows for the period		**228,474**	**(94,159)**	**97,197**	**(114,592)**
Cash and cash equivalents at the beginning of the period		**369,011**	**605,946**	**419,225**	**502,860**
Cash and cash equivalents at the end of the period	22	**597,485**	**511,787**	**516,422**	**388,268**

* Other non-cash items from operating activities in the 6 month period ended 30 June 2015 mostly relate to foreign exchange revaluation of securities investment.

The notes on pages 6 to 30 are an integral part of these interim condensed financial statements.

Citadele

AS Citadele banka
Statement of Cash Flows for the 6 Month Periods Ended 30 June 2015 and 2014

The Supervisory Board and the Management Board of the Bank approved the issue of these interim condensed financial statements as presented from page 1 to 30 on 21 August 2015. The financial statements are signed on behalf of the Supervisory Board and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2014 or for the six month period ended 30 June 2014, unless stated otherwise.

Note 1. Authorisation of the Financial Statements

These interim Group's consolidated and Bank's separate condensed financial statements have been authorised for issuance by the Management on 21 August 2015 and comprise the financial information of AS Citadele banka (hereinafter—the Bank) and its subsidiaries (together—the Group).

Note 2. General Information

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010. The Bank was established as a result of implementation of an EC restructuring plan, which was approved by the Cabinet of Ministers of the government of Latvia in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking. The transfer of undertaking took place on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 30 June 2015, the Bank was operating a total of 36 (2014: 36) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2014: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 26 (2014: 26) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. In the reporting period the Privatisation Agency completed the sale of shares in the Citadele Bank. For more details on the change in shareholders please refer to Note 14 (*Issued Share Capital*).

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 30 June 2015, the Group had 1,603 (2014: 1,583) employees and the Bank had 1,222 (2014: 1,180) employees.

Note 3. Summary of Significant Accounting Policies

Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in financial position and performance of the Group and Bank since the last annual consolidated and Bank financial statements for the year ended 31 December 2014. They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS as adopted by European Union. These interim condensed financial statements should be read in conjunction with the 2014 full annual financial statements for the Group and the Bank.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRS as adopted by EU, except as disclosed bellow.

Adoption of new or revised standards and interpretations

Certain new standards, interpretations and amendments to the existing standards have been published that become effective for the accounting periods beginning on or after 1 January 2015 or later periods and which are not relevant to the Group or are not yet endorsed by the EU. The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro (EUR). The accompanying financial statements are presented in thousands of Euros (EUR 000's).

Use of estimates in the preparation of financial statements

In preparing these condensed interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2014 (impairment of loans, impairment of securities classified as available for sale or held to maturity, impairment of other financial and non-financial assets, deferred tax asset recognition, and consolidation group).

The Bank and Group continue to monitor its and Group's loan portfolios and reassess impairment on a periodic basis in normal course of business. For details on changes in impairment please refer to Note 7 (*Impairment Charges and Reversals*).

Interim period income tax is accrued based on the estimated effective tax rate that would be applicable to the expected total annual earnings. Decrease in the Group's and the Bank's effective tax rate in the six month period ended 30 June 2015 as compared to the same period in 2014 mainly relates to changes in Latvian tax legislation which exempts certain income from taxable profits.

Note 4. Risk Management

All aspects of the Group's risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2014. Sensitivity to changes in interest rates was slightly lower than as at 31 December 2014, while susceptibility to foreign exchange rate volatility was at a similar level as compared to the year ended 31 December 2014.

Note 5. Interest Income and Expense

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Interest income on:				
- financial assets measured at amortised cost:	35,281	34,780	29,518	30,279
- loans and receivables from customers	*31,748*	*30,775*	*26,566*	*26,442*
- balances due from credit institutions and central banks	*493*	*403*	*329*	*484*
- held-to-maturity securities	*3,040*	*3,602*	*2,623*	*3,353*
- available-for-sale securities	3,582	2,933	2,560	2,007
- held for trading securities	204	285	–	–
- financial assets designated at fair value through profit or loss	503	587	–	–
Total interest income	**39,570**	**38,585**	**32,078**	**32,286**
Interest expense on:				
- financial liabilities measured at amortised cost:	(9,743)	(8,854)	(8,206)	(7,539)
- deposits from customers	*(6,707)*	*(6,096)*	*(5,279)*	*(4,758)*
- subordinated liabilities	*(2,358)*	*(2,668)*	*(2,358)*	*(2,668)*
- balances due to credit institutions and central banks	*(677)*	*(89)*	*(569)*	*(113)*
- other financial liabilities	(1)	(1)	–	–
- financial liabilities designated at fair value through profit or loss	(141)	(109)	–	–
- other interest expense	(143)	(95)	(143)	(95)
Total interest expense	**(10,027)**	**(9,058)**	**(8,349)**	**(7,634)**
Net interest income	**29,543**	**29,527**	**23,729**	**24,652**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group is mainly affected by negative interest rates applied on certain balances due from central banks and some credit institutions. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

Note 6. Gain on Transactions with Financial Instruments, Net

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Gain from foreign exchange trading and revaluation of open positions, net	3,498	5,097	2,684	4,868
Gain / (loss) from disposal of available for sale securities, net	2,333	1,654	785	696
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	733	221	715	–
Gain from trading and revaluation of other derivatives, net	–	1	–	1
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(278)	17	–	–
Gain / (loss) on financial assets measured at amortised cost, net	–	(90)	–	–
Gain on transactions with financial instruments, net	**6,286**	**6,900**	**4,184**	**5,565**

Note 7. Impairment Charges and Reversals

Total net impairment allowance charged to income statement:

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Loans—specifically assessed impairment	(1,199)	(1,268)	(1,636)	(1,357)
Loans—collectively assessed impairment	(3,464)	(2,748)	(3,283)	(2,667)
Available-for-sale securities	–	(255)	–	(255)
Other financial and non-financial assets	1,223	(498)	7	(1,621)
Recovered written-off assets	651	1,926	533	1,830
Total allowance and reversals charged to the statement of income, net	**(2,789)**	**(2,843)**	**(4,379)**	**(4,070)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. From time to time previously written off assets are recovered due to repayment or sale of pool of overdue assets to companies specialising in recoveries of balances in arrears. Such recoveries are reported as recovered written-off assets.

An analysis of the change in allowances for impairment of loans and receivables:

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Total allowance for impairment at the beginning of the period, including:	**88,707**	**93,049**	**69,767**	**72,495**
- loans—specifically assessed impairment	67,676	78,477	51,383	58,935
- loans—collectively assessed impairment	21,031	14,572	18,384	13,560
Charge:	**8,860**	**10,591**	**7,271**	**9,929**
- loans—specifically assessed impairment	4,206	7,169	3,516	6,643
- loans—collectively assessed impairment	4,654	3,422	3,755	3,286
Release:	**(4,197)**	**(6,575)**	**(2,352)**	**(5,905)**
- loans—specifically assessed impairment	(3,007)	(5,901)	(1,880)	(5,286)
- loans—collectively assessed impairment	(1,190)	(674)	(472)	(619)
Allowance charged to the statement of income, net, including:	**4,663**	**4,016**	**4,919**	**4,024**
- loans—specifically assessed impairment	1,199	1,268	1,636	1,357
- loans—collectively assessed impairment	3,464	2,748	3,283	2,667
Change of allowance due to write-offs	**(2,781)**	**(2,861)**	**–**	**–**
Effect of changes in currency exchange rates:	**246**	**(370)**	**244**	**(384)**
- loans—specifically assessed impairment	244	(367)	244	(384)
- loans—collectively assessed impairment	2	(3)	–	–
Total allowance for impairment at the end of the period, including:	**90,835**	**93,834**	**74,930**	**76,135**
- loans—specifically assessed impairment	66,338	76,517	53,263	59,908
- loans—collectively assessed impairment	24,497	17,317	21,667	16,227

During the ordinary course of business recoverability of some loans deteriorate while for others improve. This directly affects specifically assessed impairment allowance for loans. In the reporting period some balances were impaired due to deterioration in particular clients' medium term business prospects. Changes in Group's and Bank's collectively assessed impairment allowance for loans in the reporting period mainly related to application of more prudent criteria in collective impairment assessment process, as well as due to changes in past due days of unimpaired loan balances.

An analysis of the change in impairment of other assets:

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Total allowance for impairment at the beginning of the period, including:	**28,775**	**33,585**	**61,641**	**61,206**
- available-for-sale securities	7,062	8,256	7,062	8,256
- due from credit institutions	852	758	852	758
- property and equipment	15,556	18,092	–	–
- investments in subsidiaries	–	–	49,638	47,369
- other financial and non-financial assets	5,305	6,479	4,089	4,823
Charge:	**196**	**760**	**103**	**1,876**
- available-for-sale securities	–	255	–	255
- property and equipment	12	–	–	–
- investments in subsidiaries	–	–	10	1,249
- other financial and non-financial assets	184	505	93	372
Release:	**(1,419)**	**(7)**	**(110)**	**–**
- property and equipment	(1,245)	–	–	–
- other financial and non-financial assets	(174)	(7)	(110)	–
Allowance charged to the statement of income, net, including:	**(1,223)**	**753**	**(7)**	**1,876**
- available-for-sale securities	–	255	–	255
- property and equipment	(1,233)	–	–	–
- investments in subsidiaries	–	–	10	1,249
- other financial and non-financial assets	10	498	(17)	372
Change of allowance due to write-offs:	**(211)**	**(730)**	**(124)**	**(124)**
- other financial and non-financial assets	(211)	(730)	(124)	(124)
Effect of changes in currency exchange rates:	**(402)**	**(1,525)**	**(375)**	**(1,485)**
- available-for-sale securities	(448)	(1,224)	(448)	(1,224)
- due from credit institutions	73	–	73	–
- other financial and non-financial assets	(27)	(301)	–	(261)
Total allowance for impairment at the end of the period, including:	**26,939**	**32,083**	**61,135**	**61,473**
- available-for-sale securities	6,614	7,287	6,614	7,287
- due from credit institutions	925	758	925	758
- property and equipment	14,323	18,092	–	–
- investments in subsidiaries	–	–	49,648	48,618
- other financial and non-financial assets	5,077	5,946	3,948	4,810

Changes in impairment allowance for property and equipment mainly relate to the reduction in impairment allowance for the Citadele headquarters building. Based on the re-estimate of the fair value, the carrying amount of the building is the same as at year end, and accordingly, a reversal of impairment took place. In 2014, based on impairment assessment for this asset, the reversal took place only at the year end.

Note 8. Fixed and Non-Fixed Income Securities

The Group's fixed income securities by issuers profile and classification:

	30/06/2015				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
					EUR 000's
Held for trading	5,092	–	1,419	9,092	15,603
Financial assets designated at fair value through profit or loss	13,845	895	26,813	43,586	85,139
Available for sale	191,389	–	136,696	214,240	542,325
Held to maturity	185,302	–	38,358	27,364	251,024
Total fixed income securities	**395,628**	**895**	**203,286**	**294,282**	**894,091**

In 2015, the Group and the Bank re-assessed the profile of a certain credit linked note with carrying amount of EUR 34.4 million classified as held to maturity. The re-assessment resulted in presentation of this security as a German credit institution bond as opposed to its previous presentation as a Latvian municipality bond. The profile has changed as a result of the separate presentation of the embedded derivative within the derivatives caption. Latvian municipality exposure still remains, but has not been presented as part of the securities credit risk profile.

The Group's fixed income securities by issuers profile and classification:

	31/12/2014				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
					EUR 000's
Held for trading	9,545	–	1,908	8,842	20,295
Financial assets designated at fair value through profit or loss	11,749	1,634	29,236	42,232	84,851
Available for sale	228,426	–	146,294	166,871	541,591
Held to maturity	161,988	34,455	7,573	25,236	229,252
Total fixed income securities	**411,708**	**36,089**	**185,011**	**243,181**	**875,989**

The Bank's fixed income securities by issuers profile and classification:

	30/06/2015				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
					EUR 000's
Available for sale	136,165	–	124,131	174,879	435,175
Held to maturity	176,692	–	34,955	–	211,647
Total fixed income securities	**312,857**	**–**	**159,086**	**174,879**	**646,822**

The Bank's fixed income securities by issuers profile and classification:

	31/12/2014				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
					EUR 000's
Available for sale	152,476	–	141,160	139,701	433,337
Held to maturity	153,550	34,455	4,972	–	192,977
Total fixed income securities	**306,026**	**34,455**	**146,132**	**139,701**	**626,314**

As at 30 June 2015, there are no Group's or Bank's securities on which payments are past due or which were restructured during the reporting period (2014: EUR nil). No fixed income securities were impaired (2014: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

The Group's fixed income, shares and other non-fixed income securities by issuer's country, net:

	30/06/2015			31/12/2014		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
						EUR 000's
Latvia	274,881	4,773	279,654	253,751	37,978	291,729
United States	5,662	73,979	79,641	12,358	77,321	89,679
Germany	–	64,508	64,508	–	24,479	24,479
Netherlands	7,316	53,742	61,058	10,080	53,734	63,814
Lithuania	58,340	–	58,340	86,375	–	86,375
Australia	699	32,864	33,563	693	32,946	33,639
Singapore	–	29,576	29,576	–	24,368	24,368
Sweden	7,367	20,942	28,309	5,376	21,342	26,718
Canada	3,599	24,374	27,973	3,308	24,023	27,331
Norway	–	27,701	27,701	–	26,638	26,638
Finland	14,123	11,379	25,502	13,246	16,312	29,558
Multilateral development banks	–	23,142	23,142	–	12,902	12,902
Other countries*	23,641	131,699	155,340	26,521	112,454	138,975
Total fixed income securities and shares, net	**395,628**	**498,679**	**894,307**	**411,708**	**464,497**	**876,205**
Investments in investment funds**	–	39,869	39,869	–	32,642	32,642
Total securities, net	**395,628**	**538,548**	**934,176**	**411,708**	**497,139**	**908,847**

Bank's fixed income, shares and other non-fixed income securities by issuer's country, net:

	30/06/2015			31/12/2014		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
						EUR 000's
Latvia	261,787	3,500	265,287	241,007	36,955	277,962
United States	5,662	36,428	42,090	12,358	38,612	50,970
Germany	–	52,414	52,414	–	16,373	16,373
Netherlands	7,317	30,705	38,022	10,080	34,351	44,431
Australia	698	24,322	25,020	693	24,792	25,485
Singapore	–	27,888	27,888	–	22,820	22,820
Sweden	4,500	20,942	25,442	4,143	21,342	25,485
Canada	3,599	20,060	23,659	3,308	19,356	22,664
Norway	–	21,748	21,748	–	19,788	19,788
Finland	11,200	11,379	22,579	10,549	16,312	26,861
Multilateral development banks	–	20,527	20,527	–	12,902	12,902
Other countries*	18,094	64,251	82,345	23,888	56,884	80,772
Total fixed income securities and shares, net	**312,857**	**334,164**	**647,021**	**306,026**	**320,487**	**626,513**
Investments in investment funds**	–	11,725	11,725	–	10,882	10,882
Total securities, net	**312,857**	**345,889**	**658,746**	**306,026**	**331,369**	**637,395**

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 17,986 thousand and EUR 10,231 thousand respectively (2014: EUR 15,285 thousand and EUR 10,767 thousand).

** Investments in managed funds here are not distributed by their issuer's country but shown separately.

All fixed income securities as at 30 June 2015 and 31 December 2014 are listed.

The Group's shares and other non-fixed income securities by issuer's profile and classification:

	30/06/2015				31/12/2014			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
								EUR 000's
Held for trading	–	–	5,439	5,439	–	–	3,655	3,655
Financial assets designated at fair value through profit or loss	–	–	17,147	17,147	–	–	12,598	12,598
Available for sale	116	100	17,283	17,499	116	100	16,389	16,605
Total non-fixed income securities, net	**116**	**100**	**39,869**	**40,085**	**116**	**100**	**32,642**	**32,858**

All exposures in mutual investment funds and equities which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 30 June 2015 EUR 17,147 thousand (2014: EUR 12,598 thousand) of financial assets designated at fair value through profit or loss relate to this.

The Bank's shares and other non-fixed income securities by issuers profile and classification:

	30/06/2015				31/12/2014			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
								EUR 000's
Available for sale	99	100	11,725	11,924	99	100	10,882	11,081
Total non-fixed income securities, net	**99**	**100**	**11,725**	**11,924**	**99**	**100**	**10,882**	**11,081**

Investments in mutual funds are not analysed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 30 June 2015, the carrying amount of the Group's and Bank's securities, consisting of mutual funds, which were impaired amounted to EUR 1,421 thousand (2014: EUR 1,421 thousand).

Note 9. Loans and Receivables from Customers

						Group, EUR 000's
	30/06/2015			31/12/2014		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due—not impaired	910,237	–	910,237	976,670	–	976,670
Not past due—impaired	60,701	(25,845)	34,856	43,390	(20,054)	23,336
Total not past due loans	**970,938**	**(25,845)**	**945,093**	**1,020,060**	**(20,054)**	**1,000,006**
Past due loans—not impaired						
Delayed days:						
=< 29	88,290	–	88,290	30,524	–	30,524
30-59	34,636	–	34,636	12,318	–	12,318
60-89	3,391	–	3,391	4,071	–	4,071
90 and more	16,353	–	16,353	15,687	–	15,687
Total past due loans—not impaired	**142,670**	**–**	**142,670**	**62,600**	**–**	**62,600**
Total past due loans—impaired	**58,979**	**(40,493)**	**18,486**	**81,748**	**(47,622)**	**34,126**
Total loans and receivables from customers	**1,172,587**	**(66,338)**	**1,106,249**	**1,164,408**	**(67,676)**	**1,096,732**
Collective impairment allowance		(24,497)	(24,497)		(21,031)	(21,031)
Total net loans and receivables from customers			**1,081,752**			**1,075,701**

	Bank, EUR 000's					
	30/06/2015			31/12/2014		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due—not impaired	765,671	–	765,671	866,395	–	866,395
Not past due—impaired	62,808	(23,414)	39,394	38,947	(16,574)	22,373
Total not past due loans	**828,479**	**(23,414)**	**805,065**	**905,342**	**(16,574)**	**888,768**
Past due loans—not impaired						
Delayed days:						
=< 29	69,685	–	69,685	18,377	–	18,377
30-59	26,591	–	26,591	6,873	–	6,873
60-89	1,992	–	1,992	2,213	–	2,213
90 and more	13,025	–	13,025	14,407	–	14,407
Total past due loans—not impaired	**111,293**	**–**	**111,293**	**41,870**	**–**	**41,870**
Total past due loans—impaired	**44,273**	**(29,849)**	**14,424**	**63,884**	**(34,809)**	**29,075**
Total loans and receivables from customers	**984,045**	**(53,263)**	**930,782**	**1,011,096**	**(51,383)**	**959,713**
Collective impairment allowance		(21,667)	(21,667)		(18,384)	(18,384)
Total net loans and receivables from customers			**909,115**			**941,329**

Note 10. Investments in Subsidiaries

Changes in the Bank's investments in subsidiaries:

	01/01/2015-30/06/2015	01/01/2014-30/06/2014
	Group	Group
		EUR 000's
Net balance at the beginning of the period	**61,605**	**62,841**
Establishment of new subsidiaries	–	8
Impairment, net	(10)	(1,249)
Net balance at the end of the period	**61,595**	**61,600**

In 6 month period ended 30 June 2015 share capital in repossessed asset management companies was impaired (net) in the amount of EUR 10 thousand (2014: nil) based on the forecasted performance of the respective companies.

Carrying value of investment in AB Citadele (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (15.5%), minimum target capital adequacy ratio and future profitability of the operations of the entity. In 2015 the management has assessed the model's inputs and concluded that there are no circumstances that require changes to these inputs. In 2014, the Bank recorded additional impairment allowance of EUR 1,249 thousand on its investment in AB Citadele. This was a result of revising future forecasts.

In 6 month period ended 30 June 2014, the Bank established SIA Hortus NI, SIA Hortus RE, and SIA Hortus BR to continue effective management of repossessed assets.

Note 11. Financial Liabilities Designated at Fair Value Through Profit or Loss

Movement in Group's financial liabilities designed at fair value through profit or loss:

	01/01/2015-30/06/2015	01/01/2015-30/06/2015	01/01/2014-30/06/2014	01/01/2014-30/06/2014
	Unit-linked	Other	Unit-linked	Other
				EUR 000's
Balance at the beginning of the period	**12,784**	**11,810**	**8,667**	**7,959**
Premiums received	4,543	1,223	2,177	2,026
Commissions and risk charges	(212)	(127)	(137)	(149)
Paid to policyholders	(552)	(234)	(384)	(149)
Dividends received	1	–	–	–
Securities fair value revaluation result	397	–	327	–
Other	–	180	–	142
Currency revaluation result	227	12	3	(26)
Balance at the end of the period	**17,188**	**12,864**	**10,653**	**9,803**

During the 6 months ended 30 June 2015 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR -61 thousand in the statement of income (2014: EUR -5 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further disclosed in detail in these financial statements.

Note 12. Deposits from Customers

Deposits from customers according to customer profile:

	30/06/2015	31/12/2014	30/06/2015	31/12/2014
	Group	Group	Bank	Bank
				EUR 000's
Privately held companies	1,112,150	1,198,017	798,075	825,905
Private individuals	1,040,921	1,005,630	839,115	801,983
Financial institutions	112,613	144,406	124,440	156,198
State and municipality owned enterprises	105,810	127,939	104,491	126,589
Municipalities	15,203	20,303	15,203	20,303
Public and religious institutions	15,309	12,620	13,552	10,605
Government	6,250	8,192	4,676	7,168
Total deposits from customers	**2,408,256**	**2,517,107**	**1,899,552**	**1,948,751**

Note 13. Subordinated Liabilities

On 20 April 2015 a portion of subordinated liabilities amounting to EUR 18.4 million was repaid to Privatisation Agency and EUR 11.2 million subordinated liabilities transferred from Privatisation agency to European Bank for Reconstruction and Development (EBRD). The maturity of the outstanding subordinated liabilities to EBRD was extended to 2020. The interest rate margin on the transferred amount is 8.3%. As of 8 August 2015, the new interest rate margin it will be applied to the whole outstanding amount. The Group's and Bank's capitalisation was positively affected by changes in the subordinated liabilities and the increase in the Bank's share capital. For more details on capital increase refer to Note 14 (*Issued Share Capital*) and Note 15 (*Capital Adequacy*).

Details of the Group's and the Bank's subordinated liabilities as at 30 June 2015:

Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)
Privatisation Agency	EUR	7.13%	20/12/2017	34,728	35,223
EBRD	EUR	7.85%	08/08/2020	18,400	18,753
					53,976

Details of the Group's and the Bank's subordinated liabilities as at 31 December 2014:

Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)
Privatisation Agency	EUR	7.13%	20/12/2017	53,128	54,702
Privatisation Agency	EUR	7.13%	08/08/2016	11,208	11,537
EBRD	EUR	7.13%	08/08/2016	7,195	7,357
					73,596

Note 14. Issued Share Capital

As at 30 June 2015, the Bank's registered and paid-in share capital was EUR 156,556 thousand (2014: EUR 146,556 thousand). Nominal value of one share is one EUR. The total number of ordinary shares with voting rights is 156,555,796 (2014: 146,555,796). All shares as at 30 June 2015 and 31 December 2014 were issued and fully paid. As at 30 June 2015 and 31 December 2014, the Bank did not possess any of its own shares. No dividends were proposed and paid during 6 month period ended 30 June 2015 or 2014.

Bank's shareholders as at 30 June 2015 and 31 December 2014:

	30/06/2015		31/12/2014	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	36,638,950	36,638,950
RA Citadele Holdings LLC	35,082,302	35,082,302	–	–
Privatisation Agency	–	–	109,916,846	109,916,846
Other shareholders	82,334,546	82,334,546	–	–
Total	**156,555,796**	**156,555,796**	**146,555,796**	**146,555,796**

On 16 September 2014 following a tender process, the Latvian government decided to sell its 75% less 1 share stake in Citadele to RA Citadele Holdings LLC (United States), an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas agentūra (Privatisation Agency of the Republic of Latvia) signed the agreement on 5 November 2014. The transaction was closed on 20 April 2015 Regulatory approvals have been received from the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The EBRD retained its stake in Citadele. Immediately upon acquisition, the new shareholders and the EBRD increased the Citadele Bank's share capital by EUR 10 million (10 million shares at par value of 1 EUR per share). After the increase, the Bank's share capital is EUR 156.6 million where EBRD's stake is 25% less 1 share. After the change in ownership there is no singe majority beneficial owner of the Group and Bank.

Note 15. Capital Adequacy

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes—via a regulation (575/2013) and a directive (2013/36/EU)—the new global standards on bank capital (the Basel III agreement) into EU law. It is applicable from 1 January 2014.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conservation buffer is established, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. FCMC has also calculated the Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2014 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The increase in ratio is related to the non-resident business of the Bank. The ratio should be complied with also on the consolidated level. During the first quarter of 2015, until including the audited profits of 2015 in Tier 1 equity, the Group's capital adequacy ratio was somewhat below 10.9%. Capital adequacy ratio (which includes audited profits for 2014) as at 31 December 2014 and capital adequacy ratios as of 31 March 2015 complied with this requirement. In April, the Group's regulatory capital increased by almost EUR 19 million as a result of 10 million share capital increase and amendments in subordinated loan agreements. As at June 30 2015, the Group's regulatory capital complies with the FCMC's requirement.

The Bank has subsidiaries, which are financial institutions, thus it should comply with the regulatory requirements based on both the Group's level and the Bank's level as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (Basel III framework, Pillar I):

	30/06/2015 Group*	31/12/2014 Group*	30/06/2015 Bank	31/12/2014 Bank
				EUR 000's
Common equity Tier 1 capital				
Paid up capital instruments	156,556	146,556	156,556	146,556
Retained earnings and eligible profits	29,335	28,750	24,747	24,747
Deductible other intangible assets	(1,781)	(1,690)	(1,523)	(1,456)
Other capital components, deductions and transitional adjustments, net	(4,781)	(4,689)	(2,293)	(820)
Tier 2 capital				
Eligible part of subordinated liabilities	35,593	31,568	35,593	31,568
Own funds	**214,922**	**200,495**	**213,080**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk				
Central governments or central banks	16,480	16,596	12,254	11,252
Regional governments or local authorities	1,038	35,611	687	35,082
Public sector entities	25	43	25	43
Multilateral Development Banks	1,707	1,052	1,707	407
Institutions	164,085	179,590	157,756	167,617
Corporates	655,479	631,548	639,363	649,329
Retail	85,196	98,655	42,149	60,870
Secured by mortgages on immovable property	267,482	236,922	190,390	155,962
Exposures in default	73,666	38,807	74,350	34,216
Items associated with particularly high risk	43,125	158,356	42,492	163,832
Claims on institutions and corporates with a short-term credit assessment	307	4,334		–
Collective investments undertakings	17,283	16,389	11,725	10,882
Equity	10,938	10,938	61,845	62,875
Other items	125,604	177,823	51,636	110,900
Total exposure amounts for position, foreign currency open position and commodities risk				
Traded debt instruments	9,227	7,126	5,870	2,427
Equity	869	867	–	–
Foreign Exchange	8,456	9,741	1,104	1,647
Commodities	58	–	58	–
Total exposure amounts for settlement	36	–	36	–
Total exposure amounts for operational risk	196,501	196,501	157,347	157,347
Total exposure amounts for credit valuation adjustment	632	1,142	632	1,135
Total risk exposure amount	**1,678,194**	**1,822,041**	**1,451,426**	**1,625,823**
Total capital adequacy ratio	**12.8%**	**11.0%**	**14.7%**	**12.3%**
Common equity Tier 1 capital ratio	**10.7%**	**9.3%**	**12.2%**	**10.4%**

* The consolidation group for regulatory purposes is different from the consolidation group for accounting purposes. As per regulatory requirements AAS CBL Life is not included in the consolidation group for capital adequacy purposes. Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Note 16. Related Parties

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group's companies and the Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

On 20 April 2015 the composition of related parties of the Group changed significantly. As described in Note 14 (*Issued Share Capital*) on that date RA Citadele Holdings LLC (United States) and an international group of twelve investors acquired shares previously owned by VAS Privatisation Agency of the Republic of Latvia. Since then transactions with parties affiliated with Privatisation Agency, including Latvian state and municipal institutions, are not considered related party transactions.

The following tables present the outstanding balances and terms of the Group's and the Bank's transactions with related parties which are not affiliated with the former shareholder VAS Privatisation Agency, which were related parties at respective dates.

	30/06/2015 Group	31/12/2014 Group	30/06/2015 Bank	31/12/2014 Bank
				EUR 000's
Credit exposures to other related parties, net				
Loans and receivables from customers and balances due form credit institutions, net				
- Management	371	337	92	104
- Consolidated subsidiaries	–	–	210,571	194,253
Derivatives	–	–	11	52
Investments in subsidiaries, net	–	–	61,595	61,605
Financial commitments and guarantees outstanding	114	125	73,261	52,152
Total credit exposures to other related parties, net	**485**	**462**	**345,530**	**308,166**
Liabilities to other related parties				
Deposits from customers and balances due to credit institutions				
- Management	790	555	333	212
- Consolidated subsidiaries	–	–	76,207	82,336
Subordinated liabilities (EBRD)	18,753	7,357	18,753	7,357
Derivatives	–	–	–	1,935
Total liabilities to other related parties	**19,543**	**7,912**	**95,293**	**91,840**

As at 30 June 2015 the impairment allowance recognised on loans and receivables from consolidated subsidiaries relates to subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by Group's companies. The ultimate recoverability of loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio.

The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood would be paid EUR 2m per annum for services rendered to Citadele. Examples of these advisory services include business plan development, risk management, capital allocation, strategic analysis, operating efficiency, human resource management and similar.

	01/01/2015-30/06/2015 Group	01/01/2014-30/06/2014 Group	01/01/2015-30/06/2015 Bank	01/01/2014-30/06/2014 Bank
				EUR 000's
Interest income	2	5	1,521	2,064
Interest expense	(463)	(283)	(610)	(411)
Loss on transactions with financial instruments, net	–	–	(2,349)	(34)
Dividends received from consolidated subsidiaries	–	–	238	1,690
Other income	7	7	987	1,395
Other expense	(1)	(1)	(8)	(1)

Note 17. Balance Sheet Amounts by Contractual Maturity

The carrying amount of the Group's assets, liabilities and memorandum items by contractual maturity structure as at 30 June 2015

	Group as at 30/06/2015, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	324,554	–	–	–	–	–	324,554
Balances due from credit institutions	231,538	56,901	417	–	1,892	6,174	296,922
Securities held for trading	1,368	–	1,463	1,708	8,027	8,476	21,042
Financial assets designated at fair value through profit or loss	3,327	2,192	4,397	11,443	61,954	18,973	102,286
Available for sale securities	16,917	37,257	20,716	84,125	363,712	37,097	559,824
Loans and receivables from customers	52,182	68,411	34,598	129,541	560,785	236,235	1,081,752
Held to maturity securities	14,372	10,181	65,598	38,101	112,205	10,567	251,024
Derivative financial instruments	565	1,044	51	–	343	–	2,003
Other assets	29,318	213	532	3,230	997	94,274	128,564
Total assets	**674,141**	**176,199**	**127,772**	**268,148**	**1,109,915**	**411,796**	**2,767,971**

	Group as at 30/06/2015, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Liabilities							
Financial liabilities designated at fair value through profit or loss	12	41	168	1,403	23,571	4,857	30,052
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	30,406	358	–	–	35	–	30,799
- Deposits from customers	1,904,519	55,972	137,800	165,153	139,869	4,943	2,408,256
- Subordinated liabilities	–	884	–	–	34,728	18,364	53,976
- Other financial liabilities	7	–	–	143	–	13,541	13,691
Derivative financial instruments	1,912	662	285	–	–	–	2,859
Other liabilities	23,230	196	59	1,207	77	140	24,909
Total liabilities	**1,960,086**	**58,113**	**138,312**	**167,906**	**198,280**	**41,845**	**2,564,542**
Equity	–	–	–	–	–	203,429	203,429
Total liabilities and equity	**1,960,086**	**58,113**	**138,312**	**167,906**	**198,280**	**245,274**	**2,767,971**
Net balance sheet position—long/ (short)	(1,285,945)	118,086	(10,540)	100,242	911,635	166,522	–
Off-balance sheet items							
Contingent liabilities	57,376	–	–	–	–	–	57,376
Financial commitments	184,667	–	–	–	–	–	184,667

The carrying amount of the Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2014

	Group as at 31/12/2014, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	224,685	714	–	–	–	–	225,399
Balances due from credit institutions	499,249	5,748	108	–	–	4,299	509,404
Securities held for trading	6,474	426	1,513	2,664	–	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	–	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Loans and receivables from customers	29,456	46,519	61,766	129,805	581,871	226,284	1,075,701
Held to maturity securities	–	2,945	16,986	74,972	99,699	34,650	229,252
Derivative financial instruments	3,598	2,239	77	15	–	–	5,929
Other assets	30,043	532	515	474	1,011	96,740	129,315
Total assets	**834,599**	**76,979**	**112,784**	**286,095**	**978,058**	**566,080**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	24,526	510	–	–	–	–	25,036
- Deposits from customers	2,046,552	85,732	91,548	176,260	108,884	8,131	2,517,107
- Subordinated liabilities	–	2,119	–	–	71,477	–	73,596
- Other financial liabilities	77	–	–	–	250	11,908	12,235
Derivative financial instruments	876	763	8	–	–	–	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**
Equity	–	–	–	–	–	176,711	176,711
Total liabilities and equity	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**200,947**	**2,854,595**
Net balance sheet position—long/ (short)	(1,257,783)	(12,337)	19,461	108,309	777,217	365,133	–
Off-balance sheet items							
Contingent liabilities	58,217	–	–	–	–	–	58,217
Financial commitments	168,646	–	–	–	–	–	168,646

The carrying amount of the Bank's assets, liabilities and memorandum items by contractual maturity structure as at 30 June 2015

	Bank as at 30/06/2015, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	223,958	–	–	–	–	–	223,958
Balances due from credit institutions	270,160	52,346	417	–	–	5,437	328,360
Available for sale securities	16,918	37,257	19,718	81,040	268,312	23,854	447,099
Loans and receivables from customers	58,970	53,812	14,026	153,660	430,314	198,333	909,115
Held to maturity securities	14,373	10,181	63,808	31,717	91,568	–	211,647
Derivative financial instruments	575	1,044	51		343	–	2,013
Other assets	27,419	1	4	8	41	110,722	138,195
Total assets	**612,373**	**154,641**	**98,024**	**266,425**	**790,578**	**338,346**	**2,260,387**
Liabilities							
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	77,068	2,887	4,551	6,661	1,985	–	93,152
- Deposits from customers	1,508,556	35,350	107,744	117,140	128,099	2,663	1,899,552
- Subordinated liabilities	–	884	–	–	34,728	18,364	53,976
Derivative financial instruments	1,913	662	285	–	–	–	2,860
Other liabilities	17,654	–	–	–	–	–	17,654
Total liabilities	**1,605,191**	**39,783**	**112,580**	**123,801**	**164,812**	**21,027**	**2,067,194**
Equity	–	–	–	–	–	193,193	193,193
Total liabilities and equity	**1,605,191**	**39,783**	**112,580**	**123,801**	**164,812**	**214,220**	**2,260,387**
Net balance sheet position—long/ (short)	(992,818)	114,858	(14,556)	142,624	625,766	124,126	–
Off-balance sheet items							
Contingent liabilities	52,907	–	–	–	–	–	52,907
Financial commitments	230,011	–	–	–	–	–	230,011

The carrying amount of the Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2014

	Bank as at 31/12/2014, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	142,650	–	–	–	–	–	142,650
Balances due from credit institutions	460,521		–	–	–	3,752	464,273
Available for sale securities	21,512	13,641	28,033	66,979	295,477	18,776	444,418
Loans and receivables from customers	25,869	134,905	44,342	102,768	440,262	193,183	941,329
Held to maturity securities	–	2,945	16,986	73,347	99,699	–	192,977
Derivative financial instruments	3,648	2,232	68	15	–	–	5,963
Other assets	27,680	1	2	14	37	111,317	139,051
Total assets	**681,880**	**153,724**	**89,431**	**243,123**	**835,475**	**327,028**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	105,056	3,166	4,144	4,082	549	–	116,997
- Deposits from customers	1,578,891	61,120	61,574	139,941	101,138	6,087	1,948,751
- Subordinated liabilities	–	2,119	–	–	71,477	–	73,596
Derivative financial instruments	1,723	1,832	12	–	–	–	3,567
Other liabilities	14,453	–	–	–	–	–	14,453
Total liabilities	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**6,087**	**2,157,364**
Equity	–	–	–	–	–	173,297	173,297
Total liabilities and equity	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**179,384**	**2,330,661**
Net balance sheet position—long/ (short)	(1,018,243)	85,487	23,701	99,100	662,311	147,644	–
Off-balance sheet items							
Contingent liabilities	54,544	–	–	–	–	–	54,544
Financial commitments	192,406	–	–	–	–	–	192,406

Note 18. Balance Sheet Amounts by Currency

The carrying amount of the Group's assets, liabilities and memorandum items by currency profile as at 30 June 2015

	Group as at 30/06/2015, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	222,393	4,521	95,253	173	2,214	324,554
Balances due from credit institutions	86,183	85,834	8,601	1,637	114,667	296,922
Securities held for trading	13,977	6,040	1,025	–	–	21,042
Financial assets designated at fair value through profit or loss	45,275	49,123	6,257	–	1,631	102,286
Available for sale securities	177,629	367,093	–	–	15,102	559,824
Loans and receivables from customers	1,033,337	44,188	3,750	268	209	1,081,752
Held to maturity securities	227,789	23,235	–	–	–	251,024
Derivative financial instruments	1,999	–	4	–	–	2,003
Other assets	94,238	11,797	785	68	21,676	128,564
Total assets	**1,902,820**	**591,831**	**115,675**	**2,146**	**155,499**	**2,767,971**
Liabilities						
Financial liabilities designated at fair value through profit or loss	26,251	3,801	–	–	–	30,052
Financial liabilities measured at amortised cost:						
- Balances due to credit institutions and central banks	4,282	23,249	–	–	3,268	30,799
- Deposits from customers	1,482,273	798,926	23,916	16,143	86,998	2,408,256
- Subordinated liabilities	53,976	–	–	–	–	53,976
- Other financial liabilities	13,691	–	–	–	–	13,691
Derivative financial instruments	2,859	–	–	–	–	2,859
Other liabilities	18,514	4,522	857	195	821	24,909
Total liabilities	**1,601,846**	**830,498**	**24,773**	**16,338**	**91,087**	**2,564,542**
Equity	203,048	365	–	–	16	203,429
Total liabilities and equity	**1,804,894**	**830,863**	**24,773**	**16,338**	**91,103**	**2,767,971**
Net long/ (short) position for balance sheet items	97,926	(239,032)	90,902	(14,192)	64,396	–
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	3,262	(2,877)	206	(1,539)	969	21
Forward foreign exchange contracts	(1,387)	1,369	–	–	–	(18)
Swap exchange contracts	(109,221)	243,203	(85,825)	15,733	(64,891)	(1,001)
Net long/ (short) positions on foreign exchange	*(107,346)*	*241,695*	*(85,619)*	*14,194*	*(63,922)*	*(998)*
Net long/ (short) total position	**(9,420)**	**2,663**	**5,283**	**2**	**474**	**(998)**

The carrying amount of the Group's assets, liabilities and memorandum items by currency profile as at 31 December 2014

	Group as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and balances with central banks	137,031	3,328	71,201	10,825	104	2,910	225,399
Balances due from credit institutions	229,958	162,476	10,459	153	9,952	96,406	509,404
Securities held for trading	16,099	6,189	1,662	–	–	–	23,950
Financial assets designated at fair value through profit or loss	31,461	53,731	9,788	–	–	2,469	97,449
Available for sale securities	170,514	311,731	–	59,192	–	16,759	558,196
Loans and receivables from customers	955,260	56,182	3,468	60,539	99	153	1,075,701
Held to maturity securities	203,580	21,378	–	4,294	–	–	229,252
Derivative financial instruments	5,911	–	7	11	–	–	5,929
Other assets	91,014	30,162	543	5,905	52	1,639	129,315
Total assets	**1,840,828**	**645,177**	**97,128**	**140,919**	**10,207**	**120,336**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	21,985	2,609	–	–	–	–	24,594
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	3,574	12,079	–	191	933	8,259	25,036
- Deposits from customers	1,445,683	826,457	26,977	128,893	13,865	75,232	2,517,107
- Subordinated liabilities	73,596	–	–	–	–	–	73,596
- Other financial liabilities	6,457	–	–	5,778	–	–	12,235
Derivative financial instruments	1,632	–	13	2	–	–	1,647
Other liabilities	16,308	3,901	944	2,108	139	269	23,669
Total liabilities	**1,569,235**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,677,884**
Equity	176,711	–	–	–	–	–	176,711
Total liabilities and equity	**1,745,946**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,854,595**
Net long/ (short) position for balance sheet items	94,882	(199,869)	69,194	3,947	(4,730)	36,576	–
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(29,532)	32,733	(144)	–	(601)	(644)	1,812
Forward foreign exchange contracts	(2,299)	2,527	(370)	–	–	258	116
Swap exchange contracts	(68,525)	167,513	(65,993)	–	5,338	(35,952)	2,381
Net long/ (short) positions on foreign exchange	*(100,356)*	*202,773*	*(66,507)*	*–*	*4,737*	*(36,338)*	*4,309*
Net long/ (short) total position	**(5,474)**	**2,904**	**2,687**	**3,947**	**7**	**238**	**4,309**

As at 31 December 2014, the LTL currency was pegged to the EUR at a fixed rate. On 1 January 2015 the Republic of Lithuania adopted the Euro as the official currency. At that date all Group's and Bank's balances denominated in Litas were converted to Euros at the fixed official exchange rate.

The carrying amount of the Bank's assets, liabilities and memorandum items by currency profile as at 30 June 2015

	Bank as at 30/06/2015, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	217,407	4,267	152	173	1,959	223,958
Balances due from credit institutions	67,441	66,589	79,745	1,591	112,994	328,360
Available for sale securities	136,928	295,069	–	–	15,102	447,099
Loans and receivables from customers	870,275	34,613	3,750	268	209	909,115
Held to maturity securities	211,647	–	–	–	–	211,647
Derivative financial instruments	2,013	–	–	–	–	2,013
Other assets	90,976	11,706	13,832	28	21,653	138,195
Total assets	**1,596,687**	**412,244**	**97,479**	**2,060**	**151,917**	**2,260,387**
Liabilities						
Financial liabilities measured at amortised cost:						
- Balances due to credit institutions and central banks	10,703	68,626	93	127	13,603	93,152
- Deposits from customers	1,223,352	578,698	11,137	13,853	72,512	1,899,552
- Subordinated liabilities	53,976	–	–	–	–	53,976
Derivative financial instruments	2,860	–	–	–	–	2,860
Other liabilities	12,369	4,285	6	183	811	17,654
Total liabilities	**1,303,260**	**651,609**	**11,236**	**14,163**	**86,926**	**2,067,194**
Equity	192,686	491	–	–	16	193,193
Total liabilities and equity	**1,495,946**	**652,100**	**11,236**	**14,163**	**86,942**	**2,260,387**
Net long/ (short) position for balance sheet items	100,741	(239,856)	86,243	(12,103)	64,975	–
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	3,483	(2,940)	206	(1,547)	821	23
Forward foreign exchange contracts	(1,387)	1,369	–	–	–	(18)
Swap exchange contracts	(104,267)	241,396	(86,258)	13,602	(65,467)	(994)
Net long/ (short) positions on foreign exchange	*(102,171)*	*239,825*	*(86,052)*	*12,055*	*(64,646)*	*(989)*
Net long/ (short) total position	**(1,430)**	**(31)**	**191**	**(48)**	**329**	**(989)**

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance. During the reporting period as a result of CHF appreciation gains in Group's other comprehensive income were recognised.

The carrying amount of the Bank's assets, liabilities and memorandum items by currency profile as at 31 December 2014

	Bank as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and balances with central banks	136,428	3,045	72	360	104	2,641	142,650
Balances due from credit institutions	226,732	127,283	8,443	28	9,912	91,875	464,273
Available for sale securities	161,888	265,770	–	–	–	16,760	444,418
Loans and receivables from customers	890,252	47,356	3,468	–	99	154	941,329
Held to maturity securities	192,977	–	–	–	–	–	192,977
Derivative financial instruments	5,963	–	–	–	–	–	5,963
Other assets	53,599	30,004	13,807	40,032	3	1,606	139,051
Total assets	**1,667,839**	**473,458**	**25,790**	**40,420**	**10,118**	**113,036**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost:							
- Balances due to credit institutions and central banks	12,483	47,631	3	40,319	1,041	15,520	116,997
- Deposits from customers	1,280,256	582,797	12,240	99	12,857	60,502	1,948,751
- Subordinated liabilities	73,596	–	–	–	–	–	73,596
Derivative financial instruments	3,567	–	–	–	–	–	3,567
Other liabilities	12,358	1,800	5	3	103	184	14,453
Total liabilities	**1,382,260**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,157,364**
Equity	173,297	–	–	–	–	–	173,297
Total liabilities and equity	**1,555,557**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,330,661**
Net long/ (short) position for balance sheet items	112,282	(158,770)	13,542	(1)	(3,883)	36,830	–
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(30,149)	33,363	(168)	–	(601)	(632)	1,813
Forward foreign exchange contracts	(1,720)	1,939	(370)	–	–	258	107
Swap exchange contracts	(79,428)	124,895	(12,992)	–	4,483	(36,466)	492
Net long/ (short) positions on foreign exchange	*(111,297)*	*160,197*	*(13,530)*	*–*	*3,882*	*(36,840)*	*2,412*
Net long/ (short) total position	**985**	**1,427**	**12**	**(1)**	**(1)**	**(10)**	**2,412**

Note 19. Segment Reporting

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

All transactions between business segments are carried on an arm's length basis. The calculation of the net interest income of each business is performed by applying the internal transfer rates to both the asset and liability entries. These internal transfer rates take into account various

components: maturity, currency and timing of the transaction, as well as mandatory charges. These rates do not contain the cost of capital component. Income and expenses are reported in the segments by originating unit and at estimated market prices. Both direct and indirect expenses are allocated to the business segments, including non-recurring items and those items for which there is no clearly defined link to the business. Operating expenses are attributed to the individual segments on the basis of cost causation. The indirect expenses arising in connection with internal services are charged to the user of the service and credited to the segment performing the service. The provision of intra-group services is charged at estimated market prices or at full cost. The inter-segment revenues are defined as internal interest income and expense related to the funding of the operating segments

The Group operates in eight main business segments which are:

Retail

Has overall responsibility for providing services to private individuals and small and medium-sized companies in Latvia. Offers full banking and advisory services through branches, internet bank and mobile bank.

Corporate

Has overall responsibility for providing services to customers with either yearly turnover over EUR 7 million, assets over EUR 5 million or loan exposure over EUR 2 million and those with needs of complex financing solutions.

Private Capital Management

Has overall responsibility for providing private banking, advisory and transaction services to local and foreign high net-worth individuals and foreign companies.

Estonia

Has overall responsibility for providing banking services to all types of companies and individuals in Estonia.

Lithuania

Has overall responsibility for providing banking services to all types of companies and individuals in Lithuania.

Switzerland

Has overall responsibility for providing private banking services to high-net worth individuals outside Latvia, Lithuania and Estonia.

Asset Management

Has overall responsibility for providing investment, wealth management, life insurance and advisory services to all types of companies and individuals.

Leasing

Has overall responsibility for providing finance and operating lease and factoring services to all types of companies and individuals in the Latvia, Lithuania and Estonia.

Other

Includes support to business units within own area of expertise and includes results of subsidiaries who offer non-banking services.

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	Banking							Other business lines			Eliminations and consolidation adjustments	Group, consolidated
	Retail	Corporate	Private Capital Management	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	10,501	5,955	5,037	1,120	1,115	3,411	1,078	44	1,945	(691)	28	**29,543**
Net commission and fee income	3,479	1,520	5,394	209	1,713	1,103	1,165	2,663	(9)	(1)	(23)	**17,213**
Gain on transactions with financial instruments, net	458	112	1,988	194	1,433	2,004	239	36	8	–	(186)	**6,286**
Other income	202	499	30	3	365	154	–	247	252	2,930	(3,149)	**1,533**
Other expense	(31)	(4)	(10)	(2)	(137)	95	–	(74)	(133)	–	(10)	**(306)**
Administrative expense	(13,553)	(1,984)	(4,317)	(1,042)	(3,851)	(4,232)	(2,128)	(1,783)	(1,064)	(1,586)	2,740	**(32,800)**
Amortisation and depreciation charge	(146)	(1)	(5)	(10)	(642)	(87)	(75)	(12)	(58)	(1,274)	(5)	**(2,315)**
Impairment charges and reversals, net	(1,262)	(2,098)	(106)	(98)	(816)	315	–	(30)	(167)	1,245	228	**(2,789)**
Segment result	**(352)**	**3,999**	**8,011**	**374**	**(820)**	**2,763**	**279**	**1,091**	**774**	**623**	**(377)**	**16,365**
of which internal transactions	*(55)*	*(2,046)*	*6,361*	*479*	*(4,962)*	*(15)*	*184*	*42*	*–*	*(624)*	*636*	*–*
Segment assets	343,813	317,695	21,880	57,643	1,513,890	356,927	281,773	46,747	120,559	7,792	(345,317)	**2,723,402**
Segment liabilities	583,884	278,382	784,199	127,968	292,760	313,027	261,404	31,158	113,917	55,497	(277,654)	**2,564,542**

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EUR '000

	Banking							Other business lines			Eliminations and consolidation adjustments	Group, consolidated
	Retail	Corporate	Private Capital Management	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	11,015	5,102	4,748	861	2,927	2,897	1,158	54	1,505	(770)	30	**29,527**
Net commission and fee income	4,055	1,159	4,869	126	1,596	1,082	924	2,446	(4)	(1)	(18)	**16,234**
Gain on transactions with financial instruments, net	401	125	2,912	173	1,953	1,585	95	311	4	–	(659)	**6,900**
Other income	52	3	21	3	2,417	68	–	316	195	2,965	(4,689)	**1,351**
Other expense	(50)	(3)	(19)	(1)	(163)	(59)	–	(136)	(1)	(185)	33	**(584)**
Administrative expense	(13,120)	(1,755)	(4,228)	(824)	(3,062)	(4,330)	(1,835)	(1,816)	(934)	(1,544)	2,682	**(30,766)**
Amortisation and depreciation charge	(129)	–	(4)	(7)	(505)	(106)	(61)	(12)	(38)	(1,961)	(5)	**(2,828)**
Impairment charges and reversals, net	(758)	906	(83)	(257)	(3,879)	(72)	–	(209)	(287)	–	1,796	**(2,843)**
Segment result	**1,466**	**5,537**	**8,216**	**74**	**1,284**	**1,065**	**281**	**954**	**440**	**(1,496)**	**(830)**	**16,991**
of which internal transactions	*(173)*	*(2,126)*	*5,662*	*128*	*(3,461)*	*(112)*	*47*	*25*	*(1,148)*	*(701)*	*1,857*	–
Segment assets	354,075	344,377	28,711	49,690	1,293,870	308,881	237,941	36,358	104,131	7,126	(252,575)	**2,512,585**
Segment liabilities	580,711	299,859	711,090	96,088	228,609	266,686	221,249	21,633	97,535	56,785	(184,322)	**2,395,923**

Note 20. Credit Quality of Fixed Income Securities and Due From Credit Institutions Balances

The tables below provide details of the Group's and Bank's fixed income securities portfolio quality:

	Group, EUR 000's				
	30/06/2015				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	–	13,242	102,446	3,506	119,194
AA/Aa	1,591	28,045	127,807	3,072	160,515
A	7,459	33,364	231,761	228,271	500,855
BBB/Baa	6,553	9,277	69,833	14,720	100,383
BB/Ba	–	1,211	5,142	1,455	7,808
Not rated	–	–	5,336	–	5,336
Total net fixed income securities	**15,603**	**85,139**	**542,325**	**251,024**	**894,091**

	Group, EUR 000's				
	31/12/2014				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	361	14,063	119,168	2,919	136,511
AA/Aa	4,612	31,565	105,666	7,794	149,637
A	7,459	31,703	259,005	168,037	466,204
BBB/Baa	7,863	7,215	49,761	14,621	79,460
BB/Ba	–	305	4,632	1,425	6,362
Not rated	–	–	3,359	34,456	37,815
Total net fixed income securities	**20,295**	**84,851**	**541,591**	**229,252**	**875,989**

	Bank, EUR 000's					
	30/06/2015			31/12/2014		
	Available for sale	Held to maturity	Total	Available for sale	Held to maturity	Total
Investment grade:						
AAA/Aaa	94,528	2,597	97,125	117,620	2,083	119,703
AA/Aa	113,200	–	113,200	91,606	4,972	96,578
A	168,936	209,050	377,986	174,117	151,467	325,584
BBB/Baa	50,888	–	50,888	42,003	–	42,003
BB/Ba	4,197	–	4,197	4,632	–	4,632
Not rated	3,426	–	3,426	3,359	34,455	37,814
Total net fixed income securities	**435,175**	**211,647**	**646,822**	**433,337**	**192,977**	**626,314**

The tables below provide details of the Group's due from credit institutions balances credit quality:

	30/06/2015 Group	31/12/2014 Group	30/06/2015 Bank	31/12/2014 Bank
				EUR 000's
Investment grade:				
AAA/Aaa	–	56,618	–	–
AA/Aa	34,750	10,210	7,001	5,407
A	177,920	333,834	174,247	312,344
BBB/Baa	65,964	64,479	65,472	64,235
Other lower ratings	2,473	89	1,847	62
Not rated Baltic registered credit institutions	1,549	44,091	417	41,767
Citadele Group's banks	–	–	77,498	40,449
Other not rated credit institutions	14,266	83	1,878	9
Total balances due from credit institutions, net	**296,922**	**509,404**	**328,360**	**464,273**

Note 21. Loan to Value Analysis of Loan Portfolio

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, EUR 000's							
	30/06/2015				31/12/2014			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	650,233	1,365,860	161,484	113,666	597,070	1,139,362	199,232	132,224
Utilised credit lines	85,176	256,040	8,176	6,824	105,834	257,600	11,923	9,055
Finance leases	93,744	99,859	15,805	15,307	94,285	100,822	837	523
Debit balances on settlement cards	295	1,718	47,133	10	285	1,363	48,152	1
Overdraft facilities	2,917	10,165	12,194	2,095	4,035	11,257	9,289	1,799
Factoring	1,413	1,505	327	–	1,369	1,389	5	–
Due from investment counterparties	–	–	2,855	–	–	–	3,385	–
Total net loans	**833,778**	**1,735,147**	**247,974**	**137,902**	**802,878**	**1,511,793**	**272,823**	**143,602**

Bank, EUR 000's

	30/06/2015				31/12/2014			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	516,036	1,107,586	122,711	85,300	470,307	1,008,774	152,988	107,688
Utilised credit lines	72,328	230,791	6,411	5,391	94,739	246,505	10,887	8,157
Finance leases	23	347	–	–	41	337	–	–
Debit balances on settlement cards	253	1,602	42,031	10	246	1,261	43,149	–
Overdraft facilities	1,971	7,938	12,006	2,095	3,134	10,353	9,187	1,799
Due from investment counterparties	–	–	2,272	–	–	–	2,847	–
Loans to subsidiaries	–	–	133,073	–	–	–	153,804	–
Total net loans	**590,611**	**1,348,264**	**318,504**	**92,796**	**568,467**	**1,267,230**	**372,862**	**117,644**

In 2015, the management revised the methodology for determining the value of collateral used for the purposes of the disclosure. As of 30 June 2015, for loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used to reflect the completion rate of the project at the date of the report. Previously, only real estate value was used in calculating the fair value of collateral. Comparative data for 31 December 2014 were restated using the updated methodology.

Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out.

Note 22. Cash and Cash Equivalents

The table below provides a breakdown of cash and cash equivalents as at 30 June 2015 and 31 December 2014:

	30/06/2015 Group	31/12/2014 Group	30/06/2015 Bank	31/12/2014 Bank
				EUR 000's
Cash and balances with central banks	324,554	225,399	223,959	142,650
Balances with other credit institutions*	292,681	158,583	327,943	347,232
Balances due to other credit institutions	(19,750)	(14,971)	(35,480)	(70,657)
Total cash and cash equivalents	**597,485**	**369,011**	**516,422**	**419,225**

* Deposits include term facilities with initial agreement term of 3 months or less.

Note 23. Fair Values of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and demand deposits with central banks

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

Balances due from credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans and receivables from customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 8.67 million (2014: EUR 11.2 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Available for sale securities

The fair value for certain closed-end fund investments is calculated using valuation techniques with non-market observable inputs. Fair value of these available for sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available for sale securities would change by EUR +/-142 thousand (2014: EUR +/-142 thousand).

Derivatives

Currency derivatives are valued using unadjusted current market prices. Fair value of other derivatives is determined using valuation models employing non-observable market inputs. One of the non-observable market input is CDS rate. If the CDS rate would change by +30 basis points the fair value would change by EUR 210 thousand.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at period-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.01 million (2014: EUR 0.09 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically repriced to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.7 million (2014: EUR 0.8 million).

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +21 thousand and EUR -21 thousand respectively (2014: EUR +218 thousand and EUR -192 thousand respectively).

Fair value hierarchy

Quoted market prices (Level 1)

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique—observable market inputs (Level 2)

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique—non-market observable inputs (Level 3)

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 30 June 2015.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique—observable inputs	Valuation technique—non-market observable inputs
Held for trading securities	21,042	21,042	21,042	–	–
Financial assets designated at fair value through profit or loss	102,286	102,286	102,286	–	–
Derivatives	2,003	2,003	–	1,661	342
Available for sale securities	559,824	559,824	558,188	–	1,636
Financial assets not measured at fair value:					
Cash and deposits with central banks	324,554	324,554	–	–	–
Balances due from credit institution	296,922	296,922	–	–	–
Loans and receivables from customers	1,081,752	1,077,346	–	–	1,077,346
Held to maturity securities	251,024	254,717	220,424	34,293	–
Total assets	**2,639,407**	**2,638,694**	**901,940**	**35,954**	**1,079,324**
Derivatives	2,859	2,859	–	2,859	–
Financial liabilities designated at fair value through profit or loss	30,052	30,052	17,188	–	12,864
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	30,799	30,799	–	–	–
Customer deposits	2,408,256	2,409,833	–	–	2,409,833
Other financial liabilities	13,691	13,614	–	–	13,614
Subordinated liabilities	53,976	53,976	–	–	53,976
Total liabilities	**2,539,633**	**2,541,133**	**17,188**	**2,859**	**2,490,287**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique—observable inputs	Valuation technique—non-market observable inputs
Held for trading securities	23,950	23,950	23,950	–	–
Financial assets designated at fair value through profit or loss	97,449	97,449	97,449	–	–
Derivatives	5,929	5,929	–	5,929	–
Available for sale securities	558,196	558,196	556,560	–	1,636
Financial assets not measured at fair value:					
Cash and deposits with central banks	225,399	225,399	–	–	–
Balances due from credit institution	509,404	509,404	–	–	–
Loans and receivables from customers	1,075,701	1,070,066	–	–	1,070,066
Held to maturity securities	229,252	234,260	201,992	–	32,268
Total assets	**2,725,280**	**2,724,653**	**879,951**	**5,929**	**1,103,970**
Derivatives	1,647	1,647	–	1,647	–
Financial liabilities designated at fair value through profit or loss	24,594	24,594	12,784	–	11,810
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	25,036	25,036	–	–	–
Customer deposits	2,517,107	2,519,836	–	–	2,519,836
Other financial liabilities	12,235	12,034	–	–	12,034
Subordinated liabilities	73,596	73,596	–	–	73,596
Total liabilities	**2,654,215**	**2,656,743**	**12,784**	**1,647**	**2,617,276**

The following table presents fair values of Bank's financial assets and liabilities as at 30 June 2015.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique—observable inputs	Valuation technique—non-market observable inputs
Derivatives	2,013	2,013	–	1,671	342
Available for sale securities	447,099	447,099	445,479	–	1,620
Financial assets not measured at fair value:					
Cash and deposits with central banks	223,958	223,958	–	–	–
Balances due from credit institution	328,360	328,360	–	–	–
Loans and receivables from customers	909,115	896,050	–	–	896,050
Held to maturity securities	211,647	215,946	181,653	34,293	–
Total assets	**2,122,192**	**2,113,426**	**627,132**	**35,964**	**898,012**
Derivatives	2,860	2,860	–	2,860	–
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	93,152	93,152	–	–	–
Customer deposits	1,899,552	1,901,209	–	–	1,901,209
Subordinated liabilities	53,976	53,976	–	–	53,976
Total liabilities	**2,049,540**	**2,051,197**	**–**	**2,860**	**1,955,185**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique—observable inputs	Valuation technique—non-market observable inputs
Derivatives	5,963	5,963	–	5,963	–
Available for sale securities	444,418	444,418	442,798	–	1,620
Financial assets not measured at fair value:					
Cash and deposits with central banks	142,650	142,650	–	–	–
Balances due from credit institution	464,273	464,273	–	–	–
Loans and receivables from customers	941,329	929,739	–	–	929,739
Held to maturity securities	192,977	197,188	164,920	–	32,268
Total assets	**2,191,610**	**2,184,231**	**607,718**	**5,963**	**963,627**
Derivatives	3,567	3,567	–	3,567	–
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	116,997	116,997	–	–	–
Customer deposits	1,948,751	1,951,049	–	–	1,951,049
Subordinated liabilities	73,596	73,596	–	–	73,596
Total liabilities	**2,142,911**	**2,145,209**	**–**	**3,567**	**2,024,645**

The movement in financial assets carried at fair value categorised as Level 3:

	01/01/2015-30/06/2015	01/01/2014-30/06/2014	01/01/2015-30/06/2015	01/01/2014-30/06/2014
	Group	Group	Bank	Bank
				EUR 000's
As at the beginning of the period, net	**1,636**	**1,969**	**1,620**	**1,969**
Gain on derivatives	714	–	714	–
Settlement	(372)	–	(372)	–
Increase in existing exposure	–	71	–	71
Impairment charges	–	(255)	–	(255)
As at the end of the period, net	**1,978**	**1,785**	**1,962**	**1,785**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are insufficient recent observable transactions on the market.

The Group and the Bank in the 6 month period ended 30 June 2015 has recognised a revaluation gain from Level 3 classified credit derivative in the amount of EUR 343 thousand as a result of re-assessment of the fair value of a credit linked note embedded derivative, which is separated from the host instrument. The performance of the particular credit derivative is linked to the municipality of Riga. In the reporting period the Bank and the Group have also received EUR 372 thousand income from the CDS margin on this credit derivative.

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report on Review of Condensed Interim Financial Information

To the shareholders of AS Citadele Banka

Introduction

We have reviewed the accompanying condensed separate interim financial information of AS Citadele Banka (the "Bank") as at 30 June 2015, which comprises the condensed separate interim balance sheet as at 30 June 20I5 and the related condensed separate interim statements of income, comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2015, and notes to the condensed separate interim financial information, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 37. We have also reviewed the accompanying condensed consolidated interim financial information of AS "Citadele banka" and its subsidiaries (together "the Group"), which comprise the condensed consolidated interim balance sheet as at 30 June 2015, the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2015, and notes to the condensed consolidated interim financial statements, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 37.

Management is responsible for the preparation and presentation of this condensed consolidated and separate interim financial information in accordance with lAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated and separate interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated and separate interim financial information as at 30 June 2015 and for the six month period then ended is not prepared, in all material respects, in accordance with lAS 34 *Interim Financial Reporting* as adopted by the European Union.

Ondrej Fikrle
Partner
KPMG Baltics SIA
Riga, Latvia
21 August 2015

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

AS Citadele banka
Republikas laukums 2A, Riga,
LV-1010, Latvia

www.citadele.lv

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv

Citadele

AS "Citadele banka"
Statements of Income for the years ended 31 December 2014 and 2013

	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
					EUR 000's
Interest income	5	80,707	74,810	67,462	62,746
Interest expense	5	(18,241)	(19,520)	(15,359)	(17,274)
Net interest income		62,466	55,290	52,103	45,472
Commission and fee income	6	47,796	45,099	36,423	34,582
Commission and fee expense	6	(14,413)	(12,930)	(11,984)	(10,669)
Net commission and fee income		33,383	32,169	24,439	23,913
Gain on transactions with financial instruments, net	7	13,471	17,141	10,404	13,985
Other income		2,589	2,911	3,185	5,015
Other expense		(1,457)	(2,021)	(523)	(592)
Administrative expenses	8,9	(61,420)	(62,550)	(45,233)	(46,553)
Amortisation and depreciation charge		(5,204)	(5,857)	(1,361)	(1,376)
Impairment charges and reversals, net	10	(8,569)	(20,144)	(10,618)	(21,696)
Profit before taxation		35,259	16,939	32,396	18,168
Corporate income tax	11	(2,854)	(3,342)	(3,152)	(2,877)
Net profit for the period		32,405	13,597	29,244	15,291

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Citadele

AS "Citadele banka"
Statements of Comprehensive Income for the years ended 31 December 2014 and 31 December 2013

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Net profit for the period	32,405	13,597	29,244	15,291
Other comprehensive income:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	(288)	481	368	395
Deferred income tax charged directly to equity	(10)	(13)	–	–
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(3,106)	(4,612)	(1,288)	(2,467)
Change in fair value of available for sale securities	3,472	(1,069)	1,283	(541)
Deferred income tax charged / (credited) directly to equity	61	401	94	–
Other reserves				
Foreign exchange revaluation and other reserves	729	(311)	–	–
Other comprehensive income / (loss) for the period	858	(5,123)	457	(2,613)
Total comprehensive income for the period	33,263	8,474	29,701	12,678

The notes on pages 16 to 77 are an integral part of these financial statements.

Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to statement of income when specific conditions are met.

Citadele

AS "Citadele banka"
Balance Sheets as at 31 December 2014 and 31 December 2013

	Notes	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
					EUR 000's
Assets					
Cash and deposits with central banks	12	225,399	361,485	142,650	312,525
Balances due from credit institutions	13	509,404	271,181	464,273	219,228
Securities held for trading:					
- fixed income	16	20,295	24,873	–	–
- shares and other non-fixed income	16	3,655	2,941	–	–
Derivative financial instruments	27	5,929	3,548	5,963	3,557
Financial assets designated at fair value through profit or loss:					
- fixed income	16	84,851	54,012	–	–
- shares and other non-fixed income	16	12,598	8,324	–	–
Available for sale securities:					
- fixed income	16	541,591	389,013	433,337	319,221
- shares and other non-fixed income	16	16,605	12,725	11,081	12,709
Loans and receivables to customers	14,15	1,075,701	1,055,922	941,329	924,914
Held to maturity securities	16	229,252	244,423	192,977	224,462
Property and equipment	19	42,525	42,826	3,651	3,402
Intangible assets	18	1,708	1,845	1,456	1,350
Investment property		409	748	–	–
Investments in subsidiaries	17	–	–	61,605	62,841
Current income tax assets		437	341	–	–
Deferred income tax assets	11	30,073	32,534	28,735	31,700
Other assets	20	54,163	34,781	43,604	25,319
Total assets		2,854,595	2,541,522	2,330,661	2,141,228
Liabilities					
Derivative financial instruments	27	1,647	3,931	3,567	4,468
Financial liabilities designated at fair value through profit and loss	21	24,594	16,626	–	–
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	22	25,036	25,755	116,997	55,286
- deposits from customers	23	2,517,107	2,246,912	1,948,751	1,851,348
- other financial liabilities		12,235	8,315	–	–
Current income tax liabilities		187	–	–	–
Other liabilities	24	23,482	22,960	14,453	12,955
Subordinated liabilities	25	73,596	73,575	73,596	73,575
Total liabilities		2,677,884	2,398,074	2,157,364	1,997,632
Equity					
Paid-in share capital	26	146,556	146,556	146,556	146,556
Reserves		545	174	1,994	1,537
Retained earnings / (accumulated losses)		29,610	(3,282)	24,747	(4,497)
Total equity		176,711	143,448	173,297	143,596
Total liabilities and equity		2,854,595	2,541,522	2,330,661	2,141,228

The notes on pages 16 to 77 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Balance Sheets as at 31 December 2014 and 31 December 2013

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Citadele

AS "Citadele banka"
Statements of Changes in Equity for the years ended 31 December 2014 and 2013

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank						
		Fair value revaluation reserve, attributable to:					
	Issued share capital	Held to maturity securities	Available for sale securities	Foreign exchange and other reserve	Restructuring reserve	Retained earnings / (accumulated losses)	Total equity
							EUR 000's
Balance as at 31 December 2012	**146,556**	**(203)**	**7,948**	**2,091**	**(4,732)**	**(16,686)**	**134,974**
Net profit for the period	–	–	–	–	–	13,597	13,597
Transfer to other reserve	–	–	–	171	–	(171)	–
Other comprehensive income / (loss) for the period	–	468	(5,280)	(311)	22	(22)	(5,123)
Balance as at 31 December 2013	**146,556**	**265**	**2,668**	**1,951**	**(4,710)**	**(3,282)**	**143,448**
Net profit for the period	–	–	–	–	–	32,405	32,405
Transfer to other reserve	–	–	–	89	–	(89)	–
Other comprehensive income / (loss) for the period	–	(298)	427	153	–	576	858
Balance as at 31 December 2014	**146,556**	**(33)**	**3,095**	**2,193**	**(4,710)**	**29,610**	**176,711**

Changes in the Bank's equity are as follows:

	Attributable to equity holders of the Bank				
		Fair value revaluation reserve, attributable to:			
	Issued share capital	Held to maturity securities	Available for sale securities	Retained earnings / (accumulated losses)	Total equity
					EUR 000's
Balance as at 31 December 2012	**146,556**	**(755)**	**4,905**	**(19,788)**	**130,918**
Net profit for the period	–	–	–	15,291	15,291
Other comprehensive income / (loss) for the period	–	395	(3,008)	–	(2,613)
Balance as at 31 December 2013	**146,556**	**(360)**	**1,897**	**(4,497)**	**143,596**
Net profit for the period	–	–	–	29,244	29,244
Other comprehensive income / (loss) for the period	–	368	89	–	457
Balance as at 31 December 2014	**146,556**	**8**	**1,986**	**24,747**	**173,297**

The notes on pages 16 to 77 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Changes in Equity for the years ended 31 December 2014 and 2013

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Citadele

AS "Citadele banka"
Statements of Cash Flows for the years ended 31 December 2014 and 2013

	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
					EUR 000's
Cash flows from operating activities					
Profit before tax		35,259	16,939	32,396	18,168
Dividends received		–	–	(1,690)	(3,754)
Amortisation of intangible assets, depreciation of property, equipment and investment properties		5,204	5,857	1,361	1,376
Change in impairment allowances and other provisions	10	8,569	20,144	10,618	21,696
Interest income	5	(80,707)	(74,810)	(67,462)	(62,746)
Interest expense	5	18,241	19,520	15,359	17,274
Other non-cash items		(25,195)	(8,816)	(20,735)	(9,459)
Cash flows before changes in assets and liabilities		**(38,629)**	**(21,166)**	**(30,153)**	**(17,445)**
Change in derivative financial instruments		(4,665)	(2,057)	(3,307)	(1,531)
(Increase) / decrease in other assets		(19,883)	(1,490)	(18,228)	1,872
Increase in other liabilities		4,434	2,319	1,498	1,417
(Increase) in trading investments		(23,281)	(22,959)	–	–
(Increase) / decrease in balances due from credit institutions		(332,604)	6,808	(108,882)	(3,409)
(Increase) / decrease in loans and receivables to customers		(28,954)	(58,877)	(23,367)	(51,142)
Increase / (decrease) in balances due to credit institutions and central banks		(7,175)	(15,368)	11,828	(25,698)
Increase in deposits from customers		269,832	262,590	97,271	241,044
Cash generated from operating activities before corporate income tax		**(180,925)**	**149,800**	**(73,340)**	**145,108**
Interest received during the period		78,919	74,879	65,781	62,635
Interest paid during the period		(17,580)	(21,564)	(14,953)	(19,227)
Corporate income tax paid during the period		(162)	(7)	–	–
Net cash flow from operating activities		**(119,748)**	**203,108**	**(22,512)**	**188,516**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,436)	(3,045)	(1,496)	(2,530)
Proceeds from disposal of property and equipment		21	125	14	112
Purchase of held to maturity securities, net		15,171	(8,236)	31,485	(2,853)
Purchase of available for sale securities		(433,831)	(261,663)	(301,764)	(213,458)
Cash inflows from available for sale securities		303,888	248,768	209,981	177,180
Dividends received		–	–	1,690	3,754
Acquisitions and investments in subsidiaries		–	–	(1,033)	(9)
Net cash flow from investing activities		**(117,187)**	**(24,051)**	**(61,123)**	**(37,804)**
Cash flows from financing activities					
Net cash flow from financing activities		**–**	**–**	**–**	**–**
Net cash flow for the period		**(236,935)**	**179,057**	**(83,635)**	**150,712**
Cash and cash equivalents at the beginning of the period		**605,946**	**426,889**	**502,860**	**352,148**
Cash and cash equivalents at the end of the period	30	**369,011**	**605,946**	**419,225**	**502,860**

The notes on pages 16 to 77 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Cash Flows for the years ended 31 December 2014 and 2013

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2013 or for the year ended 31 December 2013, unless stated otherwise.

Note 1. Authorisation of the Financial Statements

These financial statements have been authorised for issuance by the Management on 23 March 2015 and comprise the financial information of AS "Citadele banka" (hereinafter—the Bank) and its subsidiaries (together—the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of the financial statements.

Note 2. General Information

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2014, the Bank was operating a total of 36 (2013: 37) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2013: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 26 (2013: 23) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. As at 31 December 2014 the ultimate controlling party of the Bank is the Republic of Latvia.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2014, the Group had 1,583 (2013: 1,637) employees and the Bank had 1,180 (2013: 1,227) employees.

Note 3. Restructuring

On 30 June 2010 AS "Citadele Banka" was registered in the commercial registry of the Republic of Latvia and on the same date it received its banking licence from the Financial and Capital Market Commission (FCMC). AS "Citadele Banka" was established as a result of the implementation of its EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS "Citadele Banka" was to take over from AS "Parex Banka" certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS "Parex Banka" to AS "Citadele Banka" took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also—CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS "Parex Banka", and the transferee, AS "Citadele Banka", whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Restructuring implications

The Bank's establishment and future operations are part of the restructuring plan of AS "Parex Banka" that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implemented for AS "Parex Banka" and AS "Citadele Banka" is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. After completion of state owned Bank's shares sale transaction the Bank will not be bound by any restrictions provided for under the Commitments. The Group believes that there is a clear path for a change in investors so as to relieve the Group form the restrictions imposed. Therefore, the management has assessed that the Commitments will not have any further financial impact.

Note 4. Summary of Significant Accounting Policies

Certain new IFRSs became effective for the Group from 1 January 2014. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

- *IFRS 10 Consolidated Financial Statements (2011).* IFRS 10 (2011) requires a change in accounting policy for determining whether the Group has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. There are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

- *IFRS 11 Joint Arrangements.* Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. According to IFRS 11 the Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, is accounted for on the basis of the Group's interest in those assets and liabilities. The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, is to be equity-accounted.

- *IFRS 12: Disclosure of Interests in Other Entities*. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures as applicable have been expanded.

- Amendments to *IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets*. Disclosures as applicable have been expanded.

- Amendments to *IAS 32 on Offsetting Financial Assets and Financial Liabilities* have no material impact on these financial statements.

- Amendments to *IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting* have no material impact on these financial statements.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2014 or are not yet effective in the EU and have not been applied in preparing these consolidated financial

statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IAS 19—Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015).* The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
- *IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014).* The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
- *Annual Improvements to IFRSs.* The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

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

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available for sale financial assets, financial assets and financial liabilities designated at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The accompanying financial statements are presented in thousands of Euros (EUR 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the

official currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/1 EUR. Correspondingly at that date the functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency changed to Euros.

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank's, i.e. AS "Parex Banka" stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS "Citadele Banka" and their net equity as at the date of transfer are treated as restructuring reserve in the consolidated financial statements of AS "Citadele Banka". Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank and assessed for impairment as at transfer date.

d) Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 17.

The financial statements of AS "Citadele Banka" and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Euros at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of available for sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

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

g) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies

of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management. For financial asset classification in particular category, the Group at inception has to determine that the asset meets the relevant description and criteria. All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

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

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the statement of income's line "Gain on transactions with financial instruments, net".

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held to maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available for sale assets are reclassified to held to maturity category, the fair value of the reclassified available for sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories or as loans and receivables. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in statement of other comprehensive income. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available for sale equity instruments are recognised in the statement of income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated statement of income.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial

assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Issued debt, subordinated liabilities and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value minus directly attributable transaction costs, debt issued, subordinated liabilities and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

k) Leases

Finance leases—Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases—Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases—Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Renegotiated Loans and Debt Forbearances

For economic or legal reasons the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, a case by case approach is practised. Generally debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. Impairment assessment for renegotiated and forborne exposures also applies and such exposures are impaired depending on their recoverability assessment.

m) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; or
    - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

n) Impairment of available for sale and held to maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

o) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Property and equipment is periodically reviewed for impairment as discussed

in the note on Impairment of non-financial assets. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% – 10%
Transport vehicles	20%
Other	20% – 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

q) Inventories

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies. Group's inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

r) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line "Impairment charges and reversals, net". In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

s) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

t) Insurance business

Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate. Insurance risk in view of the management is not material to accounts of the Group.

u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

v) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown; and
- financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *u)*.

w) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

y) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

z) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

aa) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

bb) Staff costs and related contributions

The Group's personnel expenses relate only to short term benefits and related tax expense. The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

cc) Events after the balance sheet date

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

dd) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities as explained in note y) above, impairment of non-financial liabilities, estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised and determination of the control of investees for consolidation purposes.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in net present value of estimated future cash flows of loans and receivables to customers by +/-5% would result in EUR 0.4 million lower or EUR 0.7 million higher specific impairment allowance for the Bank. If estimated value of collaterals of loans and receivables to customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR -6.7 million or EUR +5.5 million respectively.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's and the Group's LGD ratio by 500 basis points would result in increase / decrease in collectively assessed impairment by ca. EUR 2.3 million and EUR 3.3 million respectively (2013: Bank EUR 1.8 million). In 2014 due to new statistical data becoming available, the Bank's weighted average LGD ratio estimate as used for collective impairment calculation was increased by ca. 400 basis points. The bank entities within the Group apply a judgmental element to probability of default rates that incorporates the Group's management's judgment on the level of incurred losses within the current loan portfolio. Changes in the Bank's and the Group's PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR 1.9 million and EUR 2.1 million respectively.

Impairment of securities classified as available for sale or held to maturity

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2014, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2013: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to note 33.

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries and Group's property and plant refer to note 17 and note 19 respectively.

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to note 17. For investments in securities which are not consolidated refer to note 16. In the ordinary course of business IPS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the fund should not be consolidated.

Note 5. Interest Income and Expense

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Interest income:				
- interest on financial assets measured at amortised cost:	72,736	66,799	63,174	58,686
- interest on loans and receivables to customers	*64,906*	*58,325*	*55,969*	*50,724*
- interest on balances due from credit institutions and central banks	*736*	*480*	*762*	*484*
- interest on held to maturity securities	*7,094*	*7,994*	*6,443*	*7,478*
- interest on available for sale securities	6,020	6,035	4,288	4,060
- interest on held for trading securities	695	713	–	–
- interest income on financial assets designated at fair value through profit or loss	1,256	1,263	–	–
Total interest income	**80,707**	**74,810**	**67,462**	**62,746**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(18,001)	(19,379)	(15,359)	(17,274)
- interest on deposits from customers	*(12,325)*	*(13,611)*	*(9,548)*	*(11,264)*
- interest on subordinated liabilities	*(5,361)*	*(5,490)*	*(5,361)*	*(5,490)*
- interest on balances due to credit institutions and central banks	*(81)*	*(33)*	*(218)*	*(276)*
- other interest expense	*(234)*	*(245)*	*(232)*	*(244)*
- interest expense on financial liabilities designated at fair value through profit or loss	(240)	(141)	–	–
Total interest expense	**(18,241)**	**(19,520)**	**(15,359)**	**(17,274)**
Net interest income	**62,466**	**55,290**	**52,103**	**45,472**

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Interest income recognised on impaired assets	2,634	3,142	2,287	2,476

Note 6. Commission and Fee Income and Expense

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Commission and fee income:				
- transactions with settlement cards	20,808	19,909	18,844	18,039
- payment transfer fee	9,594	8,943	7,311	6,959
- custody, trust and asset management fees	7,973	6,630	1,171	1,174
- service fee for account maintenance	2,480	2,007	1,707	1,510
- cash collection	2,128	1,786	2,128	1,786
- cash disbursement/ transaction commission	1,379	1,988	1,134	1,467
- securities, financial instrument brokerage fees	819	890	670	484
- review of loan applications and collateral evaluation	670	957	667	957
- letters of credit and guarantees	545	637	371	455
- other fees	1,400	1,352	2,420	1,751
Total commission and fee income	**47,796**	**45,099**	**36,423**	**34,582**

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Commission and fee expense:				
- fees related to settlement card operations	(11,491)	(9,948)	(10,200)	(8,637)
- fees related to correspondent accounts	(1,319)	(1,415)	(1,048)	(1,178)
- brokerage and custodian fees:	(735)	(628)	(587)	(526)
- securities, financial instrument brokerage fees	*(425)*	*(351)*	*(392)*	*(345)*
- custody, trust and asset management fees	*(310)*	*(277)*	*(195)*	*(181)*
- other fees	(868)	(939)	(149)	(328)
Total commission and fee expense	**(14,413)**	**(12,930)**	**(11,984)**	**(10,669)**
Net commission and fee income	**33,383**	**32,169**	**24,439**	**23,913**

Note 7. Gain on Transactions with Financial Instruments, Net

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Gain from foreign exchange trading and revaluation of open positions, net	10,757	14,388	9,109	11,513
Gain / (loss) from disposal of available for sale securities, net	3,106	4,612	1,288	2,467
Gain / (loss) from trading and revaluation of securities held for trading purposes, net	88	(990)	–	–
Gain from trading and revaluation of other derivatives, net	7	5	7	5
Gain / (loss) on financial assets measured at amortised cost, net	(91)	–	–	–
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(396)	(874)	–	–
Gain on trading with financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Net gain / (loss) on financial instruments not at fair value through profit or loss	3,015	4,612	1,288	2,467
Net gain on financial instruments at fair value through profit or loss	10,456	12,529	9,116	11,518
Total gain on financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

Note 8. Administrative Expenses

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Personnel expense	40,237	39,333	29,012	28,774
Rent, utilities, maintenance	3,905	4,271	4,843	5,009
IT equipment and software related expense	3,209	3,115	2,213	2,311
Non-refundable value added tax	2,924	3,159	2,248	2,416
Consulting and professional fees	2,343	2,881	1,424	1,848
Advertising, marketing and sponsorship	2,321	2,641	1,798	2,222
Office administration expense	723	712	527	536
Communications	662	683	405	437
Other administrative expenses	5,096	5,755	2,763	3,000
Total administrative expenses	**61,420**	**62,550**	**45,233**	**46,553**

Note 9. Personnel Expense

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Remuneration:				
- management	2,788	2,241	1,306	1,053
- other personnel	29,548	29,402	21,916	22,183
Total remuneration for work	**32,336**	**31,643**	**23,222**	**23,236**
Social security contributions:				
- management	427	498	181	264
- other personnel	6,607	6,761	4,894	4,979
Total social security contributions	**7,034**	**7,259**	**5,075**	**5,243**
Other personnel expense*	**867**	**431**	**715**	**295**
Total personnel expense	**40,237**	**39,333**	**29,012**	**28,774**
Number of employees at the end of the period	1,583	1,637	1,180	1,227

* Other personnel expense includes health insurance, training and education expenditure and similar.

Note 10. Impairment Charges and Reversals

Total net impairment allowance charged to statement of income:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Loans—specifically assessed impairment	(6,879)	(17,729)	(6,045)	(16,874)
Loans—collectively assessed impairment	(6,460)	(3,438)	(4,824)	(3,280)
Available for sale securities	(520)	(130)	(520)	(130)
Other financial and non-financial assets, net	2,130	662	(2,212)	(1,703)
Recovered written-off assets	3,160	491	2,983	291
Total allowance and reversals charged to the statement of income, net	**(8,569)**	**(20,144)**	**(10,618)**	**(21,696)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. From time to time previously written off assets are recovered due to repayment or sale of pool of overdue assets to companies specialising in recoveries of balances in arrears. Such recoveries are reported as recovered written-off assets.

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Total allowance for impairment at the beginning of the period, including:	**93,049**	**89,173**	**72,495**	**67,331**
- *loans—specifically assessed impairment*	78,477	78,039	58,935	57,051
- *loans—collectively assessed impairment*	14,572	11,134	13,560	10,280
Charge:	**24,848**	**31,823**	**21,256**	**28,992**
- *loans—specifically assessed impairment*	17,514	24,916	15,640	22,413
- *loans—collectively assessed impairment*	7,334	6,907	5,616	6,579
Release:	**(11,509)**	**(10,656)**	**(10,387)**	**(8,838)**
- *loans—specifically assessed impairment*	(10,635)	(7,187)	(9,595)	(5,539)
- *loans—collectively assessed impairment*	(874)	(3,469)	(792)	(3,299)
Allowance charged to the statement of income, net, including:	**13,339**	**21,167**	**10,869**	**20,154**
- *loans—specifically assessed impairment*	6,879	17,729	6,045	16,874
- *loans—collectively assessed impairment*	6,460	3,438	4,824	3,280
Change of allowance due to write-offs, net	**(17,882)**	**(17,826)**	**(13,826)**	**(15,504)**
Effect of changes in currency exchange rates:	**201**	**535**	**229**	**514**
- *loans—specifically assessed impairment*	202	535	229	514
- *loans—collectively assessed impairment*	(1)	–	–	–
Total allowance for impairment at the end of the period, including:	**88,707**	**93,049**	**69,767**	**72,495**
- *loans—specifically assessed impairment*	67,676	78,477	51,383	58,935
- *loans—collectively assessed impairment*	21,031	14,572	18,384	13,560

An analysis of the change in impairment of other assets is presented as follows:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Total allowance for impairment at the beginning of the period, including:	**33,585**	**36,140**	**61,206**	**60,984**
- available for sale securities	8,256	9,432	8,256	9,432
- due from credit institutions	758	788	758	788
- other non-financial assets	24,571	25,920	52,192	50,764
Charge:	**1,548**	**2,454**	**2,810**	**2,317**
- available for sale securities	520	372	520	372
- other non-financial assets	1,028	2,082	2,290	1,945
Release:	**(3,158)**	**(2,986)**	**(78)**	**(484)**
- available for sale securities	–	(242)	–	(242)
- other non-financial assets	(3,158)	(2,744)	(78)	(242)
Allowance charged to the statement of income, net, including:	**(1,610)**	**(532)**	**2,732**	**1,833**
- available for sale securities	520	130	520	130
- other financial and non-financial assets	(2,130)	(662)	2,212	1,703
Change of allowance due to write-offs, net:	**(1,506)**	**(1,713)**	**(676)**	**(1,301)**
- available for sale securities	–	(1,029)	–	(1,029)
- due from credit institutions	–	(7)	–	(7)
- other non-financial assets	(1,506)	(677)	(676)	(265)
Effect of changes in currency exchange rates:	**(1,694)**	**(310)**	**(1,621)**	**(310)**
- available for sale securities	(1,714)	(277)	(1,714)	(277)
- due from credit institutions	94	(23)	94	(23)
- other non-financial assets	(74)	(10)	(1)	(10)
Total allowance for impairment at the end of the period, including:	**28,775**	**33,585**	**61,641**	**61,206**
- available for sale securities	7,062	8,256	7,062	8,256
- due from credit institutions	852	758	852	758
- other non-financial assets	20,861	24,571	53,727	52,192

Note 11. Taxation

Corporate income tax expense comprises the following items:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Current corporate income tax	251	40	–	–
Deferred income tax	2,512	3,684	3,059	2,746
Tax withheld abroad	128	132	93	131
Prior year adjustments	(37)	(514)	–	–
Total corporate income tax expense	**2,854**	**3,342**	**3,152**	**2,877**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Profit before corporate income tax	35,259	16,939	32,396	18,168
Corporate income tax (at 15%)	**5,289**	**2,541**	**4,859**	**2,725**
Effect of tax rates in foreign jurisdictions	82	(189)	–	–
Non deductible expense	1,906	1,497	1,017	1,094
Non taxable income	(7,114)	(2,005)	(2,479)	(1,106)
Other tax differences, net	2,691	1,498	(245)	164
Total effective corporate income tax	**2,854**	**3,342**	**3,152**	**2,877**

The movements in deferred corporate income tax asset / (liability) can be specified as follows:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
As at the beginning of the year	32,534	35,830	31,700	34,446
Charge to statement of income	(2,512)	(3,684)	(3,059)	(2,746)
Charge to statement of comprehensive income*	51	388	94	–
Total deferred income tax asset at the end of the year, net	**30,073**	**32,534**	**28,735**	**31,700**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	(434)	(2,607)	(434)	(423)
Other deferred tax liabilities	(551)	(286)	(359)	(270)
Deferred tax assets:				
Vacation pay and similar accrual	1,048	886	822	726
Revaluation of securities and derivatives*	380	627	380	775
Temporary impairment allowance differences	2,758	4,173	2,758	2,035
Recognised unutilised tax losses	26,839	29,732	25,568	28,857
Other deferred tax assets	33	9	–	–
Net deferred corporate income tax asset	**30,073**	**32,534**	**28,735**	**31,700**

* All changes in deferred tax that are charged directly to statement of comprehensive income are related to revaluation of securities at Group level.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Expiry:				
2014	–	14,187	–	–
Undated**	224,048	246,799	170,517	192,382
Total unutilised tax losses	**224,048**	**260,986**	**170,517**	**192,382**

** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

Note 12. Cash and Deposits with Central Banks

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Cash	60,303	60,609	57,728	57,516
Deposits with the Bank of Latvia	84,593	226,941	84,593	226,941
Deposits with other central banks	80,503	73,935	329	28,068
Total cash and deposits with central banks	**225,399**	**361,485**	**142,650**	**312,525**

Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly EUR balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and subsidiaries in Lithuania and Switzerland. During the reporting year, the Group's Banks were in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2014 and 31 December 2013 no amounts due from central banks were overdue.

Note 13. Balances due from Credit Institutions

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Due from credit institutions registered in OECD countries	442,349	231,424	362,104	161,634
Due from credit institutions registered in Latvia	54,040	24,825	51,693	23,080
Due from credit institutions registered in other non-OECD countries	13,867	15,690	51,328	35,272
Total gross balances due from credit institutions	**510,256**	**271,939**	**465,125**	**219,986**
Incl. impaired balances	*852*	*758*	*852*	*758*
Impairment allowance	(852)	(758)	(852)	(758)
Total net balances due from credit institutions	**509,404**	**271,181**	**464,273**	**219,228**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

As at 31 December 2014 and 2013, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 33. The Bank's balances with its subsidiary AB "Citadele" Bankas (Lithuania) accounted for 9% (2013: 68%) of the total net balances due from credit institutions registered in other non-OECD countries. As at 31 December 2014 the Group's largest due from credit institutions exposure with single group of connected institutions was 8% (2013: 39.6%). The exposure was with OECD registered "A rated" credit institutions.

Note 14. Loans and Receivables to Customers

The following table represents the current classes of the Group's loans:

	Group, EUR 000's			Group, EUR 000's		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	851,694	30,566	882,260	843,370	47,000	890,370
Utilised credit lines	132,114	32,233	164,347	131,502	32,717	164,219
Finance leases	103,138	36	103,174	92,737	–	92,737
Debit balances on settlement cards	57,312	85,388	142,700	67,098	87,393	154,491
Overdraft facilities	13,795	17,454	31,249	8,234	19,626	27,860
Factoring	1,635	2,969	4,604	454	–	454
Due from investment counterparties	4,720	–	4,720	5,576	–	5,576
Total loans and receivables to customers	**1,164,408**	**168,646**	**1,333,054**	**1,148,971**	**186,736**	**1,335,707**
Impairment allowance	(88,707)	–	(88,707)	(93,049)	–	(93,049)
Total net loans and receivables to customers	**1,075,701**	**168,646**	**1,244,347**	**1,055,922**	**186,736**	**1,242,658**

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

The following table represents the current classes of the Bank's loans:

	Bank, EUR 000's			Bank, EUR 000's		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	720,434	26,717	747,151	716,140	44,899	761,039
Utilised credit lines	222,972	71,917	294,889	208,980	60,247	269,227
Debit balances on settlement cards	50,674	72,529	123,203	59,375	74,863	134,238
Overdraft facilities	12,788	11,243	24,031	7,655	12,553	20,208
Due from investment counterparties	4,186	–	4,186	5,101	–	5,101
Finance leases	42	–	42	158	–	158
Total loans and receivables to customers	**1,011,096**	**182,406**	**1,193,502**	**997,409**	**192,562**	**1,189,971**
Impairment allowance	(69,767)	–	(69,767)	(72,495)	–	(72,495)
Total net loans and receivables to customers	**941,329**	**182,406**	**1,123,735**	**924,914**	**192,562**	**1,117,476**

Loans and advances by customer profile may be specified as follows:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Privately held companies	678,373	640,466	657,099	629,053
Private individuals	457,271	474,918	331,408	341,945
State owned enterprises	11,645	14,530	10,646	14,520
Public and religious institutions	7,025	9,409	3,189	5,094
Local municipalities	2,635	5,747	2,158	3,583
Municipality owned enterprises	7,373	3,826	6,535	3,139
Government	86	75	61	75
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

The borrowers' industry analysis of the gross portfolio of loans and receivables to other than private individuals before impairment allowance may be specified as follows:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Real estate purchase and management	150,455	150,611	184,277	189,226
Manufacturing	129,546	106,259	101,411	87,423
Trade	108,582	92,888	69,028	59,470
Transport and communications	83,477	103,155	60,916	81,402
Agriculture and forestry	76,306	79,889	56,618	58,392
Electricity, gas and water supply	41,961	31,319	38,553	29,586
Construction	39,118	35,434	27,368	26,211
Financial intermediation	16,861	10,838	112,015	89,467
Hotels, restaurants	12,620	13,587	8,920	10,582
Other industries	48,211	50,073	20,582	23,705
Total gross loans and receivables to corporate customers	**707,137**	**674,053**	**679,688**	**655,464**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Latvian residents	750,180	752,853	802,498	801,990
OECD region residents	114,623	95,711	104,186	87,137
Non-OECD region residents	299,605	300,407	104,412	108,282
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

As at 31 December 2014 and 31 December 2013 the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables to customers. As at 31 December 2014 and 31 December 2013 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Note 15. Leases

The following table represents finance leases analysed by type of assets:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Transport vehicles	68,691	56,747	42	158
Manufacturing equipment	15,002	18,741	–	–
Real estate	5,899	6,235	–	–
Other	13,546	11,014	–	–
Total present value of finance lease payments, excluding impairment	**103,138**	**92,737**	**42**	**158**
Impairment allowance	(8,016)	(10,146)	(1)	(3)
Net present value of finance lease payments	**95,122**	**82,591**	**41**	**155**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Gross investment in finance leases receivable:				
within 1 year	21,654	25,141	–	51
later than 1 year and no later than in 5 years	88,317	72,002	46	115
later than in 5 years	2,220	3,328	–	–
Total gross investment in finance leases	**112,191**	**100,471**	**46**	**166**
Unearned finance income receivable:				
within 1 year	2,642	2,157	–	1
later than 1 year and no later than in 5 years	6,236	5,437	4	7
later than in 5 years	175	140	–	–
Total	**9,053**	**7,734**	**4**	**8**
Present value of minimum lease payments receivable:				
within 1 year	19,012	22,984	–	50
later than 1 year and no later than in 5 years	82,081	66,565	42	108
later than in 5 years	2,045	3,188	–	–
Total	**103,138**	**92,737**	**42**	**158**

Note 16. Fixed and Non-fixed Income Securities

The Group's fixed income securities by issuers profile and classification:

	31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
						EUR 000's
Held for trading	9,545	–	1,908	1,728	7,114	20,295
Financial assets designated at fair value through profit or loss	11,749	1,634	29,236	1,093	41,139	84,851
Available for sale	228,426	–	146,294	152,367	14,504	541,591
Held to maturity	161,988	34,455	7,573	2,085	23,151	229,252
Total fixed income securities	**411,708**	**36,089**	**185,011**	**157,273**	**85,908**	**875,989**

	31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
						EUR 000's
Held for trading	9,362	–	7,631	7,292	588	24,873
Financial assets designated at fair value through profit or loss	9,743	–	19,583	24,478	208	54,012
Available for sale	226,852	1,394	88,868	64,253	7,646	389,013
Held to maturity	188,560	36,570	7,006	8,433	3,854	244,423
Total fixed income securities	**434,517**	**37,964**	**123,088**	**104,456**	**12,296**	**712,321**

The Bank's fixed income securities by issuers profile and classification:

	31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
						EUR 000's
Available for sale	152,476	–	141,160	128,083	11,618	433,337
Held to maturity	153,550	34,455	4,972	–	–	192,977
Total fixed income securities	**306,026**	**34,455**	**146,132**	**128,083**	**11,618**	**626,314**

	31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
						EUR 000's
Available for sale	166,469	1,394	84,169	59,540	7,649	319,221
Held to maturity	184,297	34,425	5,740	–	–	224,462
Total fixed income securities	**350,766**	**35,819**	**89,909**	**59,540**	**7,649**	**543,683**

As at 31 December 2014, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2013: EUR nil). No fixed income securities were impaired (2013: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

Group's fixed income, shares and other non-fixed income securities by issuer's country, net:

	31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
						EUR 000's
Latvia	253,751	37,978	291,729	290,350	37,714	328,064
Lithuania	86,375	–	86,375	74,015	–	74,015
Finland	13,246	16,312	29,558	17,735	8,002	25,737
United States	12,358	77,321	89,679	–	32,023	32,023
Netherlands	10,080	53,734	63,814	10,447	28,697	39,144
Sweden	5,376	21,342	26,718	–	7,291	7,291
Canada	3,308	24,023	27,331	3,745	19,834	23,579
Australia	693	32,946	33,639	–	17,854	17,854
Norway	–	26,638	26,638	–	13,999	13,999
Germany	–	24,479	24,479	1,150	24,866	26,016
Singapore	–	24,368	24,368	7,319	4,031	11,350
Other countries*	26,521	125,356	151,877	29,756	83,635	113,391
Total fixed income securities and shares, net	**411,708**	**464,497**	**876,205**	**434,517**	**277,946**	**712,463**
Investments in managed funds**	–	32,642	32,642	–	23,848	23,848
Total securities, net	**411,708**	**497,139**	**908,847**	**434,517**	**301,794**	**736,311**

Bank's fixed income, shares and other non-fixed income securities by issuer's country, net:

	31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
						EUR 000's
Latvia	241,007	36,955	277,962	288,417	36,734	325,151
United States	12,358	38,612	50,970	–	17,440	17,440
Finland	10,549	16,312	26,861	15,695	8,002	23,697
Netherlands	10,080	34,351	44,431	10,447	17,092	27,539
Canada	3,308	19,356	22,664	3,745	17,349	21,094
Australia	693	24,792	25,485	–	15,106	15,106
Singapore	–	22,820	22,820	7,319	4,031	11,350
Norway	–	19,788	19,788	–	11,097	11,097
Other countries*	28,031	107,501	135,532	25,143	66,192	91,335
Total fixed income securities and shares, net	**306,026**	**320,487**	**626,513**	**350,766**	**193,043**	**543,809**
Investments in managed funds**	–	10,882	10,882	–	12,583	12,583
Total securities, net	**306,026**	**331,369**	**637,395**	**350,766**	**205,626**	**556,392**

* Largest Group's and Bank's exposure to a single country within this group is EUR 15,285 thousand and EUR 16,373 thousand respectively (2013: EUR 18,542 thousand and EUR 16,902 thousand).

** Investments in managed funds here are not distributed by their issuer's country but shown separately.

All fixed income securities as at 31 December 2014 and 31 December 2013 are listed.

The Group's shares and other non-fixed income securities by issuers profile and classification:

	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
								EUR 000's
Held for trading	–	–	3,655	3,655	–	–	2,941	2,941
Financial assets designated at fair value through profit or loss	–	–	12,598	12,598	–	–	8,324	8,324
Available for sale	116	100	16,389	16,605	114	28	12,583	12,725
Total non-fixed income securities, net	**116**	**100**	**32,642**	**32,858**	**114**	**28**	**23,848**	**23,990**

All exposures in mutual investment funds and equities which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2014 EUR 12,598 thousand (2013: EUR 8,324 thousand) of financial assets designated at fair value through profit or loss relate to this.

The Bank's shares and other non-fixed income securities by issuers profile and classification:

	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
								EUR 000's
Available for sale	99	100	10,882	11,081	98	28	12,583	12,709
Total non-fixed income securities, net	**99**	**100**	**10,882**	**11,081**	**98**	**28**	**12,583**	**12,709**

Investments in mutual funds are not analyzed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2014, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to EUR 1,421 thousand (2013: EUR 1,941 thousand).

As at 31 December 2014 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.0 million (2013: EUR 6.6 million) and EUR 13.2 million (EUR 11.7 million) which are managed by CBL Asset Managements IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

Note 17. Investments in Subsidiaries and Business Combinations

Changes in the Bank's investments in subsidiaries may be specified as follows:

	2014	2013
		EUR 000's
Balance at the beginning of the period	**62,841**	**63,381**
Establishment of new subsidiaries	8	9
Equity investments in existing subsidiaries	1,025	–
Impairment, net	(2,269)	(549)
Balance at the end of the period	**61,605**	**62,841**

In 2014, the Bank established SIA "Hortus NI", SIA "Hortus RE", and SIA "Hortus BR" and increased share capital in several previously established subsidiaries, to continue effective management of repossessed assets. Share capital in repossessed asset management companies was impaired in the amount of EUR 1,023 thousand based on the forecasted performance of the respective companies.

In 2014 the management of the Bank concluded that there is evidence of impairment of investment in AB "Citadele" and a further impairment allowance of EUR 1,246 thousand was recognised.

As at 31 December 2014 and 2013 the Bank held the following direct and indirect investments which are consolidated:

Company	Country of registration	Business profile	31/12/2014 Share capital EUR 000's	31/12/2014 The Group's share (%)	31/12/2014 % of total voting rights	31/12/2013 Share capital EUR 000's	31/12/2013 The Group's share (%)	31/12/2013 % of total voting rights	Carrying value EUR 000's 31/12/2014	Carrying value EUR 000's 31/12/2013
AB "Citadele" Bankas	Lithuania	Banking	43,115	100.0	100.0	43,211	100.0	100.0	40,027	41,271
"AP Anlage & Privatbank" AG	Switzerland	Banking	8,317	100.0	100.0	8,153	100.0	100.0	13,805	13,805
AS "CBL Atklātais Pensiju Fonds"	Latvia	Pension fund	640	100.0	100.0	640	100.0	100.0	646	646
IPAS "CBL Asset Management"	Latvia	Finance	5,905	100.0	100.0	5,905	100.0	100.0	5,906	5,906
OOO "Citadele Asset Management Ukraina"	Ukraine	Finance	758	100.0	100.0	872	100.0	100.0	–	–
UAB "Citadele Investiciju Valdymas"	Lithuania	Finance	1,037	100.0	100.0	1,039	100.0	100.0	–	–
OU "Citadele Leasing & Factoring"	Estonia	Finance	500	100.0	100.0	500	100.0	100.0	445	445
UAB "Citadele faktoringas ir lizingas"	Lithuania	Finance	434	100.0	100.0	435	100.0	100.0	–	–
SIA "Rīgas Pirmā Garāža"	Latvia	Real estate rent and management	19,372	100.0	100.0	19,372	100.0	100.0	–	–
SIA "Citadele Express Kredīts"	Latvia	Leasing	45	100.0	100.0	45	100.0	100.0	38	38
SIA "E&P Baltic Properties"	Latvia	Finance	28	50.0	50.0	28	50.0	50.0	–	–
SIA "Citadele Līzings un Faktorings"	Latvia	Leasing	19,351	100.0	100.0	19,351	100.0	100.0	709	709
AAS "CBL Life"	Latvia	Life insurance	4,269	100.0	100.0	4,269	100.0	100.0	–	–
Calenia Investments Limited	Cyprus	Misc.*	2	100.0	100.0	2	100.0	100.0	–	–
SIA "RPG Interjers"	Latvia	Misc.*	1,355	100.0	100.0	1,355	100.0	100.0	–	–
SIA "Hortus Commercial"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	–	3
SIA "Hortus Land"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	–	3
SIA "Hortus TC"	Latvia	Misc.*	428	100.0	100.0	3	100.0	100.0	23	3
SIA "Hortus Residental"	Latvia	Misc.*	203	100.0	100.0	3	100.0	100.0	–	3
SIA "Hortus LH"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	2	3
SIA "Hortus MD"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	–	3
SIA "Hortus JU"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	–	3
SIA "Hortus RE"	Latvia	Misc.*	3	100.0	100.0	3	–	–	2	–
SIA "Hortus BR"	Latvia	Misc.*	403	100.0	100.0	3	–	–	–	–
SIA "Hortus NI"	Latvia	Misc.*	3	100.0	100.0	3	–	–	2	–
SIA "PR Speciālie Projekti"	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	–	–
Total investments in subsidiaries									**61,605**	**62,841**

* Misc.—the companies are providing various support services.

Carrying value of investment in subsidiary SIA "Rīgas Pirmā Garāža" depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group's consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group's property and equipment refer to Note 19.

Carrying value of investment in AB "Citadele" is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (15.5%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in EUR (2.3) million loss or EUR 2.7 million gain respectively (2013: EUR (1.8) million loss or EUR 2.6 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR (3.8) million loss or EUR 3.7 million gain (2013: EUR (3.0) million loss or EUR 2.6 million gain); fluctuation in forecasted profitability by +/-10% would result in EUR 3.5 million gain or EUR (3.5) million loss (2013: EUR 2.6 million gain or EUR (3.0) million loss).

NOTE 18. Intangible Assets

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Software	1,005	1,049	830	794
Other intangible assets	134	281	77	54
Total intangible assets excluding advances	1,139	1,330	907	848
Advances for intangible assets	569	515	549	502
Total net book value of intangible assets	**1,708**	**1,845**	**1,456**	**1,350**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	Software	Other intangible assets	Total intangible assets excluding advances
			EUR 000's
Historical cost			
As at 31 December 2012	**14,610**	**3,452**	**18,062**
Additions	740	77	817
Disposals	(280)	(183)	(463)
As at 31 December 2013	**15,070**	**3,346**	**18,416**
Additions	299	207	506
Disposals	(232)	(2,361)	(2,593)
As at 31 December 2014	**15,137**	**1,192**	**16,329**
Accumulated amortisation			
As at 31 December 2012	**12,726**	**3,116**	**15,842**
Charge for the year	703	122	825
Reversal due to disposals	(276)	(173)	(449)
As at 31 December 2013	**13,153**	**3,065**	**16,218**
Charge for the year	487	103	590
Reversal due to disposals	(232)	(2,238)	(2,470)
As at 31 December 2014	**13,408**	**930**	**14,338**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**–**	**(1,117)**
Write-offs	249	–	249
As at 31 December 2013	**(868)**	**–**	**(868)**
Write-offs	248	–	248
Net impairment	(104)	(128)	(232)
As at 31 December 2014	**(724)**	**(128)**	**(852)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**767**	**336**	**1,103**
As at 31 December 2013	**1,049**	**281**	**1,330**
As at 31 December 2014	**1,005**	**134**	**1,139**

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For fair value calculation of the cash generating unit estimate, the same model is used as for the investment in AB "Citadele" impairment calculation. For details of the calculation please refer to Note 17. The calculation shows that the cash generating unit is impaired, thus Lithuanian banking business' non-financial assets for which observable market value is not available have been impaired; these are all intangible assets and certain property and equipment.

Movements in the Bank's intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	Software	Other intangible assets	Total intangible assets excluding advances
			EUR 000's
Historical cost			
As at 31 December 2012	**13,090**	**43**	**13,133**
Additions	572	31	603
Disposals	(7)	–	(7)
As at 31 December 2013	**13,655**	**74**	**13,729**
Additions	148	34	182
Disposals	(106)	–	(106)
As at 31 December 2014	**13,697**	**108**	**13,805**
Accumulated amortisation			
As at 31 December 2012	**11,442**	**15**	**11,457**
Charge for the year	558	5	563
Reversal due to disposals	(7)	–	(7)
As at 31 December 2013	**11,993**	**20**	**12,013**
Charge for the year	359	11	370
Reversal due to disposals	(105)	–	(105)
As at 31 December 2014	**12,247**	**31**	**12,278**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**–**	**(1,117)**
Write-offs	249	–	249
As at 31 December 2013	**(868)**	**–**	**(868)**
Write-offs	248	–	248
As at 31 December 2014	**(620)**	**–**	**(620)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**531**	**28**	**559**
As at 31 December 2013	**794**	**54**	**848**
As at 31 December 2014	**830**	**77**	**907**

Note 19. Property and Equipment

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Leasehold improvements	283	380	283	380
Land and buildings	39,121	38,715	924	948
Transport vehicles	659	480	261	238
Other	2,447	3,241	2,182	1,826
Total property and equipment excluding advances	42,510	42,816	3,650	3,392
Advances for property and equipment	15	10	1	10
Total net book value of property and equipment	**42,525**	**42,826**	**3,651**	**3,402**

The following changes in the Group's property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	Leasehold improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding advances
					EUR 000's
Historical cost					
As at 31 December 2012	**5,128**	**71,124**	**2,450**	**31,756**	**110,458**
Additions	154	102	186	1,374	1,816
Disposals	–	(40)	(869)	(1,440)	(2,349)
As at 31 December 2013	**5,282**	**71,186**	**1,767**	**31,690**	**109,925**
Additions	70	58	440	1,303	1,871
Disposals	(565)	–	(161)	(2,865)	(3,591)
As at 31 December 2014	**4,787**	**71,244**	**2,046**	**30,128**	**108,205**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**11,868**	**1,633**	**27,668**	**45,812**
Charge for the year	259	2,545	245	2,203	5,252
Reversal due to disposals	–	(33)	(591)	(1,422)	(2,046)
As at 31 December 2013	**4,902**	**14,380**	**1,287**	**28,449**	**49,018**
Charge for the year	167	2,562	166	1,703	4,598
Reversal due to disposals	(565)	–	(125)	(2,787)	(3,477)
As at 31 December 2014	**4,504**	**16,942**	**1,328**	**27,365**	**50,139**
Impairment allowance					
As at 31 December 2012	**–**	**(20,565)**	**–**	**–**	**(20,565)**
Net reversal and write-offs	–	2,474	–	–	2,474
As at 31 December 2013	**–**	**(18,091)**	**–**	**–**	**(18,091)**
Net reversal and write-offs	–	2,910	(59)	(316)	2,535
As at 31 December 2014	**–**	**(15,181)**	**(59)**	**(316)**	**(15,556)**
Net book value (incl. impairment allowance)					
As at 31 December 2012	**485**	**38,691**	**817**	**4,088**	**44,081**
As at 31 December 2013	**380**	**38,715**	**480**	**3,241**	**42,816**
As at 31 December 2014	**283**	**39,121**	**659**	**2,447**	**42,510**

Impairment allowance for Group's land and buildings is calculated internally as the value which is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate (9.5%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR (4.1) million and EUR +5.4 million respectively (2013: EUR (3.8) million and EUR +5.0 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-3.6 million (2013: EUR +/-3.7 million).

The following changes in the Bank's property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
					EUR 000's
Historical cost					
As at 31 December 2012	**5,128**	**1,214**	**1,332**	**22,174**	**29,848**
Additions	154	–	155	1,216	1,525
Disposals	–	(1)	(302)	(690)	(993)
As at 31 December 2013	**5,282**	**1,213**	**1,185**	**22,700**	**30,380**
Additions	70	–	110	1,096	1,276
Disposals	(565)	–	(4)	(2,183)	(2,752)
As at 31 December 2014	**4,787**	**1,213**	**1,291**	**21,613**	**28,904**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**241**	**1,138**	**20,896**	**26,918**
Charge for the year	259	24	111	666	1,060
Reversal due to disposals	–	–	(302)	(688)	(990)
As at 31 December 2013	**4,902**	**265**	**947**	**20,874**	**26,988**
Charge for the year	167	24	85	715	991
Reversal due to disposals	(565)	–	(2)	(2,158)	(2,725)
As at 31 December 2014	**4,504**	**289**	**1,030**	**19,431**	**25,254**
Net book value					
As at 31 December 2012	**485**	**973**	**194**	**1,278**	**2,930**
As at 31 December 2013	**380**	**948**	**238**	**1,826**	**3,392**
As at 31 December 2014	**283**	**924**	**261**	**2,182**	**3,650**

Note 20. Other Assets

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Deposits with card payment system companies	11,554	15,619	11,554	15,619
Money in transit	28,118	5,751	27,579	5,751
Prepayments	2,416	1,992	1,426	1,373
Other assets*	16,269	16,423	6,514	6,530
Total gross other assets	**58,357**	**39,785**	**47,073**	**29,273**
Impairment allowance	(4,194)	(5,004)	(3,469)	(3,954)
Total net other assets	**54,163**	**34,781**	**43,604**	**25,319**

* As at 31 December 2014, the Group's other assets with delays gross amount was EUR 317 thousand (2013: EUR 270 thousand) and were fully impaired (2013: EUR 239 thousand). The Bank did not have any other assets with delays (2013: EUR nil). As at 31 December 2014, the Group's and the Bank's gross amount of other assets which mostly related to overdue amount collection expenditure amounted to EUR 4,686 thousand (2013: EUR 5,477 thousand) and EUR 3,590 thousand (2013: EUR 4,134 thousand), respectively. These amounts carried impairment allowances of EUR 4,194 thousand for the Group (2013: EUR 5,004 thousand) and EUR 3,469 thousand for the Bank (2013: EUR 3,954 thousand), respectively.

Note 21. Financial Liabilities Designated at Fair Value through Profit and Loss

	2014 Group	2013 Group
		EUR 000's
Balance as at the beginning of the period	**16,626**	**14,752**
Premiums received	9,611	7,186
Commissions and risk charges	(626)	(538)
Benefits paid to policyholders	(1,427)	(4,987)
Dividends received	1	–
Securities fair value revaluation result	1	92
Income from insurance contracts	223	144
Other charges	6	–
Currency revaluation result	179	(23)
Balance as at the end of the period	**24,594**	**16,626**

In 2014 from financial liabilities designated at fair value through profit and loss which are not unit-linked the Group has recognised net result of EUR (240) thousand in the statement of income (2013: EUR 45 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further analysed.

Note 22. Balances due to Credit Institutions and Central Banks

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Due to credit institutions registered in OECD countries	–	48	27,321	29,071
Due to credit institutions registered in Latvia	24,434	25,366	24,434	25,364
Due to credit institutions registered in other non-OECD countries	602	341	65,242	851
Total balances due to credit institutions and central banks	**25,036**	**25,755**	**116,997**	**55,286**

Note 23. Deposits from Customers

The following table presents deposits from customers according to customer profile:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Privately held companies	1,198,017	977,360	825,905	726,131
Private individuals	1,005,630	877,595	801,983	747,122
Financial institutions	144,406	141,748	156,198	130,955
State and municipality owned enterprises	127,939	156,146	126,589	155,868
Municipalities	20,303	37,979	20,303	37,979
Public and religious institutions	12,620	9,129	10,605	7,329
Government	8,192	46,955	7,168	45,964
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Demand deposits	1,897,101	1,679,094	1,460,857	1,375,675
Term deposits:				
due within 1 month	149,450	141,837	118,034	118,711
due within 1-3 months	85,732	94,506	61,120	76,070
due within 3-6 months	91,548	96,081	61,574	79,513
due within 6-12 months	176,260	170,722	139,941	143,192
due within 1-5 years	108,885	63,127	101,138	56,643
due in more than 5 years	8,131	1,545	6,087	1,544
Total term deposits	620,006	567,818	487,894	475,673
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

As at 31 December 2014 and 31 December 2013 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

Note 24. Other Liabilities

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Accrued expense	12,001	12,019	9,129	8,803
Suspense liabilities and money in transit	5,643	6,349	2,587	2,221
Amounts due to suppliers	743	1,121	243	655
Deferred income	140	174	–	–
Other liabilities	4,955	3,297	2,494	1,276
Total other liabilities	**23,482**	**22,960**	**14,453**	**12,955**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

Note 25. Subordinated Liabilities

The following table represents the details of Bank's and Group's subordinated liabilities:

							Amortised cost EUR 000's	
Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Maturity date	31/12/2014	31/12/2013
Privatisation Agency	Latvia	EUR	53,128	7.31%	22/05/2009	20/12/2017	54,702	54,709
Privatisation Agency	Latvia	EUR	11,208	7.31%	02/08/2010	08/08/2016	11,537	11,538
EBRD	UK	EUR	7,195	7.31%	11/09/2009	08/08/2016	7,357	7,328
Total							**73,596**	**73,575**

Note 26. Issued Share Capital

As at 31 December 2014, the Bank's registered and paid-in share capital was EUR 146,556 thousand (2013: EUR 146,556 thousand). Due to Euro adoption, on 8 April 2014 amendments to the statutes of AS Citadele Banka were registered, changing nominal value of one share from LVL 1 to EUR 1. The total number of ordinary shares with voting rights increased to 146,555,796 (2013: 103,000,000). Shareholder structure did not change. All shares as at 31 December 2014 were issued and fully paid. As at 31 December 2014 and 31 December 2013, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2014 or 2013.

As at 31 December 2014, the Bank had 2 (2013: 2) shareholders:

			31/12/2014 and 31/12/2013
	Paid-in share capital (EUR)	% of total paid-in capital	% of total voting rights
Privatisation Agency	109,916,846	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	36,638,950	25% plus 1 share	25% plus 1 share
Total	**146,555,796**	**100%**	**100%**

On 16 September 2014 and following a tender process, the Latvian government decided to sell its 75% minus 1 share stake in Citadele to RA Citadele Holdings LLC, an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas agentūra (Privatisation Agency of the Republic of Latvia) signed the respective agreement on 5 November 2014.

The transaction is expected to close during the first half of 2015, following approvals by the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) will retain its 25% stake in Citadele. According to the terms of the deal, the new investors and the EBRD have committed to increase the capital of the bank.

Note 27. Off-balance Sheet Items

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2014 and 2013.

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Contingent liabilities:				
Outstanding guarantees	58,185	101,740	54,512	96,515
Outstanding letters of credit	32	169	32	51
Total contingent liabilities	**58,217**	**101,909**	**54,544**	**96,566**
Financial commitments:				
Loans granted, not fully drawn down	33,390	67,072	26,536	64,973
Unutilised credit lines and overdraft facilities	49,868	32,271	83,341	52,726
Credit card commitments	85,388	87,393	72,529	74,863
Bank placement commitments	–	–	10,000	–
Total financial commitments	**168,646**	**186,736**	**192,406**	**192,562**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments.

The Group:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	47,142	37,439	534	(420)	60	(1,103)
Swaps	400,854	697,386	5,395	(1,227)	3,488	(2,828)
Total foreign exchange contracts	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**
Derivative financial instruments	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**

The Bank:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	46,351	37,293	522	(417)	60	(1,101)
Swaps	437,165	795,502	5,441	(3,150)	3,497	(3,367)
Total foreign exchange contracts	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**
Derivative financial instruments	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2014, more than 52% (2013: 71%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2014, none (2013: nil) of the payments receivable arising out of derivative transactions was past due.

Note 28. Funds Under Trust Management

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Fixed income securities:				
Government bonds	155,495	170,254	–	–
Credit institution bonds	35,755	40,464	–	–
Corporate bonds	71,723	68,022	–	–
Foreign municipality bonds	1,694	2,790	–	–
Other financial institution bonds	1,590	1,848	–	–
Total investments in fixed income securities	**266,257**	**283,378**	**–**	**–**
Other investments:				
Investment funds	227,219	162,427	7,167	–
Deposits with credit institutions	32,808	24,644	1,523	–
Shares	15,515	19,197	–	–
Real estate	9,189	10,764	–	–
Loans	53,611	44,897	44,488	40,387
Other	43,684	57,180	–	7,952
Total other investments	**382,026**	**319,109**	**53,178**	**48,339**
Total assets under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Pension Plans	295,497	226,570	–	–
Insurance companies, investment and pension funds	98,568	116,974	–	–
Other companies	200,854	195,843	53,178	47,647
Private individuals	53,364	63,100	–	692
Total liabilities under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

Note 29. Financial Assets Pledged

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Due from credit institutions and central banks	6,637	8,100	3,752	7,083
Loans to customers	2,338	1,756	1,808	1,756
Fixed income securities	18,531	–	14,802	–
Other assets	11,774	15,811	11,713	15,811
Total financial assets pledged	**39,280**	**25,667**	**32,075**	**24,650**
Total liabilities secured by pledged financial assets	**–**	**–**	**–**	**–**

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

Note 30. Cash and Cash Equivalents

The table below provides a breakdown of cash and cash equivalents as at 31 December 2014 and 31 December 2013:

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
Cash and demand deposits with central banks	225,399	361,485	142,650	312,525
Deposits with other credit institutions*	158,583	252,971	347,232	211,087
Demand deposits due to other credit institutions	(14,971)	(8,510)	(70,657)	(20,752)
Total cash and cash equivalents	**369,011**	**605,946**	**419,225**	**502,860**

* Deposits include term facilities with initial agreement term of 3 months or less.

Note 31. Litigation and Claims

In the ordinary course of business, the Bank and Group either as claimant, defendant or a third party are involved in a number of legal proceedings against customers and other counterparties, in Latvia and abroad, including among other matters proceedings to seek to recover collateral or outstanding balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties

The management of the Bank believes that any legal proceedings pending as at 31 December 2014 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

Note 32. Related Parties

Related parties are defined as shareholders who have significant influence over the Group, Latvian state and municipal institutions, members of the Supervisory Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

The Bank of Latvia is not considered a related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties at respective dates.

	EUR 000's 31/12/2014	Interest income/ expense 2014	EUR 000's 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	3,060	83	4,083	46
Management	*337*	*5*	*427*	*7*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Financial commitments and outstanding guarantees:	6,202	1	4,664	–
Management	*125*	–	*135*	–
State institutions and state controlled companies	*6,063*	*1*	*4,515*	–
Municipality institutions and municipality controlled companies	*14*	–	*14*	–
Total credit exposure to related parties	**284,724**		**331,590**	
Due to related parties:	123,461	5,476	159,143	5,841
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*555*	*2*	*546*	*3*
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Total amounts due to related parties	**123,461**		**159,143**	

No Group's exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties at respective dates.

	EUR 000's 31/12/2014	Interest income/ expense 2014	EUR 000's 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	197,080	4,135	166,188	3,394
Management	*104*	*5*	*121*	*4*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Subsidiaries	*194,253*	*4,052*	*162,411*	*3,351*
Derivatives—assets:	52	–	16	–
Subsidiaries	*52*	–	*16*	–
Financial commitments and outstanding guarantees:	58,309	1	46,363	–
Management	*80*		*84*	–
State institutions and state controlled companies	*6,063*	*1*	*4,515*	–
Municipality institutions and municipality controlled companies	*14*	–	*14*	–
Subsidiaries	*52,152*	–	*41,750*	–
Total credit exposure to related parties	**530,903**		**535,410**	
Due to related parties:	205,454	5,625	183,652	5,985
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*212*	–	*287*	–
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Subsidiaries	*82,336*	*151*	*24,768*	*147*
Derivatives—liabilities:	1,935	–	738	–
Subsidiaries	*1,935*	–	*738*	–
Total amounts due to related parties	**207,389**		**184,390**	

In the year ended 31 December 2014 EUR 619 thousand impairment allowance on the Bank's loans and receivables to subsidiaries was recognised (2013: nil). As at 31 December 2014 total impairment allowance recognised on loans and receivables to subsidiaries is EUR 619 thousand (2013: nil). Bank's net investment in subsidiaries is EUR 61,605 thousand (2013: EUR 62,841 thousand) including impairment allowance of EUR 49,638 thousand. No other Bank's exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The Bank's income from dividends from subsidiaries in 2014 was EUR 1,690 thousand (2013: EUR 3,754 thousand).

During 2014 Bank's administrative expense with related parties amounted to EUR 3.4 million (2013: EUR 3.3 million). This mostly relates to rent and utility fees paid to group's companies. Banks fee and commission income from related parties in 2014 was EUR 2.0 million (2013: EUR 1.4 million) and commission and fee expense EUR 0.3 million (2013: EUR 0.2 million).

Note 33. Risk Management

Risk management polices

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

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

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

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

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

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

risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board. For securities Group analyses factors such as business profile and financial performance of the issuer, credit ratings assigned by international rating agencies, market based indicators such as credit spreads and liquidity.

After a loan is issued or a security acquired, customers' financial position and issuers' risk indicators are monitored on a regular basis in order to timely identify potential credit losses.

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

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

Group's derivative exposures relate to short term derivatives that do not expose the Group to material credit risk and none of the derivative exposures are overdue.

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

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, EUR 000's							
	31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	715,768	106,090	88,590	48,194	13,597	1,376	3,055	976,670
Not delayed—impaired	39,065	1,704	885	–	71	–	1,665	43,390
Total not delayed loans	**754,833**	**107,794**	**89,475**	**48,194**	**13,668**	**1,376**	**4,720**	**1,020,060**
Past due loans—not impaired								
Delayed days:								
=< 29	23,761	482	4,742	1,538	1	–	–	30,524
30-59	8,330	572	2,943	473	–	–	–	12,318
60-89	3,294	–	565	212	–	–	–	4,071
90 and more	14,982	–	290	415	–	–	–	15,687
Total past due loans—not impaired	**50,367**	**1,054**	**8,540**	**2,638**	**1**	**–**	**–**	**62,600**
Total past due loans—impaired	**46,494**	**23,266**	**5,123**	**6,480**	**126**	**259**	**–**	**81,748**
Total gross loans and receivables to customers	**851,694**	**132,114**	**103,138**	**57,312**	**13,795**	**1,635**	**4,720**	**1,164,408**
Impairment allowance	(55,392)	(14,357)	(8,016)	(8,875)	(471)	(261)	(1,335)	(88,707)
Total net loans and receivables to customers	**796,302**	**117,757**	**95,122**	**48,437**	**13,324**	**1,374**	**3,385**	**1,075,701**

Group, EUR 000's

	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	698,526	86,380	64,438	52,212	7,948	195	3,722	913,421
Not delayed—impaired	27,609	1,791	5,255	–	130	–	1,854	36,639
Total not delayed loans	**726,135**	**88,171**	**69,693**	**52,212**	**8,078**	**195**	**5,576**	**950,060**
Past due loans—not impaired								
Delayed days:								
=< 29	45,693	18,833	8,394	1,729	18	–	–	74,667
30-59	7,636	–	2,615	458	1	–	–	10,710
60-89	6,116	–	188	274	84	–	–	6,662
90 and more	9,866	949	253	461	53	–	–	11,582
Total past due loans—not impaired	**69,311**	**19,782**	**11,450**	**2,922**	**156**	**–**	**–**	**103,621**
Total past due loans—impaired	**47,924**	**23,549**	**11,594**	**11,964**	**–**	**259**	**–**	**95,290**
Total gross loans and receivables to customers	**843,370**	**131,502**	**92,737**	**67,098**	**8,234**	**454**	**5,576**	**1,148,971**
Impairment allowance	(53,683)	(13,310)	(10,146)	(14,098)	(132)	(256)	(1,424)	(93,049)
Total net loans and receivables to customers	**789,687**	**118,192**	**82,591**	**53,000**	**8,102**	**198**	**4,152**	**1,055,922**

The tables below provide details of the Bank's loan portfolio delinquencies:

	Bank, EUR 000's							
	31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	608,765	198,477	42	44,000	12,590	–	2,521	866,395
Not delayed—impaired	36,667	544	–	–	71	–	1,665	38,947
Total not delayed loans	**645,432**	**199,021**	**42**	**44,000**	**12,661**	**–**	**4,186**	**905,342**
Past due loans—not impaired								
Delayed days:								
=< 29	17,269	293	–	814	1	–	–	18,377
30-59	6,120	391	–	362	–	–	–	6,873
60-89	2,026	–	–	187	–	–	–	2,213
90 and more	13,866	–	–	415	126	–	–	14,407
Total past due loans—not impaired	**39,281**	**684**	**–**	**1,778**	**127**	**–**	**–**	**41,870**
Total past due loans—impaired	**35,721**	**23,267**	**–**	**4,896**	**–**	**–**	**–**	**63,884**
Total gross loans and receivables to customers	**720,434**	**222,972**	**42**	**50,674**	**12,788**	**–**	**4,186**	**1,011,096**
Impairment allowance for past due loans	(46,911)	(13,774)	(1)	(7,279)	(467)	–	(1,335)	(69,767)
Total net loans and receivables to customers	**673,523**	**209,198**	**41**	**43,395**	**12,321**	**–**	**2,851**	**941,329**

Bank, EUR 000's

	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	598,841	165,704	154	46,953	7,382	–	3,248	822,282
Not delayed—impaired	25,578	71	–	–	129	–	1,853	27,631
Total not delayed loans	**624,419**	**165,775**	**154**	**46,953**	**7,511**	**–**	**5,101**	**849,913**
Past due loans—not impaired								
Delayed days:								
=< 29	36,047	18,722	1	1,036	6	–	–	55,812
30-59	5,827	–	3	387	1	–	–	6,218
60-89	5,287	–	–	248	84	–	–	5,619
90 and more	8,332	949	–	461	53	–	–	9,795
Total past due loans—not impaired	**55,493**	**19,671**	**4**	**2,132**	**144**	**–**	**–**	**77,444**
Total past due loans—impaired	**36,228**	**23,534**		**10,290**	**–**	**–**	**–**	**70,052**
Total gross loans and receivables to customers	**716,140**	**208,980**	**158**	**59,375**	**7,655**	**–**	**5,101**	**997,409**
Impairment allowance	(45,925)	(12,591)	(3)	(12,423)	(129)	–	(1,424)	(72,495)
Total net loans and receivables to customers	**670,215**	**196,389**	**155**	**46,952**	**7,526**	**–**	**3,677**	**924,914**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**42,259**	**2,301**	**9,139**	**21,339**	**761**	**259**	**1,981**	**78,039**
Impairment charge for the reported period—specific	12,984	9,626	1,945	74	209	–	78	24,916
Release of previously established impairment allowance—specific	(5,424)	(47)	(388)	(770)	–	–	(558)	(7,187)
Impairment charged to the statement of income, net	**7,560**	**9,579**	**1,557**	**(696)**	**209**	**–**	**(480)**	**17,729**
Change of impairment allowance due to write-offs, net	(7,582)	–	(879)	(8,608)	(757)	–	–	(17,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	775	(1)	16	(87)	(84)	(4)	(80)	535
Outstanding specific impairment as at 31/12/2013	**43,012**	**11,879**	**9,833**	**11,948**	**129**	**255**	**1,421**	**78,477**
Impairment charge for the reported period—specific	12,691	2,997	1,193	401	52	–	180	17,514
Release of previously established impairment allowance—specific	(8,520)	(1,642)	(351)	(69)	(30)	–	(23)	(10,635)
Impairment charged to the statement of income, net	**4,171**	**1,355**	**842**	**332**	**22**	**–**	**157**	**6,879**
Change of impairment allowance due to write-offs, net	(7,722)	(248)	(3,605)	(5,823)	(108)	–	(376)	(17,882)
Increase/ (decrease) in impairment allowance due to currency fluctuations	74	(17)	(7)	11	9	–	132	202
Outstanding specific impairment as at 31/12/2014	**39,535**	**12,969**	**7,063**	**6,468**	**52**	**255**	**1,334**	**67,676**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**33,844**	**2,237**	**–**	**18,228**	**761**	**-**	**1,981**	**57,051**
Impairment charge for the reported period—specific	13,088	8,964	–	74	209	–	78	22,413
Release of previously established impairment allowance—specific	(4,310)	–	–	(671)	–	–	(558)	(5,539)
Impairment charged to the statement of income, net	**8,778**	**8,964**	**–**	**(597)**	**209**	**–**	**(480)**	**16,874**
Change of impairment allowance due to write-offs, net	(7,493)	–	–	(7,254)	(757)	–	–	(15,504)
Increase/ (decrease) in impairment allowance due to currency fluctuations	764	–	–	(86)	(84)	–	(80)	514
Outstanding specific impairment as at 31/12/2013	**35,893**	**11,201**	**–**	**10,291**	**129**	**–**	**1,421**	**58,935**
Impairment charge for the reported period—specific	12,321	2,700	–	388	51	–	180	15,640
Release of previously established impairment allowance—specific	(7,914)	(1,627)	–	(1)	(30)	–	(23)	(9,595)
Impairment charged to the statement of income, net	**4,407**	**1,073**	**–**	**387**	**21**	**–**	**157**	**6,045**
Change of impairment allowance due to write-offs, net	(7,299)	(248)	–	(5,795)	(108)	–	(376)	(13,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	77		–	14	9	–	129	229
Outstanding specific impairment as at 31/12/2014	**33,078**	**12,026**	**–**	**4,897**	**51**	**–**	**1,331**	**51,383**

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

Group, EUR 000's

	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	476,217	1,090,016	320,085	245,570	455,520	997,429	334,167	217,550
Utilised credit lines	86,585	242,034	31,172	17,672	80,766	207,823	37,426	19,086
Finance leases	94,274	100,655	848	517	81,136	85,237	1,455	748
Debit balances on settlement cards	285	1,363	48,152	–	36	36	52,964	–
Overdraft facilities	4,214	15,931	9,110	–	243	1,554	7,859	57
Factoring	1,369	1,389	5	–	195	195	3	–
Due from investment counterparties	–	–	3,385	6	–	–	4,152	–
Total net loans	**662,944**	**1,451,388**	**412,757**	**263,765**	**617,896**	**1,292,274**	**438,026**	**237,441**

Bank, EUR 000's

	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	352,450	962,912	321,073	260,299	364,662	804,795	305,553	196,355
Utilised credit lines	75,490	230,938	133,708	16,774	74,157	193,165	122,232	17,745
Finance leases	41	171	–	–	155	499	–	–
Debit balances on settlement cards	246	1,261	43,149	–	–	–	46,952	–
Overdraft facilities	3,311	15,027	9,010	–	–	–	7,526	–
Due from investment counterparties	–	–	2,851	–	–	–	3,677	–
Total net loans	**431,538**	**1,210,309**	**509,791**	**277,073**	**438,974**	**998,459**	**485,940**	**214,100**

* As at 31 December 2014 carrying value of Bank's loans without collateral or with guarantees amount to EUR 207,440 thousand (2013: EUR 166,707 thousand). Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group's and Bank's fixed securities portfolio quality:

Group, EUR 000's

	31/12/2014				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	361	14,063	119,168	2,919	136,511
AA/Aa	4,612	31,565	105,666	7,794	149,637
A	7,459	31,703	259,005	168,037	466,204
BBB/Baa	7,863	7,215	49,761	14,621	79,460
Other lower ratings	–	305	4,632	1,425	6,362
Not rated	–	–	3,359	34,456	37,815
Total fixed income securities	**20,295**	**84,851**	**541,591**	**229,252**	**875,989**

	Group, EUR 000's				
	31/12/2013				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	3,779	18,233	91,989	2,913	116,914
AA/Aa	287	24,395	40,735	6,851	72,268
A	6,199	7,847	44,701	3,853	62,600
BBB/Baa	13,462	3,193	205,595	191,930	414,180
Other lower ratings	1,145	–	4,876	4,451	10,472
Not rated	1	344	1,117	34,425	35,887
Total fixed income securities	**24,873**	**54,012**	**389,013**	**244,423**	**712,321**

	Bank, EUR 000's					
	31/12/2014			31/12/2013		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Investment grade:						
AAA/Aaa	2,083	117,620	119,703	2,164	87,186	89,350
AA/Aa	4,972	91,606	96,578	5,740	39,157	44,897
A	151,467	174,117	325,584	–	40,459	40,459
BBB/Baa	–	42,003	42,003	182,133	146,426	328,559
Other lower ratings	–	4,632	4,632	–	4,876	4,876
Not rated	34,455	3,359	37,814	34,425	1,117	35,542
Total net fixed income securities	**192,977**	**433,337**	**626,314**	**224,462**	**319,221**	**543,683**

The tables below provide details of the Group's due form credit institutions balances credit quality:

	2014 Group	2014 Bank
		EUR 000's
Investment grade:		
AAA/Aaa	56,618	–
AA/Aa	10,210	5,407
A	333,834	312,344
BBB/Baa	64,479	64,235
Other lower ratings	89	62
Not rated Latvian registered credit institutions*	44,091	41,767
Citadele Group's banks	–	40,449
Other not rated credit institutions*	83	9
Total balances due from credit institutions, net	**509,404**	**464,273**

* Mostly balances due from credit institutions falling into category "Not rated" are with subsidiaries of investment grade rated international credit institutions.

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2014, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries*	Total
Assets						
Cash and deposits with central banks	136,099	11,659	6,551	–	71,090	225,399
Balances due from credit institutions	53,198	2,934	344,865	10,085	98,322	509,404
Securities held for trading	5,530	–	12,160	–	6,260	23,950
Financial assets designated at fair value through profit or loss	6,190	–	50,789	–	40,470	97,449
Available for sale securities	105,252	80,014	153,415	–	219,515	558,196
Loans and receivables to customers	676,574	228,733	107,196	42,380	20,818	1,075,701
Held to maturity securities	187,999	6,361	21,780	–	13,112	229,252
Derivative financial instruments	1,724	–	1,897	7	2,301	5,929
Other assets	106,974	6,225	15,451	92	573	129,315
Total assets	**1,279,540**	**335,926**	**714,104**	**52,564**	**472,461**	**2,854,595**
Liabilities						
Financial liabilities designated at fair value through profit or loss	22,807	–	30	1,717	40	24,594
Financial liabilities measured at amortised cost	1,222,554	214,311	394,664	184,930	611,515	2,627,974
Derivative financial instruments	434	–	515	162	536	1,647
Other liabilities	16,090	5,728	883	11	957	23,669
Total liabilities	**1,261,885**	**220,039**	**396,092**	**186,820**	**613,048**	**2,677,884**
Equity	176,711	–	–	–	–	176,711
Total liabilities and equity	**1,438,596**	**220,039**	**396,092**	**186,820**	**613,048**	**2,854,595**
Off-balance sheet items						
Contingent liabilities	51,189	1,418	1,071	2,330	2,209	58,217
Financial commitments	127,070	33,879	3,301	3,606	790	168,646

* For more detailed analysis of geographical distribution of securities exposures please refer to note 16. All Group's cash and deposit with central banks balances presented as "Other countries" are with central bank of Switzerland. Group's balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 51.2 million), Japanese credit institutions (EUR 33.8 million) and United States registered credit institutions (EUR 12.0 million) besides others.

	Group as at 31/12/2013, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	10,090	34,634	–	50,543	361,485
Balances due from credit institutions	24,825	4,173	140,420	10,748	91,015	271,181
Securities held for trading	3,523	343	12,255	6,611	5,082	27,814
Financial assets designated at fair value through profit or loss	4,273	–	33,486	1,659	22,918	62,336
Available for sale securities	115,724	69,408	101,799	6,497	108,310	401,738
Loans and receivables to customers	679,716	219,131	88,447	46,515	22,113	1,055,922
Held to maturity securities	224,462	4,264	3,963	5,854	5,880	244,423
Derivative financial instruments	175	–	1,387	149	1,837	3,548
Other assets	85,538	8,029	18,817	131	560	113,075
Total assets	**1,404,454**	**315,438**	**435,208**	**78,164**	**308,258**	**2,541,522**
Liabilities						
Financial liabilities designated at fair value through profit or loss	15,216	–	28	1,171	211	16,626
Financial liabilities measured at amortised cost	1,247,307	136,974	300,242	179,666	490,368	2,354,557
Derivative financial instruments	730	–	766	83	2,352	3,931
Other liabilities	14,402	6,138	388	236	1,796	22,960
Total liabilities	**1,277,655**	**143,112**	**301,424**	**181,156**	**494,727**	**2,398,074**
Equity	143,448	–	–	–	–	143,448
Total liabilities and equity	**1,421,103**	**143,112**	**301,424**	**181,156**	**494,727**	**2,541,522**
Off-balance sheet items						
Contingent liabilities	92,966	2,419	551	2,982	2,991	101,909
Financial commitments	126,998	43,625	4,158	11,310	645	186,736

The following tables provide an analysis of the Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2014, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	136,099	–	6,551	–	–	142,650
Balances due from credit institutions	50,870	40,478	300,135	9,984	62,806	464,273
Available for sale securities	98,077	10,767	143,880	–	191,694	444,418
Loans and receivables to customers	732,406	53,176	102,582	38,523	14,642	941,329
Held to maturity securities	185,922	–	7,055	–	–	192,977
Derivative financial instruments	1,712	8	1,899	7	2,337	5,963
Other assets	67,148	43,838	14,223	28	13,814	139,051
Total assets	**1,272,234**	**148,267**	**576,325**	**48,542**	**285,293**	**2,330,661**
Liabilities						
Financial liabilities measured at amortised cost	1,228,467	65,650	294,680	127,806	422,741	2,139,344
Derivative financial instruments	432	8	515	162	2,450	3,567
Other liabilities	14,234	19	162	2	36	14,453
Total liabilities	**1,243,133**	**65,677**	**295,357**	**127,970**	**425,227**	**2,157,364**
Equity	173,297	–	–	–	–	173,297
Total liabilities and equity	**1,416,430**	**65,677**	**295,357**	**127,970**	**425,227**	**2,330,661**
Off-balance sheet items						
Contingent liabilities	51,133	521	372	1,899	619	54,544
Financial commitments	153,304	27,155	7,553	3,606	788	192,406

	Bank as at 31/12/2013, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	–	34,634	–	11,673	312,525
Balances due from credit institutions	23,080	24,019	105,462	10,485	56,182	219,228
Available for sale securities	115,220	10,741	95,217	6,497	104,255	331,930
Loans and receivables to customers	735,017	43,482	81,798	46,034	18,583	924,914
Held to maturity securities	224,462	–	–	–	–	224,462
Derivative financial instruments	175	16	1,387	149	1,830	3,557
Other assets	51,248	41,273	18,163	6	13,922	124,612
Total assets	**1,415,420**	**119,531**	**336,661**	**63,171**	**206,445**	**2,141,228**
Liabilities						
Financial liabilities measured at amortised cost	1,250,229	1,608	238,083	146,764	343,525	1,980,209
Derivative financial instruments	730	611	766	82	2,279	4,468
Other liabilities	12,587	26	92	101	149	12,955
Total liabilities	**1,263,546**	**2,245**	**238,941**	**146,947**	**345,953**	**1,997,632**
Equity	143,596	–	–	–	–	143,596
Total liabilities and equity	**1,407,142**	**2,245**	**238,941**	**146,947**	**345,953**	**2,141,228**
Off-balance sheet items						
Contingent liabilities	92,902	522	339	2,490	313	96,566
Financial commitments	152,794	19,648	8,166	11,310	644	192,562

b) Market risk

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

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

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

c) Interest rate risk

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

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

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

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% (but not below 0%) on Group's and Bank's pre-tax profit (in 12-months time) and available for sale securities' fair value revaluation reserve in equity:

	2014 Group	2013 Group	2014 Bank	2013 Bank
				EUR 000's
Scenario: +1%				
Pre-tax profit / (loss)	7,472	5,417	7,208	5,516
Securities fair value revaluation reserve	(8,955)	(5,221)	(5,667)	(4,163)
Total pre-tax effect on equity	**(1,483)**	**196**	**1,541**	**1,353**
Estimated net effect on equity	**(1,261)**	**167**	**1,310**	**1,150**
Scenario: -1%, but not below 0%				
Pre-tax profit / (loss)	(3,594)	(2,978)	(3,533)	(3,529)
Securities fair value revaluation reserve	5,373	3,394	3,474	3,061
Total pre-tax effect on equity	**1,779**	**416**	**(59)**	**(468)**
Estimated net effect on equity	**1,512**	**354**	**(50)**	**(398)**

The following table represents the impact of a 2.0% parallel change in all interest rates and security yields (but not below 0%) by currencies on Bank's pre-tax profit and available for sale securities' fair value revaluation reserve in equity:

	31/12/2014				31/12/2013		
	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
							EUR 000's
Scenario: +2%							
Pre-tax profit/ (loss)	9,711	5,969	(1,289)	731	5,011	5,481	(216)
Securities fair value revaluation reserve	(3,620)	(7,285)	(233)	(2,363)	(1,878)	(3,836)	(94)
Total pre-tax effect on equity	**6,091**	**(1,316)**	**(1,522)**	**(1,632)**	**3,133**	**1,645**	**(310)**
Estimated net effect on equity	**5,177**	**(1,119)**	**(1,294)**	**(1,387)**	**2,663**	**1,398**	**(264)**
Scenario: -2%, but not below 0%							
Pre-tax profit/ (loss)	(1,795)	(1,919)	181	(249)	(1,692)	(1,653)	65
Securities fair value revaluation reserve	363	3,566	26	842	726	2,136	23
Total pre-tax effect on equity	**(1,432)**	**1,647**	**207**	**593**	**(966)**	**483**	**88**
Estimated net effect on equity	**(1,217)**	**1,400**	**176**	**504**	**(821)**	**411**	**75**

d) Currency risk

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

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

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

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

	Group						
	31/12/2014			31/12/2013			
	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
							EUR 000's
Scenario:							
2% adverse change	58	54	7	4	50	724	30
5% adverse change	145	134	18	10	125	1,811	74

	Bank						
	31/12/2014			31/12/2013			
	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
							EUR 000's
Scenario:							
2% adverse change	28	–	2	30	–	1	26
5% adverse change	71	1	6	74	1	3	64

* Excluding adverse changes as at 31/12/2013 for EUR currency as on 1 January 2014 Latvia adopted EUR and the Bank's functional currency and the Group's presentation currency was changed to Euros and excluding adverse changes as at 31/12/2014 for LTL currency as on 1 January 2015 Lithuania adopted EUR.

In 2014 and 2013 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2014 and 2013 by currency profile:

	Group as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	137,031	3,328	71,201	10,825	104	2,910	225,399
Balances due from credit institutions	229,958	162,476	10,459	153	9,952	96,406	509,404
Securities held for trading	16,099	6,189	1,662	–	–	–	23,950
Financial assets designated at fair value through profit or loss	31,461	53,731	9,788	–	–	2,469	97,449
Available for sale securities	170,514	311,731	–	59,192	–	16,759	558,196
Loans and receivables to customers	955,260	56,182	3,468	60,539	99	153	1,075,701
Held to maturity securities	203,580	21,378	–	4,294	–	–	229,252
Derivative financial instruments	5,911	–	7	11	–	–	5,929
Other assets	91,014	30,162	543	5,905	52	1,639	129,315
Total assets	**1,840,828**	**645,177**	**97,128**	**140,919**	**10,207**	**120,336**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	21,985	2,609	–	–	–	–	24,594
Financial liabilities measured at amortised cost	1,529,310	838,536	26,977	134,862	14,798	83,491	2,627,974
Derivative financial instruments	1,632	–	13	2	–	–	1,647
Other liabilities	16,308	3,901	944	2,108	139	269	23,669
Total liabilities	**1,569,235**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,677,884**
Equity	176,711	–	–	–	–	–	176,711
Total liabilities and equity	**1,745,946**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,854,595**
Net long/ (short) position for balance sheet items	94,882	(199,869)	69,194	3,947	(4,730)	36,576	–
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(29,532)	32,733	(144)	–	(601)	(644)	1,812
Forward foreign exchange contracts	(2,299)	2,527	(370)	–	–	258	116
Swap exchange contracts	(68,525)	167,513	(65,993)	–	5,338	(35,952)	2,381
Net long/ (short) positions on foreign exchange	*(100,356)*	*202,773*	*(66,507)*	–	*4,737*	*(36,338)*	*4,309*
Net long/ (short) position as at 31 December 2014	**(5,474)**	**2,904**	**2,687**	**3,947**	**7**	**238**	**4,309**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	–	0.824	0.832	0.290	0.0138	–	–

As at 31 December 2014 and 31 December 2013 LTL currency is pegged to the EUR at a fixed rate. On 1 January 2015 the Republic of Lithuania adopted Euro as the national currency. At that date all Group's and Bank's balances denominated in Litas were converted to Euros at the fixed official exchange rate.

	Group as at 31/12/2013, EUR 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	4,293	53,978	39,122	8,338	434	3,112	361,485
Balances due from credit institutions	1,246	208,576	39,404	649	134	8,463	12,709	271,181
Securities held for trading	1,622	5,354	15,861	4,408	–	569	–	27,814
Financial assets designated at fair value through profit or loss	–	28,971	25,532	7,581	–	–	252	62,336
Available for sale securities	73,570	153,359	111,325	498	52,365	–	10,621	401,738
Loans and receivables to customers	112,003	63,284	817,777	2,718	58,728	511	901	1,055,922
Held to maturity securities	163,040	7,871	69,248	–	4,264	–	–	244,423
Derivative financial instruments	3,509	–	36	3	–	–	–	3,548
Other assets	81,979	8,611	10,277	448	7,827	101	3,832	113,075
Total assets	**689,177**	**480,319**	**1,143,438**	**55,427**	**131,656**	**10,078**	**31,427**	**2,541,522**
Liabilities								
Financial liabilities designated at fair value through profit or loss	7,396	1,919	7,311	–	–	–	–	16,626
Financial liabilities measured at amortised cost	552,998	692,469	902,175	16,631	92,562	39,857	57,865	2,354,557
Derivative financial instruments	3,730	–	–	201	–	–	–	3,931
Other liabilities	12,257	3,108	2,746	1,651	2,877	116	205	22,960
Total liabilities	**576,381**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,398,074**
Equity	143,448	–	–	–	–	–	–	143,448
Total liabilities and equity	**719,829**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,541,522**
Net long/ (short) position for balance sheet items	(30,652)	(217,177)	231,206	36,944	36,217	(29,895)	(26,643)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	–	(2,770)	3,045	–	–	(445)	142	(28)
Forward foreign exchange contracts	–	21,454	(22,517)	–	–	–	–	(1,063)
Swap exchange contracts	–	198,685	(221,323)	(34,426)	–	30,550	27,174	660
Net long/ (short) positions on foreign exchange	–	*217,369*	*(240,795)*	*(34,426)*		*30,105*	*27,316*	*(431)*
Net long/ (short) position as at 31 December 2013	**(30,652)**	**192**	**(9,589)**	**2,518**	**36,217**	**210**	**673**	**(431)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	–	0.733	1.000	0.815	0.290	0.022	–	–

	Bank as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	136,428	3,045	72	360	104	2,641	142,650
Balances due from credit institutions	226,732	127,283	8,443	28	9,912	91,875	464,273
Available for sale securities	161,888	265,770	–	–	–	16,760	444,418
Loans and receivables to customers	890,252	47,356	3,468	–	99	154	941,329
Held to maturity securities	192,977	–	–	–	–	–	192,977
Derivative financial instruments	5,963	–	–	–	–	–	5,963
Other assets	53,599	30,004	13,807	40,032	3	1,606	139,051
Total assets	**1,667,839**	**473,458**	**25,790**	**40,420**	**10,118**	**113,036**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,366,335	630,428	12,243	40,418	13,898	76,022	2,139,344
Derivative financial instruments	3,567	–	–	–	–	–	3,567
Other liabilities	12,358	1,800	5	3	103	184	14,453
Total liabilities	**1,382,260**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,157,364**
Equity	173,297	–	–	–	–	–	173,297
Total liabilities and equity	**1,555,557**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,330,661**
Net long/ (short) position for balance sheet items	112,282	(158,770)	13,542	(1)	(3,883)	36,830	–
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(30,149)	33,363	(168)	–	(601)	(632)	1,813
Forward foreign exchange contracts	(1,720)	1,939	(370)	–	–	258	107
Swap exchange contracts	(79,428)	124,895	(12,992)	–	4,483	(36,466)	492
Net long/ (short) positions on foreign exchange	*(111,297)*	*160,197*	*(13,530)*	–	*3,882*	*(36,840)*	*2,412*
Net long/ (short) position as at 31 December 2014	**985**	**1,427**	**12**	**(1)**	**(1)**	**(10)**	**2,412**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	–	0.824	0.832	0.290	0.0138	–	–

	Bank as at 31/12/2013, EUR 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	3,607	52,894	236	196	434	2,950	312,525
Balances due from credit institutions	1	176,418	24,872	179	58	8,210	9,490	219,228
Available for sale securities	73,570	141,089	106,649	–	–	–	10,622	331,930
Loans and receivables to customers	167,818	59,839	693,875	2,718	–	511	153	924,914
Held to maturity securities	163,039	–	61,423	–	–	–	–	224,462
Derivative financial instruments	3,521	–	36	–	–	–	–	3,557
Other assets	48,509	8,541	8,665	13,806	41,274	60	3,757	124,612
Total assets	**708,666**	**389,494**	**948,414**	**16,939**	**41,528**	**9,215**	**26,972**	**2,141,228**
Liabilities								
Financial liabilities measured at amortised cost	555,774	525,681	800,715	9,253	683	36,463	51,640	1,980,209
Derivative financial instruments	4,468	–	–	–	–	–	–	4,468
Other liabilities	10,601	1,358	735	4	4	112	141	12,955
Total liabilities	**570,843**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**1,997,632**
Equity	143,596	–	–	–	–	–	–	143,596
Total liabilities and equity	**714,439**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**2,141,228**
Net long/ (short) position for balance sheet items	(5,773)	(137,545)	146,964	7,682	40,841	(27,360)	(24,809)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	–	(2,221)	2,460	–	–	(434)	174	(21)
Forward foreign exchange contracts	–	21,599	(22,662)	–	–	–	–	(1,063)
Swap exchange contracts	–	116,690	(121,140)	(7,666)	(40,782)	27,894	25,132	128
Net long/ (short) positions on foreign exchange	–	*136,068*	*(141,342)*	*(7,666)*	*(40,782)*	*27,460*	*25,306*	*(956)*
Net long/ (short) position as at 31 December 2013	**(5,773)**	**(1,477)**	**5,622**	**16**	**59**	**100**	**497**	**(956)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	–	0.733	1.000	0.815	0.290	0.022	–	–

e) Liquidity risk

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

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

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

In 2014 and 2013 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	Highest	Lowest	Average	Year-end
2014	59%	50%	55%	59%
2013	58%	53%	56%	56%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Group as at 31/12/2014, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	224,685	714	–	–	–	–	225,399
Balances due from credit institutions	499,249	5,748	108	–	–	4,299	509,404
Securities held for trading	6,474	426	1,513	2,664	–	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	–	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Loans and receivables to customers	29,456	46,519	61,766	129,805	581,871	226,284	1,075,701
Held to maturity securities	–	2,945	16,986	74,972	99,699	34,650	229,252
Derivative financial instruments	3,598	2,239	77	15	–	–	5,929
Other assets	30,043	532	515	474	1,011	96,740	129,315
Total assets	**834,599**	**76,979**	**112,784**	**286,095**	**978,058**	**566,080**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Financial liabilities measured at amortised cost	2,071,155	88,361	91,548	176,260	180,611	20,039	2,627,974
Derivative financial instruments	876	763	8	–	–	–	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**
Equity	–	–	–	–	–	176,711	176,711
Total liabilities and equity	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**200,947**	**2,854,595**
Net balance sheet position—long/(short)	(1,257,783)	(12,337)	19,461	108,309	777,217	365,133	–
Off-balance sheet items							
Contingent liabilities	58,217	–	–	–	–	–	58,217
Financial commitments	168,646	–	–	–	–	–	168,646

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							EUR 000's
Financial liabilities designated at fair value through profit or loss	32	135	301	1,287	20,564	2,748	25,067
Financial liabilities measured at amortised cost	2,071,564	89,546	92,488	181,123	194,682	26,761	2,656,164
Off-balance sheet items							
Contingent liabilities	58,217	–	–	–	–	–	58,217
Financial commitments	168,646	–	–	–	–	–	168,646

Group's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Group as at 31/12/2013, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	361,485	–	–	–	–	–	361,485
Balances due from credit institutions	248,931	20,700	–	–	1,550	–	271,181
Securities held for trading	–	1,049	1,308	3,009	18,137	4,311	27,814
Financial assets designated at fair value through profit or loss	1,816	5,303	5,592	3,241	35,854	10,530	62,336
Available for sale securities	7,728	14,592	44,613	52,568	256,128	26,109	401,738
Loans and receivables to customers	10,691	32,531	82,289	106,153	595,119	229,139	1,055,922
Held to maturity securities	–	898	33,408	42,531	166,024	1,562	244,423
Derivative financial instruments	3,422	46	7	30	43	–	3,548
Other assets	24,351	105	251	552	180	87,636	113,075
Total assets	**658,424**	**75,224**	**167,468**	**208,084**	**1,073,035**	**359,287**	**2,541,522**
Liabilities							
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,320	2,282	16,626
Financial liabilities measured at amortised cost	1,846,551	95,198	96,340	174,415	140,282	1,771	2,354,557
Derivative financial instruments	2,094	1,195	575	67	–	–	3,931
Other liabilities	21,560	222	74	20	1,084	–	22,960
Total liabilities	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**4,053**	**2,398,074**
Equity	–	–	–	–	–	143,448	143,448
Total liabilities and equity	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**147,501**	**2,541,522**
Net balance sheet position—long/(short)	(1,211,866)	(21,442)	69,937	33,236	918,349	211,786	–
Off-balance sheet items							
Contingent liabilities	101,909	–	–	–	–	–	101,909
Financial commitments	186,736	–	–	–	–	–	186,736

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							EUR 000's
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,721	2,379	17,124
Financial liabilities measured at amortised cost	1,846,862	98,577	98,377	177,690	159,995	1,547	2,383,048
Off-balance sheet items							
Contingent liabilities	101,909	–	–	–	–	–	101,909
Financial commitments	186,736	–	–	–	–	–	186,736

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Bank as at 31/12/2014, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	142,650	–	–	–	–	–	142,650
Balances due from credit institutions	460,521		–	–	–	3,752	464,273
Available for sale securities	21,512	13,641	28,033	66,979	295,477	18,776	444,418
Loans and receivables to customers	25,869	134,905	44,342	102,768	440,262	193,183	941,329
Held to maturity securities	–	2,945	16,986	73,347	99,699	–	192,977
Derivative financial instruments	3,648	2,232	68	15	–	–	5,963
Other assets	27,680	1	2	14	37	111,317	139,051
Total assets	**681,880**	**153,724**	**89,431**	**243,123**	**835,475**	**327,028**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,683,947	66,405	65,718	144,023	173,164	6,087	2,139,344
Derivative financial instruments	1,723	1,832	12	–	–	–	3,567
Other liabilities	14,453	–	–	–	–	–	14,453
Total liabilities	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**6,087**	**2,157,364**
Equity	–	–	–	–	–	173,297	173,297
Total liabilities and equity	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**179,384**	**2,330,661**
Net balance sheet position—long/(short)	(1,018,243)	85,487	23,701	99,100	662,311	147,644	–
Off-balance sheet items							
Contingent liabilities	54,544	–	–	–	–	–	54,544
Financial commitments	192,406	–	–	–	–	–	192,406

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							EUR 000's
Financial liabilities measured at amortised cost	1,683,947	67,294	66,274	148,317	187,402	7,210	2,160,444
Off-balance sheet items							
Contingent liabilities	54,544	–	–	–	–	–	54,544
Financial commitments	192,406	–	–	–	–	–	192,406

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Bank as at 31/12/2013, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	312,525	–	–	–	–	–	312,525
Balances due from credit institutions	211,495	4,098	3,635	–	–	–	219,228
Available for sale securities	7,726	11,770	40,023	52,349	193,969	26,093	331,930
Loans and receivables to customers	9,780	110,940	75,812	94,506	479,065	154,811	924,914
Held to maturity securities	–	–	32,663	41,053	150,746	–	224,462
Derivative financial instruments	3,434	43	7	30	43	–	3,557
Other assets	22,340	–	–	–	–	102,272	124,612
Total assets	**567,300**	**126,851**	**152,140**	**187,938**	**823,823**	**283,176**	**2,141,228**
Liabilities							
Financial liabilities measured at amortised cost	1,541,552	82,401	80,183	144,858	129,671	1,544	1,980,209
Derivative financial instruments	2,831	995	575	67	–	–	4,468
Other liabilities	12,955	–	–	–	–	–	12,955
Total liabilities	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**1,544**	**1,997,632**
Equity	–	–	–	–	–	143,596	143,596
Total liabilities and equity	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**145,140**	**2,141,228**
Net balance sheet position—long/(short)	(990,038)	43,455	71,382	43,013	694,152	138,036	–
Off-balance sheet items							
Contingent liabilities	96,566	–	–	–	–	–	96,566
Financial commitments	192,562	–	–	–	–	–	192,562

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							EUR 000's
Financial liabilities measured at amortised cost	1,541,707	84,846	80,803	148,955	146,160	1,547	2,004,018
Off-balance sheet items							
Contingent liabilities	96,566	–	–	–	–	–	96,566
Financial commitments	192,562	–	–	–	–	–	192,562

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

	Group, 31/12/2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							EUR 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	1,303	(144)	1	15	–	–	1,175
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(117,996)	(79,633)	(5,741)	–	–	–	(203,370)
inflow	119,418	81,257	5,676	–	–	–	206,351

	Group, 31/12/2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							EUR 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	1,144	(81)	(575)	–	–	–	488
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(23,408)	(63,261)	(2,968)	(12,010)	(3,256)	–	(104,903)
inflow	23,567	62,150	3,015	11,973	3,300	–	104,005

	Bank, 31/12/2014						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							EUR 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	1,339	71	(54)	8	–	–	1,364
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(141,525)	(90,154)	(5,165)	–	–	–	(236,844)
inflow	142,147	90,691	5,223	–	–	–	238,061

	Bank, 31/12/2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							EUR 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	545	(81)	(575)	–	–	–	(111)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(34,116)	(47,039)	(2,968)	(12,010)	(3,256)	–	(99,389)
inflow	34,152	46,128	3,015	11,973	3,298	–	98,566

f) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks

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

Balances due from credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans and receivables to customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.2 million (2013: EUR 10.5 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs. One of the non-observable market input is CDS rate of certain municipality. If the CDS rate would change by +20 basis points the fair value would change by EUR 243 thousand (2013: EUR (301) thousand).

Available for sale securities

The fair value for certain available for sale securities is calculated using valuation techniques with non-market observable inputs. Fair value of these available for sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available for sale securities would change by EUR +/-142 thousand (2013: EUR +/-193 thousand).

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.09 million (2013: EUR 0.07 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically repriced to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.8 million (2013: EUR 1.1 million).

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +218 thousand and EUR (192) thousand respectively (2013: EUR +0.05 million and EUR (0.03) million respectively).

Other financial liabilities and other financial assets

Other financial assets and other financial liabilities generally are short term instruments, for example cash in transit or payables to suppliers. Due to their short term nature their fair value equals their carrying value.

Fair value hierarchy

Quoted market prices (Level 1)

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique—observable market inputs (Level 2)

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique—non-market observable inputs (Level 3)

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	225,399	225,399	–	–	–
Balances due from credit institution	509,404	509,404	–	–	–
Held for trading securities	23,950	23,950	23,950	–	–
Financial assets designated at fair value through profit or loss	97,449	97,449	97,449	–	–
Derivatives	5,929	5,929	–	5,929	–
Available for sale securities	558,196	558,196	556,560	–	1,636
Loans and receivables to customers	1,075,701	1,070,066	–	–	1,070,066
Held to maturity securities	229,252	234,260	201,992	–	32,268
Other financial assets	45,567	45,567	–	–	45,567
Total financial assets	**2,770,847**	**2,770,220**	**879,951**	**5,929**	**1,149,537**
Derivatives	1,647	1,647	–	1,647	–
Financial liabilities designated at fair value through profit or loss	24,594	24,594	12,784	–	11,810
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,036	25,036	–	–	–
Customer deposits	2,517,107	2,519,836	–	–	2,519,836
Subordinated liabilities	73,596	73,596	–	–	73,596
Other financial liabilities	22,697	22,496	–	–	22,496
Total financial liabilities	**2,664,677**	**2,667,205**	**12,784**	**1,647**	**2,627,738**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	361,485	361,485	–	–	–
Balances due from credit institution	271,181	271,181	–	–	–
Held for trading securities	27,814	27,814	27,814	–	–
Financial assets designated at fair value through profit or loss	62,336	62,336	62,336	–	–
Derivatives	3,548	3,548	–	3,548	–
Available for sale securities	401,738	401,738	399,769	–	1,969
Loans and receivables to customers	1,055,922	1,044,577	–	–	1,044,577
Held to maturity securities	244,423	249,724	217,830	–	31,894
Other financial assets	28,949	28,949	–	–	28,949
Total financial assets	**2,457,396**	**2,451,352**	**707,749**	**3,548**	**1,107,389**
Derivatives	3,931	3,931	–	3,931	–
Financial liabilities designated at fair value through profit or loss	16,626	16,626	8,666	–	7,960
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,755	25,755	–	–	–
Customer deposits	2,246,912	2,248,721	–	–	2,248,721
Subordinated liabilities	73,575	73,575	–	–	73,575
Other financial liabilities	18,429	18,176	–	–	18,176
Total financial liabilities	**2,385,228**	**2,386,784**	**8,666**	**3,931**	**2,348,432**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	142,650	142,650	–	–	–
Balances due from credit institution	464,273	464,273	–	–	–
Derivatives	5,963	5,963	–	5,963	–
Available for sale securities	444,418	444,418	442,798	–	1,620
Loans and receivables to customers	941,329	929,739	–	–	929,739
Held to maturity securities	192,977	197,188	164,920	–	32,268
Other financial assets	41,639	41,639	–	–	41,639
Total financial assets	**2,233,249**	**2,225,870**	**607,718**	**5,963**	**1,005,266**
Derivatives	3,567	3,567	–	3,567	–
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	116,997	116,997	–	–	–
Customer deposits	1,948,751	1,951,049	–	–	1,951,049
Subordinated liabilities	73,596	73,596	–	–	73,596
Other financial liabilities	5,325	5,325	–	–	5,325
Total financial liabilities	**2,148,236**	**2,150,534**	**–**	**3,567**	**2,029,970**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	312,525	312,525	–	–	–
Balances due from credit institution	219,228	219,228	–	–	–
Derivatives	3,557	3,557	–	3,557	–
Available for sale securities	331,930	331,930	329,961	–	1,969
Loans and receivables to customers	924,914	908,424	–	–	908,424
Held to maturity securities	224,462	229,353	197,459	–	31,894
Other financial assets	23,164	23,164	–	–	23,164
Total financial assets	**2,039,780**	**2,028,181**	**527,420**	**3,557**	**965,451**
Derivatives	4,468	4,468	–	4,468	–
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	55,286	55,286	–	–	–
Customer deposits	1,851,348	1,852,798	–	–	1,852,798
Subordinated liabilities	73,575	73,575	–	–	73,575
Other financial liabilities	4,019	4,019	–	–	4,019
Total financial liabilities	**1,988,696**	**1,990,146**	**–**	**4,468**	**1,930,392**

Changes in available for sale securities categorised as Level 3

	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
				EUR 000's
As at the beginning of the period, net	**1,969**	**1,940**	**1,969**	**1,940**
Transfer between fair value Levels	115	–	99	–
Increase in existing exposure	72	29	72	29
Impairment charges	(520)	–	(520)	–
Fair value revaluation gain recognised in statement of income, net	–	–	–	–
As at the end of the period, net	**1,636**	**1,969**	**1,620**	**1,969**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are no sufficient recent observable transitions on the market.

g) Operational risk

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

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

The Group applies following approaches for operational risk management:

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

h) Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes—via a regulation (575/2013) and a directive (2013/36/EU)—the new global standards on bank capital (the Basel III agreement) into EU law. It is applicable from 1 January 2014.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The new rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conversion buffer is established, limiting dividend payout and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Also FCMC has calculated Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2014 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The increase in ratio is related to the non-resident business of the Bank. The ratio should be complied with also on a consolidated level. The management believe that the Group and the Bank will comply with the aforementioned minimum capital ratio requirements.

The Bank has subsidiaries, which are financial institutions, thus it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel III* framework, Pillar I) can be disclosed as follows:

	31/12/2014 Group	31/12/2014 Bank
		EUR 000's
Common equity Tier 1 capital		
Paid up capital instruments	146,556	146,556
Retained earnings and eligible profits	28,750	24,747
Deductible other intangible assets	(1,690)	(1,456)
Other capital components, deductions and transitional adjustments, net	(4,689)	(820)
Tier 2 capital		
Eligible part of subordinated loans	31,568	31,568
Own funds	**200,495**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk		
Central governments or central banks	16,596	11,252
Regional governments or local authorities	35,611	35,082
Public sector entities	43	43
Multilateral Development Banks	1,052	407
Institutions	179,590	167,617
Corporates	631,548	649,329
Retail	98,655	60,870
Secured by mortgages on immovable property	236,922	155,962
Exposures in default	38,807	34,216
Items associated with particular high risk	158,356	163,832
Claims on institutions and corporates with a short-term credit assessment	4,334	–
Collective investments undertakings	16,389	10,882
Equity	10,938	62,875
Other items	177,823	110,900
Total exposure amounts for position, foreign currency open position and commodities risk		
Traded debt instruments	7,126	2,427
Equity	867	–
Foreign Exchange	9,741	1,647
Total exposure amounts for operational risk	196,501	157,347
Total exposure amounts for credit valuation adjustment	1,142	1,135
Total risk exposure amount	**1,822,041**	**1,625,823**
Total capital adequacy ratio	**11.0%**	**12.3%**
Common equity Tier 1 capital ratio	**9.3%**	**10.4%**

* AAS "Citadele Life" is not included in the consolidation group for capital adequacy purposes. The investment value constitutes a risk exposure in the Group's capital adequacy ratio calculation.

As at 31 December 2013 the Group's and the Bank's capital adequacy ratios, calculated in accordance with the Basel II capital regulations, were 10.3% and 11.7% respectively; Basel II and Basel III capital adequacy ratios are not directly comparable due to substantial changes in the regulation.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank simulates its capital adequacy position under assumptions of the adverse macroeconomic scenario. The following represents the qualitative assessment summary of risk profile, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	Low	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	n/a	Standardized approach	n/a
Market risk	Position risk	Moderate	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Low	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Low	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Low	Part of reputation risk	n/a

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" (the "Bank"), as set out on pages 11 to 77. Separate financial statements comprise the separate balance sheet as at 31 December 2014, the separate statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), as set out on pages 11 to 77. Consolidated financial statements comprise the consolidated balance sheet as at 31 December 2014, the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management 's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors ' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and Group's preparation and fair presentation of these financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of AS "Citadele banka" as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS "Citadele banka" and its subsidiaries as at 31 December 2014 and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 8, the preparation of which is the responsibility of management, is consistent with the accompanying separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the accompanying financial statements of the Group. In our opinion, the Management Report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
23 March 2015

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

Citadele

AS "Citadele banka"
Statements of Income for the years ended 31 December 2013 and 2012

	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
					LVL 000's
Interest income	5	52,577	59,405	44,098	49,650
Interest expense	5	(13,719)	(24,774)	(12,140)	(22,500)
Net interest income		38,858	34,631	31,958	27,150
Commission and fee income	6	31,696	29,496	24,305	22,376
Commission and fee expense	6	(9,088)	(8,069)	(7,498)	(6,848)
Net commission and fee income		22,608	21,427	16,807	15,528
Gain on transactions with financial instruments, net	7	12,048	10,047	9,829	8,499
Other income		2,046	2,443	3,523	299
Other expense		(1,421)	(297)	(416)	(16)
Administrative expenses	8,9	(43,960)	(41,623)	(32,718)	(30,118)
Amortisation and depreciation charge		(4,116)	(4,407)	(967)	(1,242)
Impairment charges and reversals, net	10	(14,158)	(9,372)	(15,248)	(9,680)
Profit before taxation		11,905	12,849	12,768	10,420
Corporate income tax	11	(2,349)	(3,888)	(2,022)	(4,901)
Net profit for the period		9,556	8,961	10,746	5,519

The notes on pages 14 to 75 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Comprehensive Income for the years ended 31 December 2013 and 31 December 2012

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Net profit for the period	9,556	8,961	10,746	5,519
Other comprehensive income:				
Fair value revaluation reserve: held-to-maturity securities				
Amortisation	338	571	277	499
Deferred income tax charged directly to equity	(9)	(11)	–	–
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	–	(134)	–	(134)
Fair value revaluation reserve charged to statement of income	(3,242)	(1,613)	(1,734)	(1,116)
Change in fair value of available-for-sale securities	(751)	9,934	(379)	5,990
Deferred income tax charged / (credited) directly to equity	282	(515)	–	–
Other reserves				
Foreign exchange revaluation reserve	(218)	120	–	–
Restructuring reserve, net*	–	3	–	–
Other comprehensive income / (loss) for the period	(3,600)	8,355	(1,836)	5,239
Total comprehensive income for the period	5,956	17,316	8,910	10,758

The notes on pages 14 to 75 are an integral part of these financial statements.

* *Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to statement of income when specific conditions are met.*

Citadele

AS "Citadele banka"
Balance Sheets as at 31 December 2013 and 31 December 2012

	Notes	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
					LVL 000's
Assets					
Cash and deposits with central banks	12	254,053	190,960	219,644	174,708
Balances due from credit institutions	13	190,586	129,213	154,074	81,070
Securities held for trading:					
- fixed income	16	17,481	9,221	–	–
- shares and other non-fixed income	17	2,066	1,175	–	–
Derivative financial instruments	29	2,567	988	2,576	1,034
Financial assets designated at fair value through profit and loss	18	43,810	35,508	–	–
Available-for-sale securities:					
- fixed income	16	273,400	265,769	224,350	199,077
- shares and other non-fixed income	17	8,943	3,242	8,932	3,231
Loans and receivables to customers	14,15	742,106	716,443	650,033	628,804
Held-to-maturity securities	16	171,781	165,993	157,753	155,748
Current income tax assets		239	206	–	–
Non-current assets classified as held for sale		262	264	121	168
Property and equipment	21	30,098	31,020	2,391	2,093
Intangible assets	20	1,297	888	949	493
Investments in subsidiaries	19	–	–	44,165	44,545
Investment property		526	902	–	–
Deferred income tax assets	11	22,866	25,182	22,279	24,209
Other assets	22	24,111	24,450	17,596	19,715
Total assets		1,786,192	1,601,424	1,504,863	1,334,895
Liabilities					
Derivative financial instruments	29	2,855	2,722	3,232	2,766
Financial liabilities designated at fair value through profit and loss	23	11,685	10,368	–	–
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	24	18,100	25,477	38,855	47,361
- deposits from customers	25	1,579,139	1,395,697	1,301,135	1,132,728
- other financial liabilities		5,844	5,789	–	–
Current income tax liabilities		–	28	–	–
Other liabilities	26	16,044	14,469	9,012	8,016
Subordinated liabilities	27	51,709	52,014	51,709	52,014
Total liabilities		1,685,376	1,506,564	1,403,943	1,242,885
Equity					
Paid-in share capital	28	103,000	103,000	103,000	103,000
Reserves		123	3,587	1,082	2,918
Accumulated losses		(2,307)	(11,727)	(3,162)	(13,908)
Total equity		100,816	94,860	100,920	92,010
Total liabilities and equity		1,786,192	1,601,424	1,504,863	1,334,895

The notes on pages 14 to 75 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Changes in Equity for the years ended 31 December 2013 and 2012

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank						
		Fair value revaluation reserve, attributable to:		Foreign exchange			
	Issued share capital	Held-to-maturity securities	Available-for-sale securities	and other reserve	Restructuring reserve	Accumulated losses	Total equity
							LVL 000's
Balance as at 31 December 2011	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(16,916)**	**81,084**
Impact of restatement*	–	–	–	–	–	(3,540)	(3,540)
Balance as at 31 December 2011, as restated	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(20,456)**	**77,544**
Net profit for the period	–	–	–	–	–	8,961	8,961
Other comprehensive income / (loss) for the period	–	560	7,672	120	235	(232)	8,355
Balance as at 31 December 2012	**103,000**	**(143)**	**5,586**	**1,470**	**(3,326)**	**(11,727)**	**94,860**
Net profit for the period	–	–	–	–	–	9,556	9,556
Transfer to other reserve	–	–	–	120	–	(120)	–
Other comprehensive income / (loss) for the period	–	329	(3,711)	(218)	16	(16)	(3,600)
Balance as at 31 December 2013	**103,000**	**186**	**1,875**	**1,372**	**(3,310)**	**(2,307)**	**100,816**

Changes in the Bank's equity are as follows:

	Attributable to equity holders of the Bank				
		Fair value revaluation reserve, attributable to:			
	Issued share capital	Held-to-maturity securities	Available-for-sale securities	Accumulated losses	Total equity
					LVL 000's
Balance as at 31 December 2011	**103,000**	**(1,030)**	**(1,291)**	**(15,887)**	**84,792**
Impact of restatement*	–	–	–	(3,540)	(3,540)
Balance as at 31 December 2011, as restated	**103,000**	**(1,030)**	**(1,291)**	**(19,427)**	**81,252**
Net profit for the period	–	–	–	5,519	5,519
Other comprehensive income for the period	–	499	4,740	–	5,239
Balance as at 31 December 2012	**103,000**	**(531)**	**3,449**	**(13,908)**	**92,010**
Net profit for the period	–	–	–	10,746	10,746
Other comprehensive income / (loss) for the period	–	277	(2,113)	–	(1,836)
Balance as at 31 December 2013	**103,000**	**(254)**	**1,336**	**(3,162)**	**100,920**

The notes on pages 14 to 75 are an integral part of these financial statements.

* *For details on the restatement refer to the AS "Citadele banka" Annual report for the year ended 31 December 2012.*

Citadele

AS "Citadele banka"
Statements of Cash Flows for the years ended 31 December 2013 and 2012

	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
					LVL 000's
Cash flows from operating activities					
Profit before tax		11,905	12,849	12,768	10,420
Dividends received		–	–	(2,639)	–
Amortisation of intangible assets, depreciation of property, equipment and investment properties		4,116	4,407	967	1,242
Change in impairment allowances and other provisions	10	14,158	9,372	15,248	9,680
Interest income	5	(52,577)	(59,405)	(44,098)	(49,650)
Interest expense	5	13,719	24,774	12,140	22,500
Other non-cash items		(6,196)	5,692	(6,647)	3,281
Cash flows before changes in assets and liabilities		**(14,875)**	**(2,311)**	**(12,261)**	**(2,527)**
Change in derivative financial instruments		(1,446)	4,397	(1,076)	3,464
(Increase)/ decrease in other assets		(1,047)	(21,437)	1,316	(2,848)
Increase/ (decrease) in other liabilities		1,630	(18,567)	996	(21,814)
(Increase) in trading investments		(16,136)	(33,386)	–	–
(Increase)/ decrease in balances due from credit institutions		4,785	(16,234)	(2,396)	(3,299)
(Increase) / decrease in loans and receivables to customers		(41,379)	8,662	(35,943)	3,971
Increase / (decrease) in balances due to credit institutions and central banks		(10,801)	14,712	(18,061)	17,545
Increase/ (decrease) in deposits from customers		184,549	78,950	169,407	34,700
Cash generated from operating activities before corporate income tax		**105,280**	**14,786**	**101,982**	**29,192**
Interest received during the period		52,625	59,282	44,020	49,340
Interest paid during the period		(15,155)	(26,557)	(13,513)	(24,259)
Corporate income tax paid during the period		(5)	(62)	–	(12)
Net cash flow from operating activities		**142,745**	**47,449**	**132,489**	**54,261**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,140)	(1,551)	(1,778)	(949)
Proceeds from disposal of property and equipment		88	93	79	24
Purchase of held-to-maturity securities, net		(5,788)	(39,632)	(2,005)	(37,306)
Purchase of available-for-sale securities		(183,898)	(291,679)	(150,019)	(222,144)
Cash inflows from available-for-sale securities		174,835	190,905	124,522	121,705
Dividends received		–	–	2,639	–
Acquisitions and investments in subsidiaries		–	–	(6)	(13,263)
Net cash flow from investing activities		**(16,903)**	**(141,864)**	**(26,568)**	**(151,933)**
Cash flows from financing activities					
Redemption/ repurchase of debt securities		–	(20,611)	–	(20,611)
Net cash flow from financing activities		**–**	**(20,611)**	**–**	**(20,611)**
Net cash flow for the period		**125,842**	**(115,026)**	**105,921**	**(118,283)**
Cash and cash equivalents at the beginning of the period		**300,019**	**415,045**	**247,491**	**365,774**
Cash and cash equivalents at the end of the period	32	**425,861**	**300,019**	**353,412**	**247,491**

The notes on pages 14 to 75 are an integral part of these financial statements.

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2012 or for the year ended 31 December 2012, unless stated otherwise.

Note 1. Authorisation of the Financial Statements

These financial statements have been authorised for issuance by the Management on 18 March 2014 and comprise the financial information of AS "Citadele banka" (hereinafter—the Bank) and its subsidiaries (together—the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of the financial statements.

Note 2. General Information

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2013, the Bank was operating a total of 37 (2012: 39) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2012: 4) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 23 (2012: 21) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. The ultimate controlling party of the Bank is the Republic of Latvia.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2013, the Group had 1,637 (2012: 1,640) employees and the Bank had 1,227 (2012: 1,175) employees.

Note 3. Restructuring

On 30 June 2010 AS "Citadele Banka" was registered in the commercial registry of the Republic of Latvia and on the same date it received banking licence from the Financial and Capital Market Commission (FCMC). AS "Citadele Banka" was established as a result of implementation of EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS "Citadele Banka" was to take over from AS "Parex Banka" certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS "Parex Banka" to AS "Citadele Banka" took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also—CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS "Parex Banka", and the transferee, AS "Citadele Banka", whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Restructuring implications

The Bank's establishment and future operations are part of the restructuring plan of AS "Parex Banka" that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implements for AS "Parex Banka" and AS "Citadele Banka" is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. The commitments have been taken into account, when preparing the long-term business plan of the Bank.

Note 4. Summary of Significant Accounting Policies

Certain new IFRSs became effective for the Group from 1 January 2013. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

- *Fair value measurement.* IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regards. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.
- *Presentation of items of Other comprehensive income*. As per amendments to IAS 1, the Group has disclosed items in the statement of Other Comprehensive Income that would be reclassified directly to retained earnings and these that would be reclassified to statement of income.
- The following other amendments to standards with effective date of 1 January 2013 did not have any impact on these consolidated financial statements: amendment to IFRS 7 and IAS 32 (Offsetting of financial assets and liabilities), amendment to IAS 19 (2011, Employee benefits), and amendments to IAS 12 (Deferred tax: Recovery of Underlying Assets).

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2013 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IFRS 10 Consolidated Financial Statements*. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.
- *IFRS 11 Joint Arrangements.* Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.
- *IFRS 12 Disclosure of Interests in Other Entities (2011).* IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

- *IAS 27 (2011) Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014). IAS 27 introduces minor clarifications. The standard no longer addresses the principle of control and requirements relating to the presentation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.
- *IAS 28 (2011) Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014). There are limited amendments to IAS 28 (2008) which related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures.
- *Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014). Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
- *Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities* (effective for annual periods beginning on or after 1 January 2014). The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, as well as investments in associates and joint ventures at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity.
- *Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after 1 January 2014). The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal.
- *Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014).The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when certain criteria are met.

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

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss designated, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats ("LVL"). The accompanying financial statements are presented in thousands of Lats (LVL 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/EUR. Correspondingly at that date the functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency changed to Euros.

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank's, i.e. AS "Parex Banka" stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS "Citadele Banka" and their net equity as at the date of transfer are treated as restructuring reserve in the consolidated financial statements of AS "Citadele Banka". Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank.

d) Basis of Consolidation

As at the period end, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 19.

The financial statements of AS "Citadele Banka" and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of available-for-sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

g) Taxation

For the year ended 31 December 2013 corporate income tax is applied at the rate of 15% (2012: 15%) on taxable income generated by the Bank for the taxation period. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to

apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

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

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the statement of income's line "Gain on transactions with financial instruments, net".

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available-for-sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available-for-sale securities is recognised in statement of other comprehensive income. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the statement of income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available-for-sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the consolidated statement of income.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial

assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value minus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

k) Leases

Finance leases—Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases—Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases—Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of

those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; or
- national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

m) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

n) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

o) Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Property and equipment is periodically reviewed for impairment as discussed in the note on Impairment of non-financial assets. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% – 10%
Transport vehicles	20%
Other	20% – 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

p) Inventories

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies. Group's inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as impairment charges in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

q) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classifies as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line "Impairment charges and reversals, net". In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

r) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

s) Insurance business

Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate.

t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

u) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown; and
- financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *u)*.

v) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

w) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

x) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

y) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

z) Staff costs and related contributions

The Group's personnel expenses relate to only short term benefits and related tax expense. The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

aa) Events after the balance sheet date

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

bb) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities as explained in note w) above, impairment of non-financial liabilities and estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such

as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 1.2 million (2012: LVL 1.1 million).

Impairment of securities

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2013, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2012: nil).

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries and Group's property and plant refer to note 19 and note 21 respectively.

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

Note 5. Interest Income and Expense

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Interest income:				
- interest on financial assets measured at amortised cost:	46,948	53,474	41,244	46,833
- interest on loans and receivables to customers	*40,993*	*44,663*	*35,649*	*38,533*
- interest on balances due from credit institutions and central banks	*337*	*809*	*340*	*655*
- interest on held-to-maturity securities	*5,618*	*8,002*	*5,255*	*7,645*
- interest on available-for-sale securities	4,241	4,934	2,854	2,747
- interest on held for trading securities	501	339	–	–
- interest income on financial assets designated at fair value through profit or loss	887	588	–	–
- other interest income	–	70	–	70
Total interest income	**52,577**	**59,405**	**44,098**	**49,650**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(13,619)	(24,704)	(12,140)	(22,500)
- interest on deposits from customers	*(9,566)*	*(18,539)*	*(7,916)*	*(15,975)*
- interest on subordinated liabilities	*(3,859)*	*(4,463)*	*(3,859)*	*(4,463)*
- interest on issued debt securities	*–*	*(128)*	*–*	*(128)*
- interest on balances due to credit institutions and central banks	*(23)*	*(65)*	*(194)*	*(430)*
- other interest expense	*(171)*	*(1,509)*	*(171)*	*(1,504)*
- interest expense on financial liabilities designated at fair value through profit or loss	(100)	(70)	–	–
Total interest expense	**(13,719)**	**(24,774)**	**(12,140)**	**(22,500)**
Net interest income	**38,858**	**34,631**	**31,958**	**27,150**

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Interest income recognised on impaired assets	2,208	3,065	1,740	2,353

Note 6. Commission and Fee Income and Expense

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Commission and fee income:				
- transactions with settlement cards	13,992	12,693	12,678	11,562
- payment transfer fee	6,285	5,238	4,891	3,984
- custody, trust and asset management fees	4,660	4,442	825	820
- service fee for account maintenance	1,410	1,237	1,061	979
- cash disbursement/ transaction commission	1,397	1,059	1,031	641
- cash collection	1,255	1,048	1,255	1,048
- review of loan applications and collateral evaluation	673	1,086	673	1,051
- securities, financial instrument brokerage fees	626	884	340	547
- letters of credit and guarantees	448	593	320	495
- other fees	950	1,216	1,231	1,249
Total commission and fee income	**31,696**	**29,496**	**24,305**	**22,376**

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Commission and fee expense:				
- fees related to settlement card operations	(6,991)	(5,974)	(6,070)	(5,356)
- fees related to correspondent accounts	(994)	(1,135)	(828)	(979)
- brokerage and custodian fees:	(442)	(549)	(370)	(456)
- securities, financial instrument brokerage fees	*(247)*	*(325)*	*(243)*	*(328)*
- custody, trust and asset management fees	*(195)*	*(224)*	*(127)*	*(128)*
- other fees	(661)	(411)	(230)	(57)
Total commission and fee expense	**(9,088)**	**(8,069)**	**(7,498)**	**(6,848)**
Net commission and fee income	**22,608**	**21,427**	**16,807**	**15,528**

Note 7. Gain on Transactions with Financial Instruments, Net

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Gain from trading and revaluation of securities held for trading purposes, net	(692)	(295)	–	–
Gain / (loss) from disposal of available-for-sale securities, net	3,242	1,613	1,734	1,116
Gain on financial assets measured at amortised cost, net	–	2	–	–
Gain from foreign exchange trading and revaluation of open positions, net	10,112	8,926	8,092	7,490
Loss from trading and revaluation of other derivatives, net	3	27	3	(107)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(617)	(226)	–	–
Gain on trading with financial instruments, net	**12,048**	**10,047**	**9,829**	**8,499**

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Net gain / (loss) on financial instruments not at fair value through profit or loss	3,242	1,615	1,734	1,116
Net gain on financial instruments at fair value through profit or loss	8,806	8,432	8,095	7,383
Total gain on financial instruments, net	**12,048**	**10,047**	**9,829**	**8,499**

Note 8. Administrative Expenses

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Personnel expense	27,643	26,144	20,222	18,026
Rent, utilities, maintenance	3,002	3,634	3,520	4,241
Non-refundable value added tax	2,220	2,349	1,698	1,843
IT equipment and software related expense	2,189	2,021	1,624	1,560
Consulting and professional fees	2,025	1,198	1,299	756
Advertising, marketing and sponsorship	1,856	1,171	1,562	730
Communications	480	514	307	327
Office administration expense	500	458	377	327
Other administrative expenses	4,045	4,134	2,109	2,308
Total administrative expenses	**43,960**	**41,623**	**32,718**	**30,118**

Note 9. Personnel Expense

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Remuneration:				
- management	1,575	1,503	740	631
- other personnel	20,664	19,336	15,590	13,618
Total remuneration for work	**22,239**	**20,839**	**16,330**	**14,249**
Social security contributions:				
- management	350	318	186	161
- other personnel	4,752	4,706	3,499	3,422
Total social security contributions	**5,102**	**5,024**	**3,685**	**3,583**
Other personnel expense*	**302**	**281**	**207**	**194**
Total personnel expense	**27,643**	**26,144**	**20,222**	**18,026**
Number of employees at the end of the period	1,637	1,640	1,227	1,175

* Other personnel expense includes health insurance, training and education expenditure and similar.

Note 10. Impairment Changes and Reversals

Total net impairment allowance charged to statement of income:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Loans—specifically assessed impairment	(12,460)	(11,112)	(11,859)	8,214
Loans—collectively assessed impairment	(2,416)	4,650	(2,305)	(921)
Available-for-sale securities	(91)	(3,356)	(91)	(3,356)
Due from credit institutions	–	(23)	–	(23)
Other financial and non-financial assets, net	465	(270)	(1,197)	(14,332)
Recovered written-off assets	344	739	204	738
Total allowance and reversals charged to the statement of income, net	**(14,158)**	**(9,372)**	**(15,248)**	**(9,680)**

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Total allowance for impairment at the beginning of the period, including:	**62,671**	**60,969**	**47,321**	**57,277**
- loans—specifically assessed impairment	54,846	48,493	40,096	50,972
- loans—collectively assessed impairment	7,825	12,476	7,225	6,305
Charge:	**22,365**	**17,635**	**20,376**	**10,204**
- loans—specifically assessed impairment	17,511	14,847	15,752	7,732
- loans—collectively assessed impairment	4,854	2,788	4,624	2,472
Release:	**(7,489)**	**(11,173)**	**(6,212)**	**(17,497)**
- loans—specifically assessed impairment	(5,051)	(3,735)	(3,893)	(15,946)
- loans—collectively assessed impairment	(2,438)	(7,438)	(2,319)	(1,551)
Allowance charged to the statement of income, net, including:	**14,876**	**6,462**	**14,164**	**(7,293)**
- loans—specifically assessed impairment	12,460	11,112	11,859	(8,214)
- loans—collectively assessed impairment	2,416	(4,650)	2,305	921
Change of allowance due to write-offs, net	**(12,528)**	**(4,948)**	**(10,896)**	**(2,850)**
Effect of changes in currency exchange rates:	**376**	**188**	**361**	**187**
- loans—specifically assessed impairment	376	189	361	188
- loans—collectively assessed impairment	–	(1)	–	(1)
Total allowance for impairment at the end of the period, including:	**65,395**	**62,671**	**50,950**	**47,321**
- loans—specifically assessed impairment	55,154	54,846	41,420	40,096
- loans—collectively assessed impairment	10,241	7,825	9,530	7,225

An analysis of the change in impairment of other assets is presented as follows:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Total allowance for impairment at the beginning of the period, including:	**25,400**	**25,391**	**42,860**	**25,375**
- available-for-sale securities	6,629	3,432	6,629	3,432
- due from credit institutions	554	544	554	544
- other non-financial assets	18,217	21,415	35,677	21,399
Charge:	**1,724**	**5,954**	**1,628**	**18,190**
- available-for-sale securities	261	3,356	261	3,356
- due from credit institutions	–	23	–	23
- other non-financial assets	1,463	2,575	1,367	14,811
Release:	**(2,098)**	**(2,305)**	**(340)**	**(479)**
- available-for-sale securities	(170)	–	(170)	–
- other non-financial assets	(1,928)	(2,305)	(170)	(479)
Allowance charged to the statement of income, net, including:	**(374)**	**3,649**	**1,288**	**17,711**
- available-for-sale securities	91	3,356	91	3,356
- due from credit institutions	–	23	–	23
- other financial and non-financial assets	(465)	270	1,197	14,332
Change of allowance due to write-offs, net:	**(1,204)**	**(3,412)**	**(914)**	**–**
- available-for-sale securities	(723)	–	(723)	–
- due from credit institutions	(5)	–	(5)	–
- other non-financial assets	(476)	(3,412)	(186)	–
Effect of changes in currency exchange rates:	**(219)**	**(228)**	**(219)**	**(226)**
- available-for-sale securities	(195)	(159)	(195)	(159)
- due from credit institutions	(16)	(13)	(16)	(13)
- other non-financial assets	(8)	(56)	(8)	(54)
Total allowance for impairment at the end of the period, including:	**23,603**	**25,400**	**43,015**	**42,860**
- available-for-sale securities	5,802	6,629	5,802	6,629
- due from credit institutions	533	554	533	554
- other non-financial assets	17,268	18,217	36,680	35,677

Note 11. Taxation

Corporate income tax expense comprises the following items:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Current corporate income tax	28	378	–	12
Deferred income tax	2,589	3,187	1,930	4,568
Tax withheld abroad	93	321	92	321
Prior year adjustments	(361)	2	–	–
Total corporate income tax expense	**2,349**	**3,888**	**2,022**	**4,901**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Profit before corporate income tax	11,905	12,849	12,768	10,420
Corporate income tax (at standard rate)*	**1,786**	**1,927**	**1,915**	**1,563**
Effect of tax rates in foreign jurisdictions	(133)	8	–	–
Non deductible expense	1,052	4,070	769	3,668
Non taxable income	(1,409)	(1,183)	(777)	(214)
Other tax differences, net	1,053	(934)	115	(116)
Total effective corporate income tax	**2,349**	**3,888**	**2,022**	**4,901**

* standard domestic tax rate for the period ended 31 December 2013 was 15% (2012: 15%).

The movements in deferred corporate income tax asset / (liability) can be specified as follows:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
As at the beginning of the year	25,182	28,895	24,209	28,777
Charge to statement of income	(2,589)	(3,187)	(1,930)	(4,568)
Charge to statement of comprehensive income**	273	(526)	–	–
Total deferred income tax asset at the end of the year, net	**22,866**	**25,182**	**22,279**	**24,209**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	(1,832)	(1,626)	(297)	(141)
Other deferred tax liabilities	(201)	(20)	(190)	(8)
Deferred tax assets:				
Vacation pay and similar accrual	623	378	510	305
Revaluation of securities and derivatives**	441	(103)	545	260
Temporary impairment allowance differences	2,933	3,811	1,430	1,643
Recognised unutilised tax losses	20,896	22,612	20,281	21,965
Other deferred tax assets	6	130	–	185
Net deferred corporate income tax asset	**22,866**	**25,182**	**22,279**	**24,209**

** all changes in deferred tax that are charged directly to statement of comprehensive income are related to revaluation of securities at Group level.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Expiry year:				
2013	–	3,050	–	–
2014	9,971	13,657	–	–
2015	–	8,345	–	–
Undated ***	173,451	183,719	135,207	146,434
Total unutilised tax losses	**183,422**	**208,771**	**135,207**	**146,434**

*** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government.

These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

Note 12. Cash and Deposits with Central Banks

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Cash	42,596	45,956	40,423	42,251
Deposits with the Bank of Latvia	159,495	53,383	159,495	53,383
Deposits with other central banks	51,962	91,621	19,726	79,074
Total cash and deposits with central banks	**254,053**	**190,960**	**219,644**	**174,708**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia. During the reporting year, the Bank was in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2013 and 31 December 2012, the amounts due from central banks were not in arrears.

Note 13. Balances Due from Credit Institutions

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Due from credit institutions registered in OECD countries	162,646	118,480	113,597	66,303
Due from credit institutions registered in Latvia	17,447	1,433	16,221	79
Due from credit institutions registered in other non-OECD countries	11,026	9,854	24,789	15,242
Total gross balances due from credit institutions	**191,119**	**129,767**	**154,607**	**81,624**
Incl. impaired balances	*533*	*554*	*533*	*554*
Impairment allowance	(533)	(554)	(533)	(554)
Total net balances due from credit institutions	**190,586**	**129,213**	**154,074**	**81,070**

As at 31 December 2013 and 2012, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 35. The Bank's balances with its subsidiary AB "Citadele" Bankas (Lithuania) accounted for 68% (2012: 64%) of the total net balances due from credit institutions registered in other non-OECD countries. As at 31 December 2013 the Group's largest due from credit institutions exposure with single group of connected institutions was 39.6%. The exposure was with OECD registered "A rated" credit institutions.

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Correspondent accounts (nostro)	91,390	70,530	63,083	43,088
Overnight deposits	2,560	15,775	10,529	21,246
Total demand deposits	**93,950**	**86,305**	**73,612**	**64,334**
Term deposits with credit institutions:				
due within 1 month	80,999	31,220	75,027	14,491
due within 1-3 months	14,548	9,685	2,880	2,249
due within 3-6 months	–	–	2,555	–
due within 6-12 months	–	279	–	–
due within 1-5 years	1,089	817	–	–
Over 5 years and undated	533	1,461	533	550
Total term deposits	**97,169**	**43,462**	**80,995**	**17,290**
Total gross balances due from credit institutions	**191,119**	**129,767**	**154,607**	**81,624**
Impairment allowance	(533)	(554)	(533)	(554)
Total net balances due from credit institutions	**190,586**	**129,213**	**154,074**	**81,070**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

Note 14. Loans and Receivables to Customers

The following table represents the current classes of the Group's loans:

	31/12/2013			31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
			Group, LVL 000's			*Group, LVL 000's*
Regular loans	592,724	33,032	625,756	592,557	22,568	615,125
Utilised credit lines	92,420	22,994	115,414	71,655	20,594	92,249
Finance leases	65,176	–	65,176	48,865	–	48,865
Debit balances on settlement cards	47,157	61,420	108,577	56,682	61,559	118,241
Overdraft facilities	5,787	13,793	19,580	2,333	11,262	13,595
Factoring	319	–	319	782	–	782
Due from investment counterparties	3,918	–	3,918	6,240	–	6,240
Total loans and receivables to customers	**807,501**	**131,239**	**938,740**	**779,114**	**115,983**	**895,097**
Impairment allowance	(65,395)	–	(65,395)	(62,671)	–	(62,671)
Total net loans and receivables to customers	**742,106**	**131,239**	**873,345**	**716,443**	**115,983**	**832,426**

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

The following table represents the current classes of the Bank's loans:

	31/12/2013			31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
			Bank, LVL 000's			*Bank, LVL 000's*
Regular loans	503,306	31,555	534,861	510,876	20,692	531,568
Utilised credit lines	146,872	42,342	189,214	107,059	36,291	143,350
Finance leases	111	–	111	–	–	–
Debit balances on settlement cards	41,729	52,614	94,343	50,067	53,429	103,496
Overdraft facilities	5,380	8,822	14,202	2,123	10,486	12,609
Due from investment counterparties	3,585	–	3,585	6,000	–	6,000
Total loans and receivables to customers	**700,983**	**135,333**	**836,316**	**676,125**	**120,898**	**797,023**
Impairment allowance	(50,950)	–	(50,950)	(47,321)	–	(47,321)
Total net loans and receivables to customers	**650,033**	**135,333**	**785,366**	**628,804**	**120,898**	**749,702**

Loans and advances by customer profile may be specified as follows:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	Group	Group	Bank	Bank
				LVL 000's
Privately held companies	450,122	405,332	442,101	405,828
Private individuals	333,773	344,061	240,320	245,643
State owned enterprises	10,212	14,610	10,205	13,231
Public and religious institutions	6,613	8,145	3,580	5,103
Local municipalities	4,039	2,554	2,518	2,327
Municipality owned enterprises	2,689	4,372	2,206	3,962
Government	53	40	53	31
Total gross loans and receivables to customers	**807,501**	**779,114**	**700,983**	**676,125**
Impairment allowance	(65,395)	(62,671)	(50,950)	(47,321)
Total net loans and receivables to customers	**742,106**	**716,443**	**650,033**	**628,804**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Real estate purchase and management	105,850	112,163	132,989	137,982
Transport and communications	72,498	72,820	57,210	57,276
Manufacturing	74,679	59,659	61,441	53,667
Trade	65,282	55,651	41,796	37,969
Agriculture and forestry	56,146	38,827	41,038	28,615
Electricity, gas and water supply	22,011	20,142	20,793	19,371
Construction	24,903	17,349	18,421	12,426
Hotels, restaurants	9,549	13,398	7,437	11,425
Financial intermediation	7,617	12,358	62,878	53,015
Other industries	35,193	32,686	16,660	18,736
Total gross loans and receivables to corporate customers	**473,728**	**435,053**	**460,663**	**430,482**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Latvian residents	529,108	517,840	563,642	552,215
OECD region residents	67,266	54,284	61,240	48,346
Non-OECD region residents	211,127	206,990	76,101	75,564
Total gross loans and receivables to customers	**807,501**	**779,114**	**700,983**	**676,125**
Impairment allowance	(65,395)	(62,671)	(50,950)	(47,321)
Total net loans and receivables to customers	**742,106**	**716,443**	**650,033**	**628,804**

As at 31 December 2013 and 31 December 2012 the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables to customers. As at 31 December 2013 and 31 December 2012 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Note 15. Leases

The following table represents finance leases analysed by type of assets:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Transport vehicles	39,882	34,010	111	–
Manufacturing equipment	13,171	8,106	–	–
Real estate	4,382	606	–	–
Other	7,741	6,143	–	–
Total present value of finance lease payments, excluding impairment	**65,176**	**48,865**	**111**	**–**
Impairment allowance	(7,131)	(6,586)	(2)	–
Net present value of finance lease payments	**58,045**	**42,279**	**109**	**–**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Gross investment in finance leases receivable:				
within 1 year	17,669	16,232	36	–
later than 1 year and no later than in 5 years	50,603	35,807	81	–
later than in 5 years	2,339	436	–	–
Total gross investment in finance leases	**70,611**	**52,475**	**117**	**–**
Unearned finance income receivable:				
within 1 year	1,516	1,000	1	–
later than 1 year and no later than in 5 years	3,821	2,574	5	–
later than in 5 years	98	36	–	–
Total	**5,435**	**3,610**	**6**	**–**
Present value of minimum lease payments receivable:				
within 1 year	16,153	15,232	35	–
later than 1 year and no later than in 5 years	46,782	33,233	76	–
later than in 5 years	2,241	400	–	–
Total	**65,176**	**48,865**	**111**	**–**

Note 16. Fixed Income Securities

The Group's fixed income securities which are classified as held-to-maturity, available for sale and held for trading are further split as follows:

	31/12/2013				31/12/2012			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
								LVL 000's
Government bonds	132,521	159,430	6,580	298,531	134,479	175,831	3,234	313,544
Municipality bonds	25,701	980	–	26,681	24,733	1,494	–	26,227
Credit institution bonds	4,924	62,457	5,363	72,744	931	46,874	2,497	50,302
Corporate bonds	5,927	45,157	5,125	56,209	3,162	35,081	2,941	41,184
Other financial institution bonds	2,708	5,376	413	8,497	2,688	6,489	549	9,726
Total net fixed income securities	**171,781**	**273,400**	**17,481**	**462,662**	**165,993**	**265,769**	**9,221**	**440,983**

The above table represents the maximum credit risk exposure to the Group from fixed income securities.

The Bank's fixed income securities are further split as follows:

	31/12/2013				31/12/2012			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
								LVL 000's
Government bonds	129,525	116,995	–	246,520	131,507	126,316	–	257,823
Municipality bonds	24,194	980	–	25,174	24,241	762	–	25,003
Credit institution bonds	4,034	59,154	–	63,188	–	39,151	–	39,151
Corporate bonds	–	41,845	–	41,845	–	26,359	–	26,359
Other financial institution bonds	–	5,376	–	5,376	–	6,489	–	6,489
Total net fixed income securities	**157,753**	**224,350**	**–**	**382,103**	**155,748**	**199,077**	**–**	**354,825**

The above table represents the maximum credit risk exposure to the Bank from fixed income securities.

As at 31 December 2013, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2012: LVL nil). No fixed income securities were impaired (2012: nil).

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Government bonds:				
Latvia	204,059	214,814	202,702	211,397
OECD	33,409	46,800	28,088	38,059
Non-OECD	61,063	51,930	15,730	8,367
Total government bonds	**298,531**	**313,544**	**246,520**	**257,823**
Municipality bonds:				
Latvia	24,193	24,241	24,193	24,241
OECD	222	733	222	–
Non-OECD	2,266	1,253	759	762
Total municipality bonds	**26,681**	**26,227**	**25,174**	**25,003**
Credit institution bonds:				
OECD	61,914	48,842	58,477	39,151
Non-OECD	10,830	1,460	4,711	–
Total credit institution bonds	**72,744**	**50,302**	**63,188**	**39,151**
Corporate bonds (OECD and non-OECD)	56,209	41,184	41,845	26,359
Other financial institution bonds (OECD and non-OECD)	8,497	9,726	5,376	6,489
Total net fixed income securities	**462,662**	**440,983**	**382,103**	**354,825**

All fixed income securities as at 31 December 2013 and 31 December 2012 are listed.

Note 17. Shares and Other Non-Fixed Income Securities

The following table provides the split of the Group's and Bank's shares and other non-fixed income securities which were classified as held for trading and available for sale securities:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Foreign entities' equity shares, unlisted	69	79	58	67
Latvian entities' equity shares, unlisted	20	–	20	–
Mutual investment funds	10,920	4,338	8,854	3,164
Total shares and other non-fixed income securities	**11,009**	**4,417**	**8,932**	**3,231**

Investments in mutual funds are not analyzed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2013, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 1,364 thousand (2012: LVL 1,465 thousand).

As at 31 December 2013 the Bank has investments in mutual investment funds with carrying amount of LVL 4.7 million which are managed by Citadele Asset Managements IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

Note 18. Financial Assets Designated at Fair Value through Profit and Loss

The Group's financial assets designated at fair value through profit and loss are further split as follows:

	31/12/2013 Group	31/12/2012 Group
		LVL 000's
Government bonds	6,848	3,055
Municipality bonds	–	183
Corporate bonds	17,202	16,425
Credit institution bonds	13,763	9,546
Other financial institution bonds	148	60
Mutual investment funds, equities and other	5,849	6,239
Total financial assets designated at fair value through profit and loss	**43,810**	**35,508**

All exposures in mutual investment funds, equities and other are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2013 LVL 5,077 thousand (2012: LVL 6,957 thousand) of financial assets designated at fair value through profit and loss relate to this.

Note 19. Investments in Subsidiaries and Business Combinations

Changes in the Bank's investments in subsidiaries may be specified as follows:

	2013	2012
		LVL 000's
Balance at the beginning of the period	**44,545**	**44,195**
Establishment of new subsidiaries	6	–
Equity investments in existing subsidiaries	–	13,263
Impairment, net	(386)	(12,913)
Balance at the end of the period	**44,165**	**44,545**

In October 2013, the Bank established SIA "HORTUS MD", SIA "HORTUS LH", and SIA "HORTUS JU" to continue effective management of repossessed assets.

In 2013 a LVL 386 thousand impairment allowance on investment in SIA "Citadele Express Kredīts" was recorded. This was a result of LVL 360 thousand dividend payout in 2013.

In 2012 the Bank increased share capital of it's wholly owned subsidiary SIA "Rīgas Pirmā Garāža" by LVL 13,263 thousand. The management of the Bank concluded that there is an evidence of impairment of investment and an impairment allowance of a corresponding amount was recognised.

As at 31 December 2013 and 2012 the Bank held the following direct and indirect investments in subsidiaries:

Company	Country of registration	Business profile	31/12/2013 Share capital LVL 000's	31/12/2013 The Group's share (%)	31/12/2013 % of total voting rights	31/12/2012 Share capital LVL 000's	31/12/2012 The Group's share (%)	31/12/2012 % of total voting rights	Carrying value LVL 000's 31/12/2013	Carrying value LVL 000's 31/12/2012
AB "Citadele" Bankas	Lithuania	Banking	30,369	100.0	100.0	30,369	100.0	100.0	29,006	29,006
"AP Anlage & Privatbank" AG	Switzerland	Banking	5,730	100.0	100.0	5,820	100.0	100.0	9,702	9,702
AS "Citadele Atklātais Pensiju Fonds"	Latvia	Pension fund	450	100.0	100.0	450	100.0	100.0	454	454
IPAS "Citadele Asset Management"	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
OOO "Citadele Asset Management Ukraina"	Ukraine	Finance	613	100.0	100.0	610	100.0	100.0	–	–
UAB "Citadele Investiciju Valdymas"	Lithuania	Finance	730	100.0	100.0	730	100.0	100.0	–	–
OU "Citadele Leasing & Factoring"	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB "Citadele faktoringas ir lizingas"	Lithuania	Finance	306	100.0	100.0	306	100.0	100.0	–	–
SIA "Rīgas Pirmā Garāža"	Latvia	Misc.*	13,615	100.0	100.0	13,615	100.0	100.0	–	–
SIA "Citadele Express Kredīts"	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	27	413
SIA "E&P Baltic Properties"	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	–	–
SIA "Citadele Līzings un Faktorings"	Latvia	Leasing	13,600	100.0	100.0	13,600	100.0	100.0	498	498
AAS "Citadele Life"	Latvia	Life insurance	3,000	100.0	100.0	3,000	100.0	100.0	–	–
Calenia Investments Limited	Cyprus	Misc.*	–	100.0	100.0	–	100.0	100.0	–	–
OOO "Citadele Investments Ukraine"**	Ukraine	Finance	–	–	–	43	100.0	100.0	–	–
SIA "RPG Interjers"	Latvia	Misc.*	952	100.0	100.0	952	100.0	100.0	–	–
SIA "Hortus Commercial"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus Land"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus TC"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus Residental"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus LH"	Latvia	Misc.*	2	100.0	100.0	–	–	–	2	–
SIA "Hortus MD"	Latvia	Misc.*	2	100.0	100.0	–	–	–	2	–
SIA "Hortus JU"	Latvia	Misc.*	2	100.0	100.0	–	–	–	2	–
SIA "PR Speciālie Projekti"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	–	–
Total investments in subsidiaries									**44,165**	**44,545**

* Misc.—the companies are providing various support services.

** Liquidated in 2013.

Carrying value of investment in subsidiary SIA "Rīgas Pirmā Garāža" depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group's consolidated accounts are accounted for as property and plant. For impairment assessment methodology of Group's property and plant refer to Note 21.

Carrying value of investment in AB "Citadele" is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate, minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in LVL (1.3) million loss or LVL 1.8 million gain respectively (2012: LVL (1.4) million loss or LVL 1.6 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in LVL (2.1) million loss or LVL 1.8 million gain (2012: LVL (1.8) million loss or LVL 1.8 million gain); fluctuation in forecasted profitability by +/-10% would result in LVL 1.8 million gain or LVL (2.1) million loss (2012: LVL 1.8 million gain or LVL (2.2) million loss).

Note 20. Intangible Assets

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Software	737	539	558	373
Other intangible assets	198	236	38	20
Total intangible assets excluding advances	935	775	596	393
Advances for intangible assets	362	113	353	100
Total net book value of intangible assets	**1,297**	**888**	**949**	**493**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2013 and 2012 can be specified as follows:

	Software	Other intangible assets	Total intangible assets excluding advances
			LVL 000's
Historical cost			
As at 31 December 2011	**9,068**	**2,427**	**11,495**
Additions	1,203	3	1,206
Disposals	(3)	(4)	(7)
As at 31 December 2012	**10,268**	**2,426**	**12,694**
Additions	520	54	574
Disposals	(197)	(128)	(325)
As at 31 December 2013	**10,591**	**2,352**	**12,943**
Accumulated amortisation			
As at 31 December 2011	**8,625**	**2,120**	**10,745**
Charge for the year	322	73	395
Reversal due to disposals	(3)	(3)	(6)
As at 31 December 2012	**8,944**	**2,190**	**11,134**
Charge for the year	494	86	580
Reversal due to disposals	(194)	(122)	(316)
As at 31 December 2013	**9,244**	**2,154**	**11,398**
Impairment allowance			
As at 31 December 2011	**–**	**–**	**–**
Net impairment	(785)	–	(785)
As at 31 December 2012	**(785)**	**–**	**(785)**
Net impairment (amortisation)	175	–	175
As at 31 December 2013	**(610)**	**–**	**(610)**
Net book value (incl. impairment allowance)			
As at 31 December 2011	**443**	**307**	**750**
As at 31 December 2012	**539**	**236**	**775**
As at 31 December 2013	**737**	**198**	**935**

Movements in the Bank's intangible assets excluding advances for the year ended 31 December 2013 and 2012 can be specified as follows:

	Software	Other intangible assets	Total intangible assets excluding advances
			LVL 000's
Historical cost			
As at 31 December 2011	**8,108**	**5**	**8,113**
Additions	1,094	25	1,119
Disposals	(2)	–	(2)
As at 31 December 2012	**9,200**	**30**	**9,230**
Additions	402	22	424
Disposals	(5)	–	(5)
As at 31 December 2013	**9,597**	**52**	**9,649**
Accumulated amortisation			
As at 31 December 2011	**7,793**	**3**	**7,796**
Charge for the year	251	7	258
Reversal due to disposals	(2)	–	(2)
As at 31 December 2012	**8,042**	**10**	**8,052**
Charge for the year	392	4	396
Reversal due to disposals	(5)	–	(5)
As at 31 December 2013	**8,429**	**14**	**8,443**
Impairment allowance			
As at 31 December 2011	**–**	**–**	**–**
Net impairment	(785)	–	(785)
As at 31 December 2012	**(785)**	**–**	**(785)**
Net impairment (amortisation)	175	–	175
As at 31 December 2013	**(610)**	**–**	**(610)**
Net book value (incl. impairment allowance)			
As at 31 December 2011	**315**	**2**	**317**
As at 31 December 2012	**373**	**20**	**393**
As at 31 December 2013	**558**	**38**	**596**

Note 21. Property and Equipment

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Leasehold improvements	267	341	267	341
Land and buildings	27,209	27,192	666	684
Transport vehicles	337	574	167	136
Other	2,278	2,873	1,284	898
Total property and equipment excluding advances	30,091	30,980	2,384	2,059
Advances for property and equipment	7	40	7	34
Total net book value of property and equipment	**30,098**	**31,020**	**2,391**	**2,093**

The following changes in the Group's property and equipment excluding advances took place during the year ended 31 December 2013 and 2012:

	Leasehold improvements	Land and buildings	Transport vehicles	Other	Construction in progress	Total Property and equipment excluding advances
						LVL 000's
Historical cost						
As at 31 December 2011	**3,477**	**53,260**	**1,673**	**24,020**	**4**	**82,434**
Additions	52	71	356	619	55	1,153
Disposals	(226)	(3,345)	(307)	(2,507)	(59)	(6,444)
Transfers	301	–	–	186	–	487
As at 31 December 2012	**3,604**	**49,986**	**1,722**	**22,318**	**–**	**77,630**
Additions	108	71	131	966	–	1,276
Disposals	–	(27)	(611)	(1,012)	–	(1,650)
As at 31 December 2013	**3,712**	**50,030**	**1,242**	**22,272**	**–**	**77,256**
Accumulated depreciation						
As at 31 December 2011	**2,771**	**6,912**	**1,178**	**20,095**	**–**	**30,956**
Charge for the year	326	1,798	205	1,659	–	3,988
Reversal due to disposals	(135)	(369)	(235)	(2,486)	–	(3,225)
Transfers	301	–	–	177	–	478
As at 31 December 2012	**3,263**	**8,341**	**1,148**	**19,445**	**–**	**32,197**
Charge for the year	182	1,789	172	1,548	–	3,691
Reversal due to disposals	–	(24)	(415)	(999)	–	(1,438)
As at 31 December 2013	**3,445**	**10,106**	**905**	**19,994**	**–**	**34,450**
Impairment allowance						
As at 31 December 2011	**(100)**	**(17,906)**	**–**	**–**	**–**	**(18,006)**
Net reversal and write-offs	100	3,453	–	–	–	3,553
As at 31 December 2012	**–**	**(14,453)**	**–**	**–**	**–**	**(14,453)**
Net reversal and write-offs	–	1,738	–	–	–	1,738
As at 31 December 2013	**–**	**(12,715)**	**–**	**–**	**–**	**(12,715)**

	Leasehold improve-ments	Land and buildings	Transport vehicles	Other	Construc-tion in progress	Total Property and equipment excluding advances
						LVL 000's
Net book value (incl. impairment allowance)						
As at 31 December 2011	**606**	**28,442**	**495**	**3,925**	**4**	**33,472**
As at 31 December 2012	**341**	**27,192**	**574**	**2,873**	**–**	**30,980**
As at 31 December 2013	**267**	**27,209**	**337**	**2,278**	**–**	**30,091**

Impairment allowance for Group's land and buildings is calculated by discounting long term capital expenditure adjusted expected future cash flows. Key assumptions are discount rate and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by LVL (2.7) million and LVL +3.5 million respectively (2012: LVL (3.3) million and LVL +4.5 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by LVL +/-2.6 million (2012: LVL +/-2.6 million).

The following changes in the Bank's property and equipment excluding advances took place during the year ended 31 December 2013 and 2012:

	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
					LVL 000's
Historical cost less impairment allowance					
As at 31 December 2011	**3,377**	**853**	**1,041**	**17,243**	**22,514**
Additions	52	–	108	481	641
Disposals	(226)	–	(213)	(2,326)	(2,765)
Transfers	301	–	–	186	487
Impairment (charge) / reversal, net	100	–	–	–	100
As at 31 December 2012	**3,604**	**853**	**936**	**15,584**	**20,977**
Additions	108		109	855	1,072
Disposals	–	(1)	(212)	(485)	(698)
As at 31 December 2013	**3,712**	**852**	**833**	**15,954**	**21,351**
Accumulated depreciation					
As at 31 December 2011	**2,771**	**152**	**945**	**16,254**	**20,122**
Charge for the year	326	17	68	572	983
Reversal due to disposals	(135)	–	(213)	(2,317)	(2,665)
Transfers	301	–	–	177	478
As at 31 December 2012	**3,263**	**169**	**800**	**14,686**	**18,918**
Charge for the year	182	17	78	468	745
Reversal due to disposals			(212)	(484)	(696)
As at 31 December 2013	**3,445**	**186**	**666**	**14,670**	**18,967**
Net book value (incl. impairment allowance)					
As at 31 December 2011	**606**	**701**	**96**	**989**	**2,392**
As at 31 December 2012	**341**	**684**	**136**	**898**	**2,059**
As at 31 December 2013	**267**	**666**	**167**	**1,284**	**2,384**

	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
					LVL 000's
Impairment allowance					
As at 31 December 2011	**(100)**	**–**	**–**	**–**	**(100)**
As at 31 December 2012	**–**	**–**	**–**	**–**	**–**
As at 31 December 2013	**–**	**–**	**–**	**–**	**–**

Note 22. Other Assets

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Deposits with card payment system companies	10,977	11,162	10,977	11,162
Money in transit	4,042	6,184	4,042	6,184
Prepayments	1,400	1,134	965	724
Other assets *	10,902	8,240	4,342	3,632
Total gross other assets	**27,321**	**26,720**	**20,326**	**21,702**
Impairment allowance	(3,210)	(2,270)	(2,730)	(1,987)
Total net other assets	**24,111**	**24,450**	**17,596**	**19,715**

* As at 31 December 2013, included in the Group's and Bank's other assets are gross balances amounting to LVL 190 thousand (2012: LVL 889 thousand) and LVL nil (2012: LVL nil), respectively, which are delayed. The Group has recognised LVL 168 thousand (2012: LVL 190 thousand) impairment allowance on these balances. Additionally, as at 31 December 2013, the Group's and the Bank's gross other assets that are not delayed but impaired amount to LVL 3,100 thousand (2012: LVL 2,080 thousand) and LVL 2,736 thousand (2012: LVL 1,987 thousand), respectively.

Note 23. Financial Liabilities Designated at Fair Value through Profit and Loss

	2013 Group	2012 Group
		LVL 000's
Balance as at the beginning of the period	**10,368**	**5,289**
Premiums received	5,050	5,490
Commissions and risk charges	(378)	(309)
Benefits paid to policyholders	(3,505)	(576)
Dividends received	–	53
Securities fair value revaluation result	65	445
Income from insurance contracts	101	43
Currency revaluation result	(16)	(67)
Balance as at the end of the period	**11,685**	**10,368**

In 2013 from financial liabilities designated at fair value through profit and loss which are not unit-linked the Group has recognised net result of LVL 32 thousand in the statement of income (2012: LVL (69) thousand).

Note 24. Balances Due to Credit Institutions and Central Banks

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Due to credit institutions registered in OECD countries	34	17	20,431	28,845
Due to credit institutions registered in Latvia	17,826	17,930	17,826	17,930
Due to credit institutions registered in other non-OECD countries	240	7,530	598	586
Total balances due to credit institutions and central banks	**18,100**	**25,477**	**38,855**	**47,361**

The following table presents the Group's and Bank's balances due to credit institutions and central banks according to maturity profile:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Balances on demand	5,981	2,695	14,585	4,660
Overnight deposits	–	–	–	465
Total balances repayable on demand	**5,981**	**2,695**	**14,585**	**5,125**
Loans from credit institutions:				
due within 1 month	11,837	21,360	18,563	19,497
due within 1-3 months	101	134	4,065	10,024
due within 3-6 months	181	1,022	471	11,416
due within 6-12 months	–	266	1,171	817
due within 1-5 years	–	–	–	482
Total loans from credit institutions	**12,119**	**22,782**	**24,270**	**42,236**
Total due to credit institutions	**18,100**	**25,477**	**38,855**	**47,361**

Note 25. Deposits from Customers

The following table presents deposits from customers according to customer profile:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Privately held companies	686,893	630,022	510,327	464,961
Private individuals	616,777	550,210	525,080	468,944
State and municipality owned enterprises	109,740	80,954	109,545	80,728
Financial institutions	99,621	70,911	92,036	56,169
Government	33,000	31,135	32,304	30,520
Municipalities	26,692	26,493	26,692	26,493
Public and religious institutions	6,416	5,972	5,151	4,913
Total deposits from customers	**1,579,139**	**1,395,697**	**1,301,135**	**1,132,728**

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Demand deposits	1,180,074	955,256	966,830	762,667
Term deposits:				
due within 1 month	99,684	87,587	83,431	70,073
due within 1-3 months	66,419	100,579	53,462	86,679
due within 3-6 months	67,526	89,009	55,882	68,346
due within 6-12 months	119,984	132,138	100,636	118,967
due within 1-5 years	44,366	29,548	39,809	25,138
due in more than 5 years	1,086	1,580	1,085	858
Total term deposits	399,065	440,441	334,305	370,061
Total deposits from customers	**1,579,139**	**1,395,697**	**1,301,135**	**1,132,728**

As at 31 December 2013 and 31 December 2012 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

Note 26. Other Liabilities

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Accrued expense	8,447	6,298	6,187	4,768
Suspense liabilities	2,691	2,396	1,561	2,136
Amounts due to suppliers	788	877	460	373
Provisions for other liabilities	296	365	–	–
Deferred income	122	122	–	–
Other liabilities	3,700	4,411	804	739
Total other liabilities	**16,044**	**14,469**	**9,012**	**8,016**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

In 2013, the Group has accrued LVL 0.9 million of tax penalties in relation to a voluntary participation in the program approved between Swiss Federal Council and the US Department of Justice concerning a solution for Swiss banks to resolve all matters regarding their past activities with US clients and their accounts in Swiss banks. The amounts accrued relate to the clients and transactions in the past. There are no more such clients that fall under the criteria of this program. Currently, the Group's strategy does not include servicing customers related to the United States of America.

Note 27. Subordinated Debt

The following table represents the details of Bank's and Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Maturity date	Amortised cost LVL 000's 31/12/2013	31/12/2012
Privatisation Agency	Latvia	EUR	53,128	7.342%	22/05/2009	20/12/2017	38,450	38,760
Privatisation Agency	Latvia	EUR	11,205	7.342%	02/08/2010	08/08/2016	8,109	8,120
EBRD	UK	EUR	7,195	7.342%	11/09/2009	08/08/2016	5,150	5,134
						Total	**51,709**	**52,014**

On 27 June 2013, the Bank and JSC Privatisation Agency agreed to extend the final maturity of EUR 53.1 million (LVL 38.8 million) subordinated debt agreement up to 20 December 2017.

Note 28. Issued Share Capital

As at 31 December 2013, the Bank's registered and paid-in share capital was LVL 103,000 thousand (2012: LVL 103,000 thousand). In accordance with the Bank's statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2013, they all were issued and fully paid. As at 31 December 2013 and 2012, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2013 and 2012.

As at 31 December 2013, the Bank had 2 (2012: 2) shareholders. The respective shareholdings as at 31 December 2013 and 31 December 2012 may be specified as follows:

	31/12/2013 and 31/12/2012		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

Note 29. Off-Balance Sheet Items

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2013 and 2012.

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Contingent liabilities:				
Outstanding guarantees	71,503	35,014	67,831	31,922
Outstanding letters of credit	119	611	36	611
Total contingent liabilities	**71,622**	**35,625**	**67,867**	**32,533**

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Financial commitments:				
Loans granted, not fully drawn down	47,140	22,568	45,663	20,692
Unutilised credit lines and overdraft facilities	22,680	31,856	37,056	46,777
Credit card commitments	61,419	61,559	52,614	53,429
Total financial commitments	**131,239**	**115,983**	**135,333**	**120,898**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2013	31/12/2012	31/12/2013		31/12/2012	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	20,325	18,460	73	(92)	29	(26)
Forwards	26,312	12,380	42	(775)	35	(20)
Swaps	490,126	361,610	2,452	(1,988)	924	(2,676)
Total foreign exchange contracts	**536,763**	**392,450**	**2,567**	**(2,855)**	**988**	**(2,722)**
Derivative financial instruments	**536,763**	**392,450**	**2,567**	**(2,855)**	**988**	**(2,722)**

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2013	31/12/2012	31/12/2013		31/12/2012	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	20,273	18,270	76	(92)	28	(26)
Forwards	26,210	14,622	42	(774)	38	(21)
Swaps	559,082	410,053	2,458	(2,366)	968	(2,719)
Total foreign exchange contracts	**605,565**	**442,945**	**2,576**	**(3,232)**	**1,034**	**(2,766)**
Derivative financial instruments	**605,565**	**442,945**	**2,576**	**(3,232)**	**1,034**	**(2,766)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2013, more than 71% (2012: 41%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2013, none (2012: nil) of the payments receivable arising out of derivative transactions was past due.

Note 30. Funds Under Trust Management

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Fixed income securities:				
Government bonds	119,655	43,186	–	–
Credit institution bonds	28,438	23,441	–	–
Corporate bonds	47,806	35,608	–	–
Foreign municipality bonds	1,961	2,162	–	–
Other financial institution bonds	1,299	3,709	–	–
Total investments in fixed income securities	**199,159**	**108,106**	**–**	**–**
Other investments:				
Investment funds	114,154	99,001	–	–
Deposits with credit institutions	17,320	35,050	–	–
Shares	13,492	15,522	–	–
Real estate	7,565	20,434	–	–
Loans	31,554	34,310	28,384	31,193
Other	40,186	30,154	5,589	7,071
Total other investments	**224,271**	**234,471**	**33,973**	**38,264**
Total assets under trust management agreements	**423,430**	**342,577**	**33,973**	**38,264**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Pension Plans	159,234	129,855	–	–
Insurance companies, investment and pension funds	82,210	87,099	–	–
Other companies	137,639	71,603	33,487	37,920
Private individuals	44,347	54,020	486	344
Total liabilities under trust management agreements	**423,430**	**342,577**	**33,973**	**38,264**

Note 31. Financial Assets Pledged

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Due from credit institutions*	5,693	12,490	4,978	11,846
Loans to customers**	1,234	19,998	1,234	19,998
Fixed income securities	–	6,821	–	–
Other assets*	11,112	11,162	11,112	11,162
Total financial assets pledged	**18,039**	**50,471**	**17,324**	**43,006**
Due to credit institutions and central banks	–	6,018	–	–
			–	
Total liabilities secured by pledged financial assets	**–**	**6,018**	**–**	**–**

* The amounts consist of several placements to secure various Bank's transactions in the ordinary course of business.

** As at 31 December 2012 the Bank and the Group had a part of the loan portfolio pledged as collateral to Ministry of Finance of Latvia to receive a guarantee. The guarantee was issued as a security to European Investment Bank's financing which was repaid ahead of the schedule in December 2012. The respective pledges as at 2012 year end formally were still registered with Commercial Register. As at the year end 2013 there were no such pledges.

Note 32. Cash and Cash Equivalents

The table below provides a breakdown of cash and cash equivalents as at 31 December 2013 and 31 December 2012:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Cash and demand deposits with central banks	254,053	190,960	219,644	174,708
Deposits with other credit institutions*	177,789	111,614	148,353	77,767
Demand deposits due to other credit institutions	(5,981)	(2,555)	(14,585)	(4,984)
Total cash and cash equivalents	**425,861**	**300,019**	**353,412**	**247,491**

* Deposits include term facilities with initial agreement term of 3 months or less.

Note 33. Litigation and Claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2013 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

Note 34. Related Parties

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Supervisory Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling

interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties at respective dated.

	LVL 000's 31/12/2013	Interest income/ expense 2013	LVL 000's 31/12/2012	Interest income/ expense 2012
Credit exposure to related parties				
Securities:	226,895	6,504	235,638	8,699
Latvian treasury bills and government bonds	*202,701*	*5,628*	*211,397*	*7,676*
Municipality bonds	*24,194*	*876*	*24,241*	*1,023*
Loans and receivables:	2,869	33	2,663	99
Management	*300*	*5*	*306*	*45*
State institutions and state controlled companies	*49*	*1*	*30*	*–*
Municipality institutions and municipality controlled companies	*2,520*	*27*	*2,327*	*54*
Financial commitments and outstanding guarantees:	3,278	–	3,338	4
Management	*95*	*–*	*133*	*4*
State institutions and state controlled companies	*3,173*	*–*	*3,195*	*–*
Municipality institutions and municipality controlled companies	*10*	*–*	*10*	*–*
Total credit exposure to related parties	**233,042**		**241,639**	
Due to related parties:	111,847	4,105	107,442	5,404
Deposits from Ministry of Finance	*–*	*–*	*–*	*238*
Subordinated loans from shareholders	*51,709*	*3,859*	*52,014*	*4,463*
Management	*384*	*2*	*383*	*7*
State institutions and state controlled companies	*33,484*	*222*	*28,977*	*611*
Municipality institutions and municipality controlled companies	*26,270*	*22*	*26,068*	*85*
Total amounts due to related parties	**111,847**		**107,442**	

No Group's exposures with related parties as at 31 December 2013 or for the year then ended were impaired (2012: nil).

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties at respective dates.

	LVL 000's 31/12/2013	Interest income/ expense 2013	LVL 000's 31/12/2012	Interest income/ expense 2012
Credit exposure to related parties				
Securities:	226,895	6,504	235,638	8,699
Latvian treasury bills and government bonds	202,701	5,628	211,397	7,676
Municipality bonds	24,194	876	24,241	1,023
Loans and receivables:	116,797	2,386	92,487	2,526
Management	*85*	*3*	*88*	*34*
State institutions and state controlled companies	*49*	*1*	*30*	–
Municipality institutions and municipality controlled companies	*2,520*	*27*	*2,327*	*54*
Subsidiaries	*114,143*	*2,355*	*90,042*	*2,438*
Derivatives—assets:	11	–	51	–
Subsidiaries	*11*	–	*51*	–
Financial commitments and outstanding guarantees:	32,584	–	19,910	7
Management	*59*	–	*64*	*4*
State institutions and state controlled companies	*3,173*	–	*3,195*	–
Municipality institutions and municipality controlled companies	*10*	–	*10*	–
Subsidiaries	*29,342*	–	*16,641*	*3*
Total credit exposure to related parties	**376,287**		**348,086**	
Due to related parties:	129,072	4,206	124,235	5,562
Deposits from Ministry of Finance	–	–	–	*238*
Subordinated loans from shareholders	*51,709*	*3,859*	*52,014*	*4,463*
Management	*202*	–	*172*	*3*
State institutions and state controlled companies	*33,484*	*222*	*28,977*	*611*
Municipality institutions and municipality controlled companies	*26,270*	*22*	*26,068*	*85*
Subsidiaries	*17,407*	*103*	*17,004*	*162*
Derivatives—liabilities:	519	–	46	–
Subsidiaries	*519*	–	*46*	–
Total amounts due to related parties	**129,591**		**124,281**	

In the year ended 31 December 2013 no impairment was charged or released on the Bank's loans and receivables from subsidiaries (2012: net release of impairment allowance LVL 13,262 thousand). As at 31 December 2013 no impairment allowance was recognised on loans and receivables from subsidiaries (2012: nil). No other Bank's exposures with related parties as at 31 December 2013 or for the year period then ended were impaired (2012: nil).

The Bank's income from dividends from subsidiaries in 2013 was LVL 2,638 thousand (2012: nil).

Note 35. Risk Management

Risk management polices

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

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

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

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

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

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

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

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

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

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

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	490,927	60,708	45,287	36,695	5,586	137	2,616	641,956
Not delayed—impaired	19,404	1,259	3,694	–	91	–	1,302	25,750
Total not delayed loans	**510,331**	**61,967**	**48,981**	**36,695**	**5,677**	**137**	**3,918**	**667,706**
Past due loans—not impaired								
Delayed days:								
=< 29	32,113	13,236	5,899	1,215	13	–	–	52,476
30-59	5,366	–	1,838	322	1	–	–	7,527
60-89	4,298	–	132	193	59	–	–	4,682
90 and more	6,934	667	178	324	37	–	–	8,140
Total past due loans—not impaired	**48,711**	**13,903**	**8,047**	**2,054**	**110**	**–**	**–**	**72,825**
Total past due loans—impaired	**33,682**	**16,550**	**8,148**	**8,408**	**–**	**182**	**–**	**66,970**
Total gross loans and receivables to customers	**592,724**	**92,420**	**65,176**	**47,157**	**5,787**	**319**	**3,918**	**807,501**
Impairment allowance	(37,728)	(9,354)	(7,131)	(9,908)	(93)	(180)	(1,001)	(65,395)
Total net loans and receivables to customers	**554,996**	**83,066**	**58,045**	**37,249**	**5,694**	**139**	**2,917**	**742,106**

	Group, LVL 000's							
	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	470,846	66,644	35,918	39,800	1,792	537	2,097	617,634
Not delayed—impaired	40,774	122	614	–	71	–	4,143	45,724
Total not delayed loans	**511,620**	**66,766**	**36,532**	**39,800**	**1,863**	**537**	**6,240**	**663,358**
Past due loans—not impaired								
Delayed days:								
=<29	25,328	141	4,921	1,036	6	–	–	31,432
30-59	10,545	–	1,021	348	–	–	–	11,914
60-89	6,999	–	119	177	–	–	–	7,295
90 and more	5,745	–	163	314	–	63	–	6,285
Total past due loans—not impaired	**48,617**	**141**	**6,224**	**1,875**	**6**	**63**	**–**	**56,926**
Total past due loans—impaired	**32,320**	**4,748**	**6,109**	**15,007**	**464**	**182**	**–**	**58,830**
Total gross loans and receivables to customers	**592,557**	**71,655**	**48,865**	**56,682**	**2,333**	**782**	**6,240**	**779,114**
Impairment allowance	(36,360)	(1,638)	(6,586)	(15,922)	(536)	(235)	(1,394)	(62,671)
Total net loans and receivables to customers	**556,197**	**70,017**	**42,279**	**40,760**	**1,797**	**547**	**4,846**	**716,443**

The tables below provide details of the Bank's loan portfolio delinquencies:

	Bank, LVL 000's							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	420,868	116,457	108	32,999	5,188	–	2,283	577,903
Not delayed—impaired	17,976	50	–	–	91	–	1,302	19,419
Total not delayed loans	**438,844**	**116,507**	**108**	**32,999**	**5,279**	**–**	**3,585**	**597,322**
Past due loans—not impaired								
Delayed days:								
=< 29	25,334	13,158	1	728	4	–	–	39,225
30-59	4,095	–	2	272	1	–	–	4,370
60-89	3,716	–	–	174	59	–	–	3,949
90 and more	5,856	667	–	324	37	–	–	6,884
Total past due loans—not impaired	**39,001**	**13,825**	**3**	**1,498**	**101**	**–**	**–**	**54,428**
Total past due loans—impaired	**25,461**	**16,540**	**–**	**7,232**	**–**	**–**	**–**	**49,233**
Total gross loans and receivables to customers	**503,306**	**146,872**	**111**	**41,729**	**5,380**	**–**	**3,585**	**700,983**
Impairment allowance	(32,276)	(8,849)	(2)	(8,731)	(91)	–	(1,001)	(50,950)
Total net loans and receivables to customers	**471,030**	**138,023**	**109**	**32,998**	**5,289**	**–**	**2,584**	**650,033**

Bank, LVL 000's

	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	414,767	102,198	–	35,936	1,588	–	1,857	556,346
Not delayed—impaired	34,060	–	–	–	71	–	4,143	38,274
Total not delayed loans	**448,827**	**102,198**	**–**	**35,936**	**1,659**	**–**	**6,000**	**594,620**
Past due loans—not impaired								
Delayed days:								
=< 29	19,461	141	–	564	–	–	–	20,166
30-59	9,366	–	–	296	–	–	–	9,662
60-89	6,624	–	–	147	–	–	–	6,771
90 and more	4,418	–	–	314	–	–	–	4,732
Total past due loans—not impaired	**39,869**	**141**	**–**	**1,321**	**–**	**–**	**–**	**41,331**
Total past due loans—impaired	**22,180**	**4,720**	**–**	**12,810**	**464**	**–**	**–**	**40,174**
Total gross loans and receivables to customers	**510,876**	**107,059**	**–**	**50,067**	**2,123**	**–**	**6,000**	**676,125**
Impairment allowance	(30,117)	(1,572)	–	(13,703)	(535)	–	(1,394)	(47,321)
Total net loans and receivables to customers	**480,759**	**105,487**	**–**	**36,364**	**1,588**	**–**	**4,606**	**628,804**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2011	**26,454**	**25**	**6,763**	**14,466**	**–**	**241**	**544**	**48,493**
Impairment charge for the reported period—specific	7,534	1,602	1,933	2,256	535	–	987	14,847
Release of previously established impairment allowance—specific	(3,137)	(10)	(304)	(91)	–	(59)	(134)	(3,735)
Impairment charged to the statement of income, net	**4,397**	**1,592**	**1,629**	**2,165**	**535**	**(59)**	**853**	**11,112**
Change of impairment allowance due to write-offs, net	(1,345)	–	(1,969)	(1,634)	–	–	–	(4,948)
Increase/ (decrease) in impairment allowance due to currency fluctuations	194	–	–	–	–	–	(5)	189
Outstanding specific impairment as at 31/12/2012	**29,700**	**1,617**	**6,423**	**14,997**	**535**	**182**	**1,392**	**54,846**
Impairment charge for the reported period—specific	9,125	6,765	1,367	52	147	–	55	17,511
Release of previously established impairment allowance—specific	(3,812)	(33)	(273)	(541)	–	–	(392)	(5,051)
Impairment charged to the statement of income, net	**5,313**	**6,732**	**1,094**	**(489)**	**147**	**–**	**(337)**	**12,460**
Change of impairment allowance due to write-offs, net	(5,329)	–	(617)	(6,050)	(532)	–	–	(12,528)
Increase/ (decrease) in impairment allowance due to currency fluctuations	545	(1)	11	(61)	(59)	(3)	(56)	376
Outstanding specific impairment as at 31/12/2013	**30,229**	**8,348**	**6,911**	**8,397**	**91**	**179**	**999**	**55,154**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2011	**35,962**	**–**	**–**	**14,466**	**–**	**–**	**544**	**50,972**
Impairment charge for the reported period—specific	4,614	1,572	–	24	535	–	987	7,732
Release of previously established impairment allowance—specific	(15,721)	–	–	(91)	–	–	(134)	(15,946)
Impairment charged to the statement of income, net	**(11,107)**	**1,572**	**–**	**(67)**	**535**	**–**	**853**	**(8,214)**
Change of impairment allowance due to write-offs, net	(1,262)	–	–	(1,588)	–	–	–	(2,850)
Increase/ (decrease) in impairment allowance due to currency fluctuations	193	–	–	–	–	–	(5)	188
Outstanding specific impairment as at 31/12/2012	**23,786**	**1,572**	**–**	**12,811**	**535**	**–**	**1,392**	**40,096**
Impairment charge for the reported period—specific	9,198	6,300	–	52	147	–	55	15,752
Release of previously established impairment allowance—specific	(3,029)	–	–	(472)	–	–	(392)	(3,893)
Impairment charged to the statement of income, net	**6,169**	**6,300**	**–**	**(420)**	**147**	**–**	**(337)**	**11,859**
Change of impairment allowance due to write-offs, net	(5,266)	–	–	(5,098)	(532)	–	–	(10,896)
Increase/ (decrease) in impairment allowance due to currency fluctuations	537	–	–	(61)	(59)	–	(56)	361
Outstanding specific impairment as at 31/12/2013	**25,226**	**7,872**	**–**	**7,232**	**91**	**–**	**999**	**41,420**

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

								Group, LVL 000's
	31/12/2013				31/12/2012			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	320,141	700,997	234,855	152,895	268,358	586,110	287,839	193,405
Utilised credit lines	56,763	146,059	26,303	13,414	33,406	76,788	36,611	22,114
Finance leases	57,023	59,905	1,022	526	40,224	41,613	2,055	1,506
Debit balances on settlement cards	25	25	37,224	–	13	45	40,747	–
Overdraft facilities	171	1,092	5,523	40	64	119	1,733	20
Factoring	137	137	2	–	–	–	547	537
Due from investment counterparties	–	–	2,917	–	–	–	4,846	–
Total net loans	**434,260**	**908,215**	**307,846**	**166,875**	**342,065**	**704,675**	**374,378**	**217,582**

								Bank, LVL 000's
	31/12/2013				31/12/2012			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	256,286	565,613	214,744	137,999	208,461	465,210	272,298	183,527
Utilised credit lines	52,118	135,757	85,905	12,471	28,702	74,278	76,785	21,460
Finance leases	109	351	–	–	–	–	–	–
Debit balances on settlement cards	–	–	32,998	–	–	–	36,364	–
Overdraft facilities	–	–	5,289	–	–	–	1,588	–
Due from investment counterparties	–	–	2,584	–	–	–	4,606	–
Total net loans	**308,513**	**701,721**	**341,520**	**150,470**	**237,163**	**539,488**	**391,641**	**204,987**

* As at 31 December 2013 carrying value of Bank's loans without collateral or with guarantees amount to LVL 117,162 thousand (2012: LVL 121,581 thousand). Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group's and Bank's fixed securities portfolio quality:

	Group, LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	2,047	64,650	2,656	69,353	24,792	85,631	2,178	112,601
AA	4,815	28,629	202	33,646	814	11,218	445	12,477
A	2,708	31,416	4,357	38,481	–	22,126	3,626	25,752
BBB/Baa	134,889	144,493	9,460	288,842	138,108	145,053	2,603	285,764
Other lower ratings	3,128	3,427	805	7,360	2,279	770	262	3,311
Not rated	24,194	785	1	24,980	–	971	107	1,078
Total net fixed income securities	**171,781**	**273,400**	**17,481**	**462,662**	**165,993**	**265,769**	**9,221**	**440,983**

	Bank, LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	1,521	61,275	–	62,796	24,241	78,345	–	102,586
AA	4,034	27,520	–	31,554	–	4,898	–	4,898
A	–	28,435	–	28,435	–	14,200	–	14,200
BBB/Baa	128,004	102,908	–	230,912	131,507	99,893	–	231,400
Other lower ratings	–	3,427	–	3,427	–	770	–	770
Not rated	24,194	785	–	24,979	–	971	–	971
Total net fixed income securities	**157,753**	**224,350**	**–**	**382,103**	**155,748**	**199,077**	**–**	**354,825**

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2013 and 31 December 2012 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2013, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	187,099	7,091	24,341	–	35,522	254,053
Balances due from credit institutions	17,447	2,933	98,688	7,554	63,964	190,586
Securities held for trading	2,476	241	8,613	4,646	3,571	19,547
Financial assets designated at fair value through profit or loss	3,003	–	23,534	1,166	16,107	43,810
Available-for-sale securities	81,331	48,780	71,545	4,566	76,121	282,343
Loans and receivables to customers	477,707	154,006	62,161	32,691	15,541	742,106
Held-to-maturity securities	157,753	2,997	2,785	4,114	4,132	171,781
Derivative financial instruments	123	–	975	105	1,364	2,567
Other assets	60,117	5,643	13,224	92	323	79,399
Total assets	**987,056**	**221,691**	**305,866**	**54,934**	**216,645**	**1,786,192**
Liabilities						
Financial liabilities designated at fair value through profit or loss	10,694	–	20	823	148	11,685
Financial liabilities measured at amortised cost	876,612	96,266	211,011	126,270	344,633	1,654,792
Derivative financial instruments	513	–	538	58	1,746	2,855
Other liabilities	10,122	4,314	273	166	1,169	16,044
Total liabilities	**897,941**	**100,580**	**211,842**	**127,317**	**347,696**	**1,685,376**
Equity	100,816	–	–	–	–	100,816
Total liabilities and equity	**998,757**	**100,580**	**211,842**	**127,317**	**347,696**	**1,786,192**
Off-balance sheet items						
Contingent liabilities	65,337	1,700	387	2,096	2,102	71,622
Financial commitments	89,255	30,660	2,922	7,949	453	131,239

	Group as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	10,312	82,556	–	16,402	190,960
Balances due from credit institutions	1,433	3,279	60,495	6,010	57,996	129,213
Securities held for trading	1,415	5	6,702	1,096	1,178	10,396
Financial assets designated at fair value through profit or loss	2,702	66	15,257	1,860	15,623	35,508
Available-for-sale securities	84,165	48,162	73,363	6,462	56,859	269,011
Loans and receivables to customers	470,239	139,395	49,610	38,842	18,357	716,443
Held-to-maturity securities	155,748	2,972	–	3,220	4,053	165,993
Derivative financial instruments	335	–	117	46	490	988
Other assets	64,688	5,026	12,740	144	314	82,912
Total assets	**862,415**	**209,217**	**300,840**	**57,680**	**171,272**	**1,601,424**
Liabilities						
Financial liabilities designated at fair value through profit or loss	7,120	–	21	3,227	–	10,368
Financial liabilities measured at amortised cost	737,557	89,578	195,395	102,185	354,262	1,478,977
Derivative financial instruments	240	3	1,403	63	1,013	2,722
Other liabilities	10,069	3,433	399	61	535	14,497
Total liabilities	**754,986**	**93,014**	**197,218**	**105,536**	**355,810**	**1,506,564**
Equity	94,860	–	–	–	–	94,860
Total liabilities and equity	**849,846**	**93,014**	**197,218**	**105,536**	**355,810**	**1,601,424**
Off-balance sheet items						
Contingent liabilities	29,259	1,940	1,040	2,338	1,048	35,625
Financial commitments	90,033	15,061	3,052	7,334	503	115,983

The following tables provide an analysis of the Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2013 and 31 December 2012 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2013, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	187,099	–	24,341	–	8,204	219,644
Balances due from credit institutions	16,221	16,881	74,119	7,369	39,484	154,074
Available-for-sale securities	80,977	7,549	66,919	4,566	73,271	233,282
Loans and receivables to customers	516,573	30,559	57,488	32,353	13,060	650,033
Held-to-maturity securities	157,753	–	–	–	–	157,753
Derivative financial instruments	123	11	975	105	1,362	2,576
Other assets	36,017	29,007	12,765	4	9,708	87,501
Total assets	**994,763**	**84,007**	**236,607**	**44,397**	**145,089**	**1,504,863**
Liabilities						
Financial liabilities measured at amortised cost	878,666	1,130	167,326	103,146	241,431	1,391,699
Derivative financial instruments	513	430	538	58	1,693	3,232
Other liabilities	8,846	18	65	71	12	9,012
Total liabilities	**888,025**	**1,578**	**167,929**	**103,275**	**243,136**	**1,403,943**
Equity	100,920	–	–	–	–	100,920
Total liabilities and equity	**988,945**	**1,578**	**167,929**	**103,275**	**243,136**	**1,504,863**
Off-balance sheet items						
Contingent liabilities	65,292	367	238	1,750	220	67,867
Financial commitments	107,384	13,809	5,739	7,949	452	135,333

	Bank as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	–	82,556	–	10,462	174,708
Balances due from credit institutions	79	9,472	43,854	5,205	22,460	81,070
Available-for-sale securities	81,551	7,570	59,550	5,795	47,842	202,308
Loans and receivables to customers	509,396	17,956	44,573	38,522	18,357	628,804
Held-to-maturity securities	155,748	–	–	–	–	155,748
Derivative financial instruments	337	44	117	46	490	1,034
Other assets	39,956	29,007	12,545	10	9,705	91,223
Total assets	**868,757**	**64,049**	**243,195**	**49,578**	**109,316**	**1,334,895**
Liabilities						
Financial liabilities measured at amortised cost	736,908	1,226	154,850	84,743	254,376	1,232,103
Derivative financial instruments	244	46	1,403	63	1,010	2,766
Other liabilities	7,712	23	207	60	14	8,016
Total liabilities	**744,864**	**1,295**	**156,460**	**84,866**	**255,400**	**1,242,885**
Equity	92,010	–	–	–	–	92,010
Total liabilities and equity	**836,874**	**1,295**	**156,460**	**84,866**	**255,400**	**1,334,895**
Off-balance sheet items						
Contingent liabilities	29,216	–	931	2,164	222	32,533
Financial commitments	100,302	8,640	4,120	7,334	502	120,898

b) Market risk

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

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

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

c) Interest rate risk

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

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

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

The following table represents the impact of a parallel change in all interest rates by 1.0% (but not below 0%) on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

	2013 Group	2012 Group	2013 Bank	2012 Bank
				LVL 000's
Scenario: +1%				
Pre-tax profit / (loss)	3,807	2,311	3,877	3,606
Securities fair value revaluation reserve	(3,669)	(5,711)	(2,926)	(3,263)
Total pre-tax effect on equity	**138**	**(3,400)**	**951**	**343**
Estimated net effect on equity	**117**	**(2,890)**	**808**	**292**
Scenario: -1%, but not below 0%				
Pre-tax profit / (loss)	(2,093)	(1,860)	(2,480)	(2,886)
Securities fair value revaluation reserve	2,385	3,786	2,151	2,306
Total pre-tax effect on equity	**292**	**1,926**	**(329)**	**(580)**
Estimated net effect on equity	**248**	**1,637**	**(280)**	**(493)**

The following table represents the impact of a 2.0% parallel change in all interest rates (but not below 0%) by currencies on Bank's pre-tax profit and available-for-sale securities' fair value revaluation reserve in equity:

	31/12/2013				31/12/2012			
	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
								LVL 000's
Scenario: +2%								
Pre-tax profit/ (loss)	514	3,522	3,852	(152)	989	2,178	3,481	554
Securities fair value revaluation reserve	(1,661)	(1,320)	(2,696)	(66)	(1,554)	(2,997)	(1,829)	–
Total pre-tax effect on equity	**(1,147)**	**2,202**	**1,156**	**(218)**	**(565)**	**(819)**	**1,652**	**554**
Estimated net effect on equity	**(975)**	**1,872**	**983**	**(185)**	**(480)**	**(696)**	**1,404**	**471**
Scenario: -2%, but not below 0%								
Pre-tax profit/ (loss)	(175)	(1,189)	(1,162)	46	(570)	(699)	(1,508)	(109)
Securities fair value revaluation reserve	592	510	1,501	16	509	1,343	755	–
Total pre-tax effect on equity	**417**	**(679)**	**339**	**62**	**(61)**	**644**	**(753)**	**(109)**
Estimated net effect on equity	**354**	**(577)**	**288**	**53**	**(52)**	**547**	**(640)**	**(93)**

d) Currency risk

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

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

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

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

								Group LVL 000's
				31/12/2013				31/12/2012
	USD	CHF	LTL	Total for all currencies*	USD	CHF	LTL	Total for all currencies
Scenario:								
2% adverse change	3	35	509	21	33	251	419	626
5% adverse change	7	88	1,273	52	83	629	1,047	1,565

								Bank LVL 000's
				31/12/2013				31/12/2012
	USD	CHF	LTL	Total for all currencies*	USD	CHF	LTL	Total for all currencies
Scenario:								
2% adverse change	21	–	1	18	2	6	18	147
5% adverse change	52	1	2	45	5	14	46	365

* Excluding adverse changes in EUR currency as on 1 January 2014 Latvia adopted EUR and the Bank's functional currency and the Group's presentation currency was changed to Euros.

In 2013 and 2012 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2013 and 2012 by currency profile:

	Group as at 31/12/2013, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	177,253	3,017	37,936	27,495	5,860	305	2,187	254,053
Balances due from credit institutions	876	146,588	27,693	456	94	5,948	8,931	190,586
Securities held for trading	1,139	3,763	11,147	3,098	–	400	–	19,547
Financial assets designated at fair value through profit or loss	–	20,361	17,944	5,328	–	–	177	43,810
Available-for-sale securities	51,705	107,781	78,240	350	36,802	–	7,465	282,343
Loans and receivables to customers	78,716	44,476	574,737	1,910	41,274	359	634	742,106
Held-to-maturity securities	114,584	5,532	48,668	–	2,997	–	–	171,781
Derivative financial instruments	2,540	–	25	2	–	–	–	2,567
Other assets	57,543	6,052	7,223	315	5,501	71	2,694	79,399
Total assets	**484,356**	**337,570**	**803,613**	**38,954**	**92,528**	**7,083**	**22,088**	**1,786,192**
Liabilities								
Financial liabilities designated at fair value through profit or loss	5,198	1,349	5,138	–	–	–	–	11,685
Financial liabilities measured at amortised cost	388,649	486,670	634,052	11,688	65,053	28,012	40,668	1,654,792
Derivative financial instruments	2,714	–	–	141	–	–	–	2,855
Other liabilities	8,522	2,184	1,930	1,161	2,022	81	144	16,044
Total liabilities	**405,083**	**490,203**	**641,120**	**12,990**	**67,075**	**28,093**	**40,812**	**1,685,376**
Equity	100,816	–	–	–	–	–	–	100,816
Total liabilities and equity	**505,899**	**490,203**	**641,120**	**12,990**	**67,075**	**28,093**	**40,812**	**1,786,192**
Net long/ (short) position for balance sheet items	(21,543)	(152,633)	162,493	25,964	25,453	(21,010)	(18,724)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	–	(1,947)	2,140	–	–	(313)	100	(20)
Forward foreign exchange contracts	–	15,078	(15,825)	–	–	–	–	(747)
Swap exchange contracts	–	139,637	(155,547)	(24,195)	–	21,471	19,098	464
Net long/ (short) positions on foreign exchange	–	*152,768*	*(169,232)*	*(24,195)*	–	*21,158*	*19,198*	*(303)*
Net long/ (short) position as at 31 December 2013	**(21,543)**	**135**	**(6,739)**	**1,769**	**25,453**	**148**	**474**	**(303)**
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	–	0.515	0.702804	0.573	0.204	0.0156	–	–

As at 31 December 2013 and 31 December 2012 LVL and LTL currencies are pegged to the EUR at a fixed rate. On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. At that date all Group's and Bank's balances denominated in Lats were converted to Euros at the official exchange rate of 0.702804 LVL/EUR. Group's presentation currency was changed to EUR.

	Group as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,423	3,491	93,626	6,172	8,142	684	3,422	190,960
Balances due from credit institutions	1,341	95,777	17,450	3,634	187	5,142	5,682	129,213
Securities held for trading	611	863	7,579	1,272	–	71	–	10,396
Financial assets designated at fair value through profit or loss	–	18,156	11,057	6,295	–	–	–	35,508
Available-for-sale securities	55,410	81,053	95,556	2,745	34,146	–	101	269,011
Loans and receivables to customers	74,056	62,778	538,142	2,500	36,073	455	2,439	716,443
Held-to-maturity securities	127,530	5,349	30,142	–	2,972	–	–	165,993
Derivative financial instruments	984	–	–	4	–	–	–	988
Other assets	63,830	6,292	7,492	292	4,827	34	145	82,912
Total assets	**399,185**	**273,759**	**801,044**	**22,914**	**86,347**	**6,386**	**11,789**	**1,601,424**
Liabilities								
Financial liabilities designated at fair value through profit or loss	3,338	3,467	3,563	–	–	–	–	10,368
Financial liabilities measured at amortised cost	378,572	431,823	537,920	11,394	63,393	21,279	34,596	1,478,977
Derivative financial instruments	2,719	–	–	–	3	–	–	2,722
Other liabilities	7,005	1,909	2,362	513	2,011	355	342	14,497
Total liabilities	**391,634**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,506,564**
Equity	94,860	–	–	–	–	–	–	94,860
Total liabilities and equity	**486,494**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,601,424**
Net long/ (short) position for balance sheet items	(87,309)	(163,440)	257,199	11,007	20,940	(15,248)	(23,149)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,965)	4,919	212	(4)	(608)	(544)	4
Forward foreign exchange contracts	524	(1,232)	703	–	–	–	24	19
Swap exchange contracts	18,833	171,288	(233,172)	1,354	–	16,045	23,921	(1,731)
Net long/ (short) positions on foreign exchange	*20,351*	*165,091*	*(227,550)*	*1,566*	*(4)*	*15,437*	*23,401*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(66,958)**	**1,651**	**29,649**	**12,573**	**20,936**	**189**	**252**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	–	0.531	0.702804	0.582	0.204	0.0174	–	–

	Bank as at 31/12/2013, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	177,253	2,535	37,174	166	138	305	2,073	219,644
Balances due from credit institutions	1	123,987	17,480	126	41	5,770	6,669	154,074
Available-for-sale securities	51,705	99,158	74,953	–	–	–	7,466	233,282
Loans and receivables to customers	117,943	42,055	487,658	1,910	–	359	108	650,033
Held-to-maturity securities	114,585	–	43,168	–	–	–	–	157,753
Derivative financial instruments	2,551	–	25	–	–	–	–	2,576
Other assets	34,015	6,003	6,091	9,703	29,007	42	2,640	87,501
Total assets	**498,053**	**273,738**	**666,549**	**11,905**	**29,186**	**6,476**	**18,956**	**1,504,863**
Liabilities								
Financial liabilities measured at amortised cost	390,600	369,451	562,746	6,503	480	25,626	36,293	1,391,699
Derivative financial instruments	3,232	–	–	–	–	–	–	3,232
Other liabilities	7,359	954	516	3	3	79	98	9,012
Total liabilities	**401,191**	**370,405**	**563,262**	**6,506**	**483**	**25,705**	**36,391**	**1,403,943**
Equity	100,920	–	–	–	–	–	–	100,920
Total liabilities and equity	**502,111**	**370,405**	**563,262**	**6,506**	**483**	**25,705**	**36,391**	**1,504,863**
Net long/ (short) position for balance sheet items	(4,058)	(96,667)	103,287	5,399	28,703	(19,229)	(17,435)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	–	(1,561)	1,729	–	–	(305)	122	(15)
Forward foreign exchange contracts	–	15,180	(15,927)	–	–	–	–	(747)
Swap exchange contracts	–	82,010	(85,138)	(5,388)	(28,662)	19,604	17,663	89
Net long/ (short) positions on foreign exchange	–	*95,629*	*(99,336)*	*(5,388)*	*(28,662)*	*19,299*	*17,785*	*(673)*
Net long/ (short) position as at 31 December 2013	**(4,058)**	**(1,038)**	**3,951**	**11**	**41**	**70**	**350**	**(673)**
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	–	0.515	0.702804	0.573	0.204	0.0156	–	–

	Bank as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,396	2,914	92,486	205	149	586	2,972	174,708
Balances due from credit institutions	79	60,148	9,504	2,935	1,231	4,775	2,398	81,070
Available-for-sale securities	55,411	65,187	81,609	–	–	–	101	202,308
Loans and receivables to customers	112,163	61,046	450,176	2,500	–	455	2,464	628,804
Held-to-maturity securities	127,531	–	28,217	–	–	–	–	155,748
Derivative financial instruments	1,034	–	–	–	–	–	–	1,034
Other assets	78,706	6,232	6,230	1	2	6	46	91,223
Total assets	**450,320**	**195,527**	**668,222**	**5,641**	**1,382**	**5,822**	**7,981**	**1,334,895**
Liabilities								
Financial liabilities measured at amortised cost	381,506	322,427	470,222	7,210	109	19,568	31,061	1,232,103
Derivative financial instruments	2,766	–	–	–	–	–	–	2,766
Other liabilities	4,914	1,319	1,329	3	3	328	120	8,016
Total liabilities	**389,186**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,242,885**
Equity	92,010	–	–	–	–	–	–	92,010
Total liabilities and equity	**481,196**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,334,895**
Net long/ (short) position for balance sheet items	(30,876)	(128,219)	196,671	(1,572)	1,270	(14,074)	(23,200)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,785)	4,730	212	–	(637)	(513)	1
Forward foreign exchange contracts	2,632	(1,233)	(1,405)	–	–	–	24	18
Swap exchange contracts	18,833	134,133	(194,001)	1,354	(347)	14,745	23,556	(1,727)
Net long/ (short) positions on foreign exchange	*22,459*	*128,115*	*(190,676)*	*1,566*	*(347)*	*14,108*	*23,067*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(8,417)**	**(104)**	**5,995**	**(6)**	**923**	**34**	**(133)**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	–	0.531	0.702804	0.582	0.204	0.0174	–	–

e) Liquidity risk

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

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

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

In 2013 and 2012 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	Highest	Lowest	Average	Year-end
2013	58%	53%	56%	56%
2012	70%	52%	61%	56%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Group as at 31/12/2013, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	254,053	–	–	–	–	–	254,053
Balances due from credit institutions	174,949	14,548	–	–	1,089	–	190,586
Securities held for trading	–	737	919	2,115	12,747	3,029	19,547
Financial assets designated at fair value through profit or loss	1,276	3,727	3,930	2,278	25,198	7,401	43,810
Available-for-sale securities	5,431	10,255	31,354	36,945	180,008	18,350	282,343
Loans and receivables to customers	7,514	22,863	57,833	74,605	418,252	161,039	742,106
Held-to-maturity securities	–	631	23,479	29,891	116,682	1,098	171,781
Derivative financial instruments	2,479	32	5	21	30	–	2,567
Other assets	17,042	75	177	387	127	61,591	79,399
Total assets	**462,744**	**52,868**	**117,697**	**146,242**	**754,133**	**252,508**	**1,786,192**
Liabilities							
Financial liabilities designated at fair value through profit or loss	60	36	381	243	9,361	1,604	11,685
Financial liabilities measured at amortised cost	1,297,763	66,905	67,708	122,580	98,591	1,245	1,654,792
Derivative financial instruments	1,564	840	404	47	–	–	2,855
Other liabilities	15,060	156	52	14	762	–	16,044
Total liabilities	**1,314,447**	**67,937**	**68,545**	**122,884**	**108,714**	**2,849**	**1,685,376**
Equity	–	–	–	–	–	100,816	100,816
Total liabilities and equity	**1,314,447**	**67,937**	**68,545**	**122,884**	**108,714**	**103,665**	**1,786,192**
Net balance sheet position—long/ (short)	(851,703)	(15,069)	49,152	23,358	645,419	148,843	–
Off-balance sheet items							
Contingent liabilities	71,622	–	–	–	–	–	71,622
Financial commitments	131,239	–	–	–	–	–	131,239

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

LVL 000's

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	60	36	381	243	9,643	1,672	12,035
Financial liabilities measured at amortised cost	1,297,982	69,280	69,140	124,881	112,445	1,087	1,674,815
Off-balance sheet items							
Contingent liabilities	71,622	–	–	–	–	–	71,622
Financial commitments	131,239	–	–	–	–	–	131,239

Group's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2012

	Group as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	190,960	–	–	–	–	–	190,960
Balances due from credit institutions	117,521	9,685	–	279	817	911	129,213
Securities held for trading	–	366	71	854	6,929	2,176	10,396
Financial assets designated at fair value through profit or loss	–	1,775	5,055	2,762	19,502	6,414	35,508
Available-for-sale securities	9,178	21,583	17,352	23,374	153,220	44,304	269,011
Loans and receivables to customers	8,554	18,561	29,233	69,808	407,403	182,884	716,443
Held-to-maturity securities	–	52,748	–	5,691	69,883	37,671	165,993
Derivative financial instruments	882	97	9	–	–	–	988
Other assets	19,315	90	773	1,201	1,784	59,749	82,912
Total assets	**346,410**	**104,905**	**52,493**	**103,969**	**659,538**	**334,109**	**1,601,424**
Liabilities							
Financial liabilities designated at fair value through profit or loss	65	49	210	992	7,860	1,192	10,368
Financial liabilities measured at amortised cost	1,059,400	100,959	89,683	137,501	83,390	8,044	1,478,977
Derivative financial instruments	1,403	1,319	–	–	–	–	2,722
Other liabilities	12,405	521	44	164	–	1,363	14,497
Total liabilities	**1,073,273**	**102,848**	**89,937**	**138,657**	**91,250**	**10,599**	**1,506,564**
Equity	–	–	–	–	–	94,860	94,860
Total liabilities and equity	**1,073,273**	**102,848**	**89,937**	**138,657**	**91,250**	**105,459**	**1,601,424**
Net balance sheet position—long/ (short)	(726,863)	2,057	(37,444)	(34,688)	568,288	228,650	–
Off-balance sheet items							
Contingent liabilities	35,625	–	–	–	–	–	35,625
Financial commitments	115,983	–	–	–	–	–	115,983

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities designated at fair value through profit or loss	65	49	210	993	8,053	1,251	10,621
Financial liabilities measured at amortised cost	1,059,831	103,370	90,553	142,405	96,367	8,133	1,500,659
Off-balance sheet items							
Contingent liabilities	35,625	–	–	–	–	–	35,625
Financial commitments	115,983	–	–	–	–	–	115,983

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Bank as at 31/12/2013, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	219,644	–	–	–	–	–	219,644
Balances due from credit institutions	148,639	2,880	2,555	–	–	–	154,074
Available-for-sale securities	5,431	8,272	28,128	36,791	136,322	18,338	233,282
Loans and receivables to customers	6,873	77,969	53,281	66,419	336,689	108,802	650,033
Held-to-maturity securities	–	–	22,956	28,852	105,945	–	157,753
Derivative financial instruments	2,490	30	5	21	30	–	2,576
Other assets	15,624	–	–	–	–	71,877	87,501
Total assets	**398,701**	**89,151**	**106,925**	**132,083**	**578,986**	**199,017**	**1,504,863**
Liabilities							
Financial liabilities measured at amortised cost	1,083,409	57,912	56,353	101,807	91,133	1,085	1,391,699
Derivative financial instruments	2,082	699	404	47	–	–	3,232
Other liabilities	9,012	–	–	–	–	–	9,012
Total liabilities	**1,094,503**	**58,611**	**56,757**	**101,854**	**91,133**	**1,085**	**1,403,943**
Equity	–	–	–	–	–	100,920	100,920
Total liabilities and equity	**1,094,503**	**58,611**	**56,757**	**101,854**	**91,133**	**102,005**	**1,504,863**
Net balance sheet position— long/ (short)	(695,802)	30,540	50,168	30,229	487,853	97,012	–
Off-balance sheet items							
Contingent liabilities	67,867	–	–	–	–	–	67,867
Financial commitments	135,333	–	–	–	–	–	135,333

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities measured at amortised cost	1,083,518	59,630	56,789	104,686	102,722	1,087	1,408,432
Off-balance sheet items							
Contingent liabilities	67,867	–	–	–	–	–	67,867
Financial commitments	135,333	–	–	–	–	–	135,333

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2012

	Bank as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	174,708	–	–	–	–	–	174,708
Balances due from credit institutions	78,821	2,249	–	–	–	–	81,070
Available-for-sale securities	7,789	17,413	15,381	16,463	118,270	26,992	202,308
Loans and receivables to customers	8,659	51,692	31,312	62,187	341,256	133,698	628,804
Held-to-maturity securities	–	52,196	–	4,978	60,902	37,672	155,748
Derivative financial instruments	921	100	13	–	–	–	1,034
Other assets	18,202	–	–	–	–	73,021	91,223
Total assets	**289,100**	**123,650**	**46,706**	**83,628**	**520,428**	**271,383**	**1,334,895**
Liabilities							
Financial liabilities measured at amortised cost	855,855	96,949	79,414	119,644	79,463	778	1,232,103
Derivative financial instruments	1,449	1,317	–	–	–	–	2,766
Other liabilities	8,016	–	–	–	–	–	8,016
Total liabilities	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**778**	**1,242,885**
Equity	–	–	–	–	–	92,010	92,010
Total liabilities and equity	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**92,788**	**1,334,895**
Net balance sheet position— long/ (short)	(576,220)	25,384	(32,708)	(36,016)	440,965	178,595	–
Off-balance sheet items							
Contingent liabilities	32,533	–	–	–	–	–	32,533
Financial commitments	120,898	–	–	–	–	–	120,898

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities measured at amortised cost	856,128	99,249	80,154	124,205	90,925	856	1,251,517
Off-balance sheet items							
Contingent liabilities	32,533	–	–	–	–	–	32,533
Financial commitments	120,898	–	–	–	–	–	120,898

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

	Group, 31/12/2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	804	(57)	(404)	–	–	–	343
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(16,451)	(44,460)	(2,086)	(8,441)	(2,288)	–	(73,726)
inflow	16,563	43,679	2,119	8,415	2,319	–	73,095

	Group, 31/12/2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	(510)	(1,199)	–	–	–	–	(1,709)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(2,551)	(8,920)	(2,176)	–	–	–	(13,647)
inflow	2,540	8,898	2,194	–	–	–	13,632

	Bank, 31/12/2013						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	383	(57)	(404)	–	–	–	(78)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(23,977)	(33,059)	(2,086)	(8,441)	(2,288)	–	(69,851)
inflow	24,002	32,419	2,119	8,415	2,318	–	69,273

	Bank, 31/12/2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives . . .	(494)	(1,195)	–	–	–	–	(1,689)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,143)	(8,877)	(2,176)	–	–	–	(19,196)
inflow	8,111	8,858	2,194	–	–	–	19,163

Fair Values of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks

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

Balances due from credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans and receivables to customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by 7.4 million (2012: LVL 7.3 million).

Held-to-maturity securities

Held-to-maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs. One of the non-observable market input is CDS rate of certain municipality. If the CDS rate would change by +20 basis points the fair value would change by LVL (212) thousand.

Available-for-sale securities

The fair value for certain available-for-sale securities is calculated using valuation techniques with non-market observable inputs. Fair value of these available-for-sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available-for-sale securities would change by LVL +/-136 thousand.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.05 million (2012: LVL 0.04 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount.

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by LVL +0.04 million and LVL (0.02) million respectively.

Fair value hierarchy

Quoted market prices (Level 1)

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique—observable market inputs (Level 2)

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique—non-market observable inputs (Level 3)

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique–observable market inputs	Valuation technique–non-market observable inputs
Cash and deposits with central banks	254,053	254,053	–	–	–
Balances due from credit institution	190,586	190,586	–	–	–
Held for trading securities	19,547	19,547	19,547	–	–
Financial assets designated at fair value through profit or loss	43,810	43,810	43,810	–	–
Derivatives	2,567	2,567	–	2,567	–
Available-for-sale securities	282,343	282,343	280,959	–	1,384
Loans and receivables to customers	742,106	734,133	–	–	734,133
Held to maturity securities	171,781	175,507	153,092	–	22,415
Total financial assets	**1,706,793**	**1,702,546**	**497,408**	**2,567**	**757,932**
Derivatives	2,855	2,855	–	2,855	–
Financial liabilities designated at fair value through profit or loss	11,685	11,685	6,091	–	5,594
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	18,100	18,100	–	–	–
Customer deposits	1,579,139	1,580,410	–	–	1,580,410
Subordinated liabilities	51,709	51,709	–	–	51,709
Other financial liabilities	5,844	5,666	–	–	5,666
Total financial liabilities	**1,669,332**	**1,670,425**	**6,091**	**2,855**	**1,643,379**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2012.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique– observable market inputs	Valuation technique– non-market observable inputs
Cash and deposits with central banks	190,960	190,960	–	–	–
Balances due from credit institution	129,213	129,213	–	–	–
Held for trading securities	10,396	10,396	10,396	–	–
Financial assets designated at fair value through profit or loss	35,508	35,508	35,508	–	–
Derivatives	988	988	–	988	–
Available-for-sale securities	269,011	269,011	267,546	101	1,364
Loans and receivables to customers	716,443	704,609	–	–	–
Held to maturity securities	165,993	166,367	–	–	–
Total financial assets	**1,518,512**	**1,507,052**	**313,450**	**1,089**	**1,364**
Derivatives	2,722	2,722	–	2,722	–
Financial liabilities designated at fair value through profit or loss	10,368	10,368	6,957	–	3,411
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,477	25,477	–	–	–
Customer deposits	1,395,697	1,394,657	–	–	–
Subordinated liabilities	52,014	52,014	–	–	–
Other financial liabilities	5,789	5,677	–	–	–
Total financial liabilities	**1,492,067**	**1,490,915**	**6,957**	**2,722**	**3,411**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique– observable market inputs	Valuation technique– non-market observable inputs
Cash and deposits with central banks	219,644	219,644	–	–	–
Balances due from credit institution	154,074	154,074	–	–	–
Derivatives	2,576	2,576	–	2,576	–
Available-for-sale securities	233,282	233,282	231,898	–	1,384
Loans and receivables to customers	650,033	638,444	–	–	638,444
Held to maturity securities	157,753	161,190	138,775	–	22,415
Total financial assets	**1,417,362**	**1,409,210**	**370,673**	**2,576**	**662,243**
Derivatives	3,232	3,232	–	3,232	–
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	38,855	38,855	–	–	–
Customer deposits	1,301,135	1,302,154	–	–	1,302,154
Subordinated liabilities	51,709	51,709	–	–	51,709
Total financial liabilities	**1,394,931**	**1,395,950**	**–**	**3,232**	**1,353,863**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2012.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique–observable market inputs	Valuation technique–non-market observable inputs
Cash and deposits with central banks	174,708	174,708	–	–	–
Balances due from credit institution	81,070	81,070	–	–	–
Derivatives	1,034	1,034	–	1,034	–
Available-for-sale securities	202,308	202,308	200,843	101	1,364
Loans and receivables to customers	628,804	618,975	–	–	–
Held to maturity securities	155,748	160,929	–	–	–
Total financial assets	**1,243,672**	**1,239,024**	**200,843**	**1,135**	**1,364**
Derivatives	2,766	2,766	–	2,766	–
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	47,361	47,361	–	–	–
Customer deposits	1,132,728	1,131,617	–	–	–
Subordinated liabilities	52,014	52,014	–	–	–
Total financial liabilities	**1,234,869**	**1,233,758**	**–**	**2,766**	**–**

In 2013 the Bank and the Group has acquired equity shares which are classified as available for sale with a fair value of LVL 20 thousand and which fair value is calculated based on non-market observable inputs. No other changes in available for sale securities for which fair value is calculated based on non-market observable inputs took place during 2013. The fair value is categorised as Level 3 as these shares are not listed on an exchange and there are no recent observable transitions on the market. For this investment in equity shares no gain or loss in profit or loss or other comprehensive income was recognised in 2013.

f) Operational risk

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

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

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk–the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;

- Defining operational risk indicators–use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- Business continuity planning;
- Risk assessment within development projects.

g) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of a minimum of 8% of risk weighted assets. In second half of 2011, for the first time ever FCMC calculated Bank's capital adequacy ratio based on FCMC policies and guidelines. From then on, the calculation is performed once a year. The 2013 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 8.4% (2012: 8.4%). The increase in ratio is related to the non-resident business of the Bank. At the same time, FCMC's guidelines stipulate that well capitalised banks in 2014 will have to have at least 10.5% (2013: 10.0%) minimum capital adequacy ratio. As a result, FCMC has requested that the Bank and the Group has to maintain the capital adequacy ratio above 10.5%. The management believes that the continuous profitability as well as the anticipated restructuring of the subordinated debt loans will ensure the Group's compliance with the aforementioned target in 2014.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operational risk charge. On 17 July, the so-called CRD IV package which transposes–via a regulation (575/2013) and a directive (2013/36/EU)–the new global standards on bank capital (the Basel III agreement) into EU law, entered into force. The new rules apply from 1 January 2014. The capital adequacy ratios in these financial statements are calculated under Basel II framework. According to management estimates, except for the gradual deduction of the deferred tax asset from the common equity tier 1 during the next several years, there will a limited impact on the Bank's and Group's capital adequacy arising from the new Basel III framework requirements.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital

requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank plans its capital adequacy strategy under assumptions of the adverse macroeconomic scenario. The following represents the assessment summary of risk profile:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	High	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (counterparty credit risk in derivatives, participations etc)	Low	Standardized approach	n/a
Market risk	Position risk	High	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Moderate	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework, Pillar I) can be disclosed as follows:

	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
				LVL 000's
Tier 1				
- paid-in share capital	103,000	103,000	103,000	103,000
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(2,159)	(11,860)	(3,161)	(13,908)
Less				
- intangible assets	(1,284)	(859)	(949)	(493)
- restructuring reserve and other reserves	(3,137)	(3,153)	–	–
- Investments in subsidiaries—insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**94,920**	**85,628**	**97,390**	**87,099**
Tier 2				
- subordinated debt	50,270	50,270	50,270	50,270
- amortisation of subordinated debt **	(27,867)	(20,108)	(27,866)	(20,108)
- eligible securities fair value revaluation reserve	669	–	211	–
- investments in subsidiaries—insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**21,572**	**28,662**	**21,115**	**28,662**
Equity to be utilised in the capital adequacy ratio	**116,492**	**114,290**	**118,505**	**115,761**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	1,239	893	1,159	494
Municipalities	2,196	2,105	2,040	2,037
Government institutions	58	51	58	51
International development banks	14	–	14	–
Credit institutions	4,912	3,993	7,118	5,141
Companies	40,088	38,578	39,900	38,833
Assets qualifying for "retail" definition	6,205	5,562	3,826	4,000
Qualifying residential mortgage loans	10,241	7,878	8,588	6,112
Assets qualifying for "past due" definition	2,183	1,561	1,910	1,179
Investment funds	708	253	708	253
Other assets	10,706	11,145	6,950	7,315
Other risk capital charges:				
Foreign currency open positions subject to capital charge	940	5,068	371	604
Debt securities and derivatives position risk capital charge	961	399	338	233
Equities position risk capital charge	47	–	–	–
Commodities risk capital charge	1	14	1	14
Operational risk capital charge	10,084	9,981	7,999	7,713
Total capital charges	**90,583**	**87,481**	**80,980**	**73,979**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**10.3%**	**10.5%**	**11.7%**	**12.5%**

* AAS "Citadele Life" is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

** As at year end the bank has initiated discussions about early repayment of part of the subordinated debt. Therefore, part of the subordinated debt is not eligible for Tier 2 capital as at 31 December 2013. Repayment of LVL 13 million and an extension of maturity till 2018 for the remainder is expected.

Note 36. Events after the Balance Sheet Date

Until 1 January 2014 the Bank's functional currency and Group's presentation currency was Latvian Lats ("LVL"). These financial statements are presented in thousands of Lats (LVL 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/EUR. At that date all Group's and Bank's balances denominated in Lats were converted to Euros at the official exchange rate. The adoption of Euro had no direct impact on total comprehensive income of the Group and the Bank.

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" (the "Bank"), which comprise the separate balance sheet as at 31 December 2013, the separate statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 75. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2013, the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 75.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors ' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these separate and consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and Group's preparation and fair presentation of these separate and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Bank's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of AS "Citadele banka" as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS "Citadele banka" and its subsidiaries as at 31 December 2013 and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other matters

The comparative information of the prior periods disclosed in these separate and consolidated financial statements is based on the financial statements of the Bank and the Group as at and for the year ended 31 December 2012 which were audited by another auditor who expressed an unmodified opinion on those statements on 8 March 2013.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 6, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Management Report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
18 March 2014

Inga Lipšāne
Sworn Auditor
Certificate No 112

Citadele

AS "Citadele banka"
Statements of Income for the years ended 31 December 2012 and 2011

	Notes	2012 Group	2011 Group as restated (note 3)	2012 Bank	2011 Bank as restated (note 3)
					LVL 000's
Interest income	5	59,405	63,509	49,650	55,306
Interest expense	5	(24,774)	(32,655)	(22,500)	(30,585)
Net interest income		34,631	30,854	27,150	24,721
Commission and fee income	6	29,496	26,103	22,376	19,434
Commission and fee expense	6	(8,069)	(7,039)	(6,848)	(5,759)
Net commission and fee income		21,427	19,064	15,528	13,675
Gain on transactions with financial instruments, net	7	10,047	7,151	8,499	5,569
Other income		1,795	1,951	299	2,422
Other expense		(297)	(4,799)	(16)	(4,449)
Administrative expense	8,9	(41,623)	(40,207)	(30,118)	(30,453)
Amortisation and depreciation charge	20,21	(4,407)	(5,313)	(1,242)	(1,812)
Impairment charges and reversals, net	10	(9,372)	(8,759)	(9,680)	(7,965)
Gain / (loss) on disposal of assets held for sale, net		648	(105)	–	–
Profit / (loss) before taxation		12,849	(163)	10,420	1,708
Corporate income tax	11	(3,888)	(1,482)	(4,901)	(1,708)
Net profit / (loss) for the period		8,961	(1,645)	5,519	–
Attributable to:					
Equity holders of the Bank		8,961	(1,645)	5,519	–
Minority interest		–	–	–	–
		8,961	(1,645)	5,519	–

The notes on pages 14 to 78 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Comprehensive Income for the years ended 31 December 2012 and 31 December 2011

	2012	2011	2012	2011
	Group	Group as restated (note 3)	Bank	Bank as restated (note 3)
				LVL 000's
Net profit / (loss) for the period	8,961	(1,645)	5,519	–
Other comprehensive income:				
Fair value revaluation reserve: held-to-maturity securities				
Amortisation	571	1,061	499	679
Deferred income tax charged directly to equity	(11)	(58)	–	–
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	(134)	53	(134)	53
Fair value revaluation reserve charged to statement of income	(1,613)	(210)	(1,116)	221
Change in fair value of available-for-sale securities	9,934	(4,307)	5,990	(3,741)
Deferred income tax charged / (credited) directly to equity	(515)	119	–	–
Other reserves				
Foreign exchange revaluation reserve	120	504	–	–
Restructuring reserve, net	3	–	–	–
Other comprehensive income / (loss) for the period	8,355	(2,838)	5,239	(2,788)
Total comprehensive income / (loss) for the period	17,316	(4,483)	10,758	(2,788)
Attributable to:				
Equity holders of the Bank	17,316	(4,483)	10,758	(2,788)
Minority interest	–	–	–	–
	17,316	(4,483)	10,758	(2,788)

The notes on pages 14 to 78 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Balance Sheets as at 31 December 2012 and 31 December 2011

	Notes	31/12/2012 Group	31/12/2011 Group as restated (note 3)	31/12/2012 Bank	31/12/2011 Bank as restated (note 3)
					LVL 000's
Assets					
Cash and deposits with central banks	12	190,960	243,239	174,708	229,659
Balances due from credit institutions	13	129,213	212,421	81,070	183,079
Securities held for trading:					
- fixed income	16	9,221	161	–	–
- shares and other non-fixed income	17	1,175	34	–	–
Derivative financial instruments	30	988	3,483	1,034	3,542
Financial assets designated at fair value through profit and loss	18	35,508	6,381	–	–
Available-for-sale securities:					
- fixed income	16	265,769	156,065	199,077	93,828
- shares and other non-fixed income	17	3,242	8,531	3,231	8,461
Loans and receivables to customers	14,15	716,443	717,142	628,804	625,773
Held-to-maturity securities	16	165,993	126,361	155,748	118,442
Current income tax assets	11	206	246	–	–
Non-current assets classified as held for sale	22	264	1,185	168	118
Fixed assets	21	31,020	33,532	2,093	2,449
Goodwill and intangible assets	20	888	1,216	493	770
Investments in subsidiaries	19	–	–	44,545	44,195
Investment properties		902	1,099	–	–
Deferred income tax assets	11	25,182	28,896	24,209	28,777
Other assets	23	24,450	20,305	19,715	17,982
Total assets		1,601,424	1,560,297	1,334,895	1,357,075
Liabilities					
Derivative financial instruments	30	2,722	820	2,766	1,810
Financial liabilities designated at fair value through profit and loss	24	10,368	5,289	–	–
Financial liabilities measured at a mortised cost:					
- balances due to credit institutions and central banks	25	25,477	47,470	47,361	71,768
- deposits from customers	26	1,395,697	1,317,971	1,132,728	1,099,258
- issued debt securities		–	20,925	–	20,997
- other financial liabilities		5,789	23,301	–	17,782
Current income tax liabilities	11	28	155	–	12
Deferred income tax liabilities	11	–	1	–	–
Other liabilities	27	14,469	14,873	8,016	12,248
Subordinated liabilities	28	52,014	51,948	52,014	51,948
Total liabilities		1,506,564	1,482,753	1,242,885	1,275,823
Equity					
Paid-in share capital	29	103,000	103,000	103,000	103,000
Reserves		3,587	(5,000)	2,918	(2,321)
Accumulated losses		(11,727)	(20,456)	(13,908)	(19,427)
Total shareholders' equity attributable to the shareholders of the Bank		94,860	77,544	92,010	81,252
Minority interest		–	–	–	–
Total equity		94,860	77,544	92,010	81,252
Total liabilities and equity		1,601,424	1,560,297	1,334,895	1,357,075

The notes on pages 14 to 78 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Changes in Equity for the years ended 31 December 2012 and 2011

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank						
		Fair value revaluation reserve, attributable to:					
	Issued share capital	Held-to-maturity securities	Available-for-sale securities	Foreign exchange reserve	Restructuring reserve	Accumulated losses	Total equity
							LVL 000's
Balance as at 31 December 2010	**103,000**	**(1,706)**	**2,259**	**846**	**(3,561)**	**(18,811)**	**82,027**
Net profit for the period	–	–	–	–	–	1,895	1,895
Other comprehensive income / (loss) for the period	–	1,003	(4,345)	504	–	–	(2,838)
Balance as at 31 December 2011	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(16,916)**	**81,084**
Impact of restatement (note 3)	–	–	–	–	–	(3,540)	(3,540)
Balance as at 31 December 2011, as restated (note 3)	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(20,456)**	**77,544**
Net profit for the period	–	–	–	–	–	8,961	8,961
Other comprehensive income / (loss) for the period	–	560	7,672	120	235	(232)	8,355
Balance as at 31 December 2012	**103,000**	**(143)**	**5,586**	**1,470**	**(3,326)**	**(11,727)**	**94,860**

Changes in the Bank's equity are as follows:

	Attributable to equity holders of the Bank				
		Fair value revaluation reserve, attributable to:			
	Issued share capital	Held-to-maturity securities	Available-for-sale securities	Accumulated losses	Total equity
					LVL 000's
Balance as at 31 December 2010	**103,000**	**(1,709)**	**2,176**	**(19,427)**	**84,040**
Net loss for the period	–	–	–	3,540	3,540
Other comprehensive income / (loss) for the period	–	679	(3,467)	–	(2,788)
Balance as at 31 December 2011	**103,000**	**(1,030)**	**(1,291)**	**(15,887)**	**84,792**
Impact of restatement (note 3)	–	–	–	(3,540)	(3,540)
Balance as at 31 December 2011, as restated (note 3)	**103,000**	**(1,030)**	**(1,291)**	**(19,427)**	**81,252**
Net profit for the period	–	–	–	5,519	5,519
Other comprehensive income for the period	–	499	4,740	–	5,239
Balance as at 31 December 2012	**103,000**	**(531)**	**3,449**	**(13,908)**	**92,010**

The notes on pages 14 to 78 are an integral part of these financial statements.

Citadele

AS "Citadele banka"
Statements of Cash Flows for the years ended 31 December 2012 and 2011

	Notes	2012 Group	2011 Group as restated (note 3)	2012 Bank	2011 Bank as restated (note 3)
					LVL 000's
Cash flows from operating activities					
Profit / (loss) before tax		12,849	(163)	10,420	1,708
Amortisation of intangible assets, depreciation of fixed assets and investment properties		4,407	5,313	1,242	1,812
Change in impairment allowances and other provisions		9,372	8,759	9,680	7,965
Interest income		(59,405)	(63,509)	(49,650)	(55,306)
Interest expense		24,774	32,655	22,500	30,585
Other non-cash items		5,692	(4,408)	3,281	(3,251)
Cash flows before changes in assets and liabilities		**(2,311)**	**(21,353)**	**(2,527)**	**(16,487)**
Change in derivative financial instruments		4,397	(637)	3,464	282
(Increase)/ decrease in other assets		(21,437)	(1,768)	(2,848)	(1,847)
Increase/ (decrease) in other liabilities		(18,567)	18,764	(21,814)	20,899
(Increase)/ decrease in trading investments		(33,386)	(142)	–	4
(Increase)/ decrease in balances due from credit institutions		(16,234)	12,812	(3,299)	12,431
(Increase) / decrease in loans and receivables to customers		8,662	72,766	3,971	62,613
Increase / (decrease) in balances due to credit institutions and central banks		14,712	(3,685)	17,545	9,260
Increase/ (decrease) in deposits from customers		78,950	26,265	34,700	(15,897)
Cash generated from operating activities before corporate income tax		**14,786**	**103,022**	**29,192**	**71,258**
Interest received during the period		59,282	63,458	49,340	55,281
Interest paid during the period		(26,557)	(36,922)	(24,259)	(34,329)
Corporate income tax paid during the period		(62)	(246)	(12)	(4)
Net cash flow generated from operating activities		**47,449**	**129,312**	**54,261**	**92,206**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(1,551)	(831)	(949)	(454)
Proceeds from disposal of intangible and fixed assets		93	203	24	162
(Purchase) of held-to-maturity securities, net		(39,632)	1,211	(37,306)	(1,162)
(Purchase) of available-for-sale securities		(291,679)	(246,520)	(222,144)	(165,617)
Cash inflows from available-for-sale securities		190,905	279,517	121,705	216,861
Acquisitions and investments in subsidiaries		–	–	(13,263)	(4,208)
Net cash flow from investing activities		**(141,864)**	**33,580**	**(151,933)**	**45,582**
Cash flows from financing activities					
Redemption/ repurchase of debt securities		(20,611)	(68,684)	(20,611)	(68,684)
Net cash flow from financing activities		**(20,611)**	**(68,684)**	**(20,611)**	**(68,684)**
Net cash flow for the period		**(115,026)**	**94,208**	**(118,283)**	**69,104**
Cash and cash equivalents at the beginning of the period		**415,045**	**320,837**	**365,774**	**296,670**
Cash and cash equivalents at the end of the period	**33**	**300,019**	**415,045**	**247,491**	**365,774**

The notes on pages 14 to 78 are an integral part of these financial statements.

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2011 or for the year ended 31 December 2011, if not stated otherwise.

Authorisation of the Financial Statements

These financial statements have been authorised for issuance by the Management on 8 March 2013. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of the financial statements.

Note 1. General Information

AS "Citadele Banka" (hereinafter—the Bank) was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2012, the Bank was operating a total of 39 (41) branches and client service centres in Riga and throughout Latvia. The Bank has 4 (5) foreign branches and client service centres—in Tallinn (Estonia), Narva (Estonia), Roosikrantsi (Estonia), Munich (Germany). Branches in Narva (Estonia) and Munich (Germany) are in process of closing. The Bank owns directly and indirectly 21 (23) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. The ultimate controlling party of the Bank is Republic of Latvia.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2012, the Group had 1,640 (1,679) employees and the Bank had 1,175 (1,211) employees.

Note 2. Restructuring

On 30 June 2010 AS "Citadele Banka" was registered in the commercial registry of the Republic of Latvia and on the same date it received banking licence from the Financial and Capital Market Commission (FCMC). AS "Citadele Banka" was established as a result of implementation of EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS "Citadele Banka" was to take over from AS "Parex Banka" certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS "Parex Banka" to AS "Citadele Banka" took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also—CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS "Parex Banka", and the transferee, AS "Citadele Banka", whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Restructuring implications

The Bank's establishment and future operations are part of the restructuring plan of AS "Parex Banka" that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implements for AS "Parex Banka" and AS "Citadele Banka" is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. The commitments have been taken into account, when preparing the long-term business plan of the Bank.

Note 3. Restatement

According to the initial Commitments to the European Commission the bank shall pay a fee to the state of Latvia for the use of State support, hereinafter referred to as the "asset relief fee" when Citadele banka's capital adequacy ratio on solo basis is not lower than 12% and capital adequacy ratio at group level is not lower than 8%. In late 2011, management started discussions with the EC to change the terms of the commitments to raise the minimum capital adequacy ratios required as a precondition for the asset relief fee to become payable, which would have resulted in no fees being payable for 2011.

At the time of finalising the 2011 financial statements, management believed that an agreement was reached and no asset relief fee was payable for 2011. However, subsequent discussions have led to delaying any agreement on the matter and in June 2012, the EC confirmed that the fee is payable in respect of 2011 at the original terms.

The capital adequacy ratios of the Bank and Group as at 31 December 2011 were 13.3% and 11% respectively, which are above the set ratios of the Commitments of 12% and 8%. Citadele concluded 2011 with a profit of LVL 3.5 million. Based on the above, on 18 July 2012 the Bank transferred a similar amount to the State Treasury as the asset relief fee for 2011.

As the amount payable became measurable after the finalisation of the 2011 annual accounts and the contractual obligation relating to the asset relief fee existed at 31 December 2011, all affected balances and amounts in these financial statements and interim financial information for the 6 month period ended 30 June 2012 have been restated accordingly. The compensation liability only arose on 31 December 2011 and therefore has no impact on any financials before 31 December 2011. A third column on the Bank's and Group's balance sheet is not presented as the restatement does not have any impact on the opening balances of 2011.

However, on 10 August 2012 the European Commission agreed to amend the Restructuring plan so that among other matters the asset relief fee is only due to the extent that the Bank's and the Group's relevant capital adequacy ratios exceed the minimum regulatory requirements at the level of the Bank and the Group, plus a buffer of 0.5%, unless it brings the Bank or the Group below the future minimum national regulatory requirements (plus a buffer of 0.5%) that are to be enforced within the following year. For more details on current national regulatory requirements please refer to Note 36 *h)*.

The impact of the restatement on the Group's balance sheet is as follows:

	Other liabilities	Total liabilities	Accumulated losses	Total equity
				LVL 000's
Balances as at 31 December 2011	**11,333**	**1,479,213**	**(16,916)**	**81,084**
Impact of the restatement	3,540	3,540	(3,540)	(3,540)
Balances as at 31 December 2011, as restated	**14,873**	**1,482,753**	**(20,456)**	**77,544**

The impact of the restatement on the Bank's balance sheet is as follows:

	Other liabilities	Total liabilities	Accumulated losses	Total equity
				LVL 000's
Balances as at 31 December 2011	**8,708**	**1,272,283**	**(15,887)**	**84,792**
Impact of the restatement	3,540	3,540	(3,540)	(3,540)
Balances as at 31 December 2011, as restated	**12,248**	**1,275,823**	**(19,427)**	**81,252**

The impact of the restatement on the Group's income statement for the year ended 31 December 2011 is as follows:

	Other expense	Profit before taxation	Net profit for the period	Net profit attributable to: equity holders of the Bank
				LVL 000's
Statement of income 2011	**(1,259)**	**3,377**	**1,895**	**1,895**
Impact of the restatement	(3,540)	(3,540)	(3,540)	(3,540)
Statement of income 2011, as restated	**(4,799)**	**(163)**	**(1,645)**	**(1,645)**

The impact of the restatement on the Bank's income statement for the year ended 31 December 2011 is as follows:

	Other expense	Profit before taxation	Net profit for the period	Net profit attributable to: equity holders of the Bank
				LVL 000's
Statement of income 2011	**(909)**	**5,248**	**3,540**	**3,540**
Impact of the restatement	(3,540)	(3,540)	(3,540)	(3,540)
Statement of income 2011, as restated	**(4,449)**	**1,708**	**–**	**–**

Note 4. Summary of Significant Accounting Policies

Certain new IFRSs became effective for the Group from 1 January 2012. Listed below are those new or amended standards or interpretations which are not relevant for the Group's operations and did not have an impact on these financial statements:

- Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets (effective for annual periods beginning on or after 1 July 2011).
- Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).
- Amendments to IAS 12 "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not yet relevant to the Group or are not yet endorsed by the EU:

- Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).
- IFRS 9 "Financial Instruments Part 1: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).
- IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).
- IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).
- IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).
- Amendments to IAS 32 "Financial instruments: Presentation" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).
- Amendments to IFRS 1 "First time adoption" on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).
- Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):
    - IFRS 1 "First time adoption";
    - IAS 1 "Financial statement presentation";

- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

- Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).
- IFRIC 20, "Stripping costs in the production phase of a surface mine" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

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

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats ("LVL"). The accompanying financial statements are presented in thousands of Lats (LVL 000's).

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank's, i.e. AS "Parex Banka" stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS "Citadele Banka" and their net equity as at the date of transfer are treated as restructuring reserves in the consolidated financial statements of AS "Citadele Banka". Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The carrying amount of net assets that were transferred to the Bank equalled zero. The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank.

d) Basis of Consolidation

As at 31 December 2012, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 19.

The financial statements of AS "Citadele Banka" and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the income statement, with exception of available-for-sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- all resulting exchange differences are recognised as other comprehensive income.

g) Taxation

For the year ended 31 December 2012 corporate income tax is applied at the rate of 15% (2011: 15%) on taxable income generated by the Bank for the taxation period. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognized as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-

term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

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

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the income statement's line "Gain on transactions with financial instruments, net".

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available-for-sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available-for-sale securities is recognised in other comprehensive income statement. The difference between the

initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the income statement. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available-for-sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the consolidated income statement.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Own credit risk in valuations of derivative liabilities

The Group's own credit changes are reflected in valuations of such derivative liabilities, where the Group's own credit risk would be considered by market participants and excludes derivatives for which it is established market practice not to include an entity-specific adjustment for own credit, also referred to as counterparty close out approach. This amount represents the estimated difference in the market value of identical obligations issued by a riskless intermediary, relative to the market value of those obligations issued by the Group, as judged from the perspective of the holders of those obligations. Own credit changes were calculated based on credit default swap spreads. At 31 December 2012 and 31 December 2011, there are no material adjustments arising from Group's own credit assessment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/ or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

k) Leases

Finance leases—Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases—Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases—Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; or
    - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an

interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

m) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

n) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

o) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% – 10%
Transport vehicles	20%
Other fixed assets	20% – 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

q) Inventories

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies. Group's inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at lowest of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs

necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as impairment charges in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

r) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classifies as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net". In the same line of the income statement a gain from any subsequent increase in fair value less cost to sell of an asset is recognized, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

s) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's fixed assets are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

t) Insurance business

Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate.

u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

v) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *u)*.

w) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

x) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

y) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

z) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

aa) Staff costs and related contributions

The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

bb) Events after the balance sheet date

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

cc) Changes in accounting policies

(1) Citadele group previously presented balances with credit card companies as balances due from credit institutions. Starting from 2012 interim accounts these balances are presented as other assets.

(2) Previously the Group presented penalty fees for non-compliance with contractual terms of loan and deposit agreements as other operating income. Starting from 2012, these have been included as an effective interest rate component and are shown accordingly in interest income and interest expense lines of the income statement.

(3) Fee income and expense related to the consulting activities performed by the Group is presented in commission and fee income and commission and fee expense lines of the income statement as opposed to other income and administrative expense previously.

(4) Fixed interest rate investment contracts originating from the insurance business are presented as liabilities designated at fair value through profit and loss; previously as other liabilities.

All comparative data has been restated accordingly. The tables below also include effect from asset relief payment due as at 31 December 2011 (for more details refer to note 3).

The impact of theses changes on the Group's and Bank's statements of income is as follows:

		Group LVL 000's				Bank LVL 000's			
		2012	2012	2011	2011	2012	2012	2011	2011
	Change		Before restatement		Before restatement		Before restatement		Before restatement
Interest income	(2)	59,405	56,468	63,509	59,916	49,650	47,162	55,306	52,194
Interest expense	(2)	(24,774)	(24,812)	(32,655)	(32,689)	(22,500)	(22,538)	(30,585)	(30,619)
Net interest income / (expense)		34,631	31,656	30,854	27,227	27,150	24,624	24,721	21,575
Commission and fee income	(3)	29,496	28,937	26,103	25,737	22,376	22,376	19,434	19,434
Commission and fee expense	(3)	(8,069)	(7,756)	(7,039)	(7,126)	(6,848)	(6,848)	(5,759)	(5,759)
Net commission and fee income		21,427	21,181	19,064	18,611	15,528	15,528	13,675	13,675
Gain on transactions with financial instruments, net		10,047	10,047	7,151	7,151	8,499	8,499	5,569	5,569
Other income	(2),(3)	1,795	5,328	1,951	5,944	299	2,825	2,422	5,568
Other expense		(297)	(297)	(4,799)	(1,259)	(16)	(16)	(4,449)	(909)
Administrative expense	(3)	(41,623)	(41,935)	(40,207)	(40,120)	(30,118)	(30,118)	(30,453)	(30,453)
Amortisation and depreciation charge		(4,407)	(4,407)	(5,313)	(5,313)	(1,242)	(1,242)	(1,812)	(1,812)
Impairment charges and reversals, net		(9,372)	(9,372)	(8,759)	(8,759)	(9,680)	(9,680)	(7,965)	(7,965)
Gain / (loss) on disposal of assets held for sale, net		648	648	(105)	(105)	–	–	–	–
Profit / (loss) before taxation		12,849	12,849	(163)	3,377	10,420	10,420	1,708	5,248
Corporate income tax		(3,888)	(3,888)	(1,482)	(1,482)	(4,901)	(4,901)	(1,708)	(1,708)
Net profit / (loss) for the period		8,961	8,961	(1,645)	1,895	5,519	5,519	–	3,540
Attributable to:									
Equity holders of the Bank		8,961	8,961	(1,645)	1,895	5,519	5,519	–	3,540
Minority interest		–	–	–	–	–	–	–	–
		8,961	8,961	(1,645)	1,895	5,519	5,519	–	3,540

The impact of theses changes on the Group's and Bank's balance sheets is as follows:

		Group LVL 000's				Bank LVL 000's			
		31/12/2012	31/12/2012 Before restatement	31/12/2011	31/12/2011 Before restatement	31/12/2012	31/12/2012 Before restatement	31/12/2011	31/12/2011 Before restatement
	Change								
Assets									
Cash and deposits with central banks		190,960	190,960	243,239	243,239	174,708	174,708	229,659	229,659
Balances due from credit institutions	(1)	129,213	140,375	212,421	225,739	81,070	92,232	183,079	196,397
Securities held for trading		10,396	10,396	195	195	–	–	–	–
Derivative financial instruments		988	988	3,483	3,483	1,034	1,034	3,542	3,542
Financial assets designated at fair value through profit and loss		35,508	35,508	6,381	6,381	–	–	–	–
Available-for-sale securities		269,011	269,011	164,596	164,596	202,308	202,308	102,289	102,289
Loans and receivables to customers		716,443	716,443	717,142	717,142	628,804	628,804	625,773	625,773
Held-to-maturity securities		165,993	165,993	126,361	126,361	155,748	155,748	118,442	118,442
Current income tax assets		206	206	246	246	–	–	–	
Non-current assets classified as held for sale		264	264	1,185	1,185	168	168	118	118
Fixed assets		31,020	31,020	33,532	33,532	2,093	2,093	2,449	2,449
Goodwill and intangible assets		888	888	1,216	1,216	493	493	770	770
Investments in subsidiaries		–	–	–	–	44,545	44,545	44,195	44,195
Investment properties		902	902	1,099	1,099	–	–	–	–
Deferred income tax assets		25,182	25,182	28,896	28,896	24,209	24,209	28,777	28,777
Other assets	(1)	24,450	13,288	20,305	6,987	19,715	8,553	17,982	4,664
Total assets		1,601,424	1,601,424	1,560,297	1,560,297	1,334,895	1,334,895	1,357,075	1,357,075
Liabilities									
Derivative financial instruments		2,722	2,722	820	820	2,766	2,766	1,810	1,810
Financial liabilities designated at fair value through profit and loss	(4)	10,368	6,986	5,289	4,426	–	–	–	–
Financial liabilities measured at amortised cost:		1,426,963	1,426,963	1,409,667	1,409,667	1,180,089	1,180,089	1,209,805	1,209,805
Current income tax liabilities		28	28	155	155	–	–	12	12
Deferred income tax liabilities		–	–	1	1	–	–	–	–
Other liabilities	(4)	14,469	17,851	14,873	12,196	8,016	8,016	12,248	8,708
Subordinated liabilities		52,014	52,014	51,948	51,948	52,014	52,014	51,948	51,948
Total liabilities		1,506,564	1,506,564	1,482,753	1,479,213	1,242,885	1,242,885	1,275,823	1,272,283
Equity									
Total shareholders' equity attributable to the shareholders of the Bank		94,860	94,860	77,544	81,084	92,010	92,010	81,252	84,792
Minority interest				–	–	–	–	–	–
Total equity		94,860	94,860	77,544	81,084	92,010	92,010	81,252	84,792
Total liabilities and equity		1,601,424	1,601,424	1,560,297	1,560,297	1,334,895	1,334,895	1,357,075	1,357,075

dd) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 1.1 million (2011: LVL 0.9 million).

Impairment of securities

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an

estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2012, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2011: nil).

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

Note 5. Interest Income and Expense

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Interest income:				
- interest on financial assets measured at amortised cost:	53,474	57,489	46,833	51,424
- interest on loans and receivables to customers	*44,663*	*49,406*	*38,533*	*43,194*
- interest on balances due from credit institutions and central banks	*809*	*1,222*	*655*	*1,711*
- interest on held-to-maturity securities	*8,002*	*6,861*	*7,645*	*6,519*
- interest on available-for-sale securities	4,934	5,931	2,747	3,881
- interest on held for trading securities	339	15	–	1
- interest income on financial assets designated at fair value through profit or loss	588	74	–	–
- other interest income	70	–	70	–
Total interest income	**59,405**	**63,509**	**49,650**	**55,306**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(24,704)	(32,655)	(22,500)	(30,585)
- interest on deposits from customers	*(18,539)*	*(25,045)*	*(15,975)*	*(22,740)*
- interest on subordinated liabilities	*(4,463)*	*(4,449)*	*(4,463)*	*(4,449)*
- interest on issued debt securities	*(128)*	*(2,363)*	*(128)*	*(2,366)*
- interest on balances due to credit institutions and central banks	*(65)*	*(308)*	*(430)*	*(559)*
- other interest expense	*(1,509)*	*(490)*	*(1,504)*	*(471)*
- interest expense on financial liabilities designated at fair value through profit or loss	(70)	–	–	–
Total interest expense	**(24,774)**	**(32,655)**	**(22,500)**	**(30,585)**
Net interest income / (expense)	**34,631**	**30,854**	**27,150**	**24,721**

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Interest income recognised on impaired assets	3,981	1,830	3,269	2,715

Note 6. Commission and Fee Income and Expense

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Commission and fee income:				
- transactions with settlement cards	12,693	11,377	11,562	10,363
- payment transfer fee	5,238	4,506	3,984	3,383
- custody, trust and asset management fees	4,442	4,420	820	606
- service fee for account maintenance	1,237	1,233	979	1,027
- review of loan applications and collateral evaluation	1,086	437	1,051	417
- cash disbursement/ transaction commission	1,059	1,091	641	744
- cash collection	1,048	796	1,048	796
- securities, financial instrument brokerage fees	884	773	547	436
- letters of credit and guarantees	593	478	495	340
- other fees	1,216	992	1,249	1,322
Total commission and fee income	**29,496**	**26,103**	**22,376**	**19,434**

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Commission and fee expense:				
- fees related to settlement card operations	(5,974)	(5,225)	(5,356)	(4,529)
- fees related to correspondent accounts	(1,135)	(994)	(979)	(869)
- brokerage and custodian fees:	(549)	(484)	(456)	(325)
- securities, financial instrument brokerage fees	*(325)*	*(266)*	*(328)*	*(192)*
- custody, trust and asset management fees	*(224)*	*(218)*	*(128)*	*(133)*
- other fees	(411)	(336)	(57)	(36)
Total commission and fee expense	**(8,069)**	**(7,039)**	**(6,848)**	**(5,759)**
Net commission and fee income	**21,427**	**19,064**	**15,528**	**13,675**

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Commission and fee income	29,496	26,103	22,376	19,434
Commission and fee expense	(8,069)	(7,039)	(6,848)	(5,759)

Note 7. Gain on Transactions with Financial Instruments, Net

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Gain from trading and revaluation of securities held for trading purposes, net	(295)	12	–	12
Gain / (loss) from disposal of available-for-sale securities, net	1,613	210	1,116	(221)
Gain on financial assets measured at amortised cost, net	2	355	–	–
Gain from foreign exchange trading and revaluation of open positions, net	8,926	7,732	7,490	6,231
Loss from trading and revaluation of other derivatives, net	27	(1,101)	(107)	(453)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(226)	(57)	–	–
Gain on trading with financial instruments, net	**10,047**	**7,151**	**8,499**	**5,569**

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Net gain / (loss) on financial instruments not at fair value through profit or loss	1,615	565	1,116	(221)
Net gain on financial instruments at fair value through profit or loss	8,432	6,586	7,383	5,790
Total gain on financial instruments, net	**10,047**	**7,151**	**8,499**	**5,569**

Note 8. Administrative Expense

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Personnel expense	26,144	25,113	18,026	18,120
Rent, utilities, maintenance	3,634	3,705	4,241	4,511
Non-refundable value added tax	2,349	2,312	1,843	1,873
IT equipment and software related expense	2,021	1,997	1,560	1,513
Consulting and professional fees	1,198	1,025	756	584
Advertising, marketing and sponsorship	1,171	1,276	730	1,035
Communications (telephone, telex, etc.)	514	586	327	357
Office administration expense	458	503	327	380
Other administrative expense	4,134	3,690	2,308	2,080
Total administrative expense	**41,623**	**40,207**	**30,118**	**30,453**

Note 9. Personnel Expense

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Remuneration:				
- management	1,520	1,520	648	577
- other personnel	19,556	18,723	13,751	14,033
Total remuneration for work	**21,076**	**20,243**	**14,399**	**14,610**
Social security contributions:				
- management	316	321	159	139
- other personnel	4,752	4,549	3,468	3,371
Total social security contributions	**5,068**	**4,870**	**3,627**	**3,510**
Total personnel expense	**26,144**	**25,113**	**18,026**	**18,120**
Number of employees at the end of the period	1,640	1,679	1,175	1,211

Note 10. Impairment of Assets and Changes in Impairment Allowances

Total net impairment allowance charged to income statement:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Loans—specifically assessed impairment	(11,112)	(7,986)	8,214	(4,049)
Loans—collectively assessed impairment	4,650	1,276	(921)	1,016
Available-for-sale securities	(3,356)	(53)	(3,356)	(53)
Due from credit institutions	(23)	–	(23)	–
Other financial and non-financial assets	(270)	(2,053)	(14,332)	(4,935)
Recovered written-off assets	739	57	738	56
Total provision and reversals charged to the statement of income, net	**(9,372)**	**(8,759)**	**(9,680)**	**(7,965)**

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Total allowance for impairment at the beginning of the period, including:	**60,969**	**60,633**	**57,277**	**60,523**
- loans—specifically assessed impairment	48,493	46,905	50,972	53,203
- loans—collectively assessed impairment	12,476	13,728	6,305	7,320
Charge:	**17,635**	**18,921**	**10,204**	**16,642**
- loans—specifically assessed impairment	14,847	15,355	7,732	13,859
- loans—collectively assessed impairment	2,788	3,566	2,472	2,783
Release:	**(11,173)**	**(12,211)**	**(17,497)**	**(13,609)**
- loans—specifically assessed impairment	(3,735)	(7,369)	(15,946)	(9,810)
- loans—collectively assessed impairment	(7,438)	(4,842)	(1,551)	(3,799)
Provision charged to the statement of income, net, including:	**6,462**	**6,710**	**(7,293)**	**3,033**
- loans—specifically assessed impairment	11,112	7,986	(8,214)	4,049
- loans—collectively assessed impairment	(4,650)	(1,276)	921	(1,016)
Change of allowance due to write-offs, net	**(4,948)**	**(6,056)**	**(2,850)**	**(5,911)**
Effect of changes in currency exchange rates:	**188**	**(318)**	**187**	**(368)**
- loans—specifically assessed impairment	189	(342)	188	(369)
- loans—collectively assessed impairment	(1)	24	(1)	1
Total allowance for impairment at the end of the period, including:	**62,671**	**60,969**	**47,321**	**57,277**
- loans—specifically assessed impairment	54,846	48,493	40,096	50,972
- loans—collectively assessed impairment	7,825	12,476	7,225	6,305

An analysis of the change in impairment of other assets is presented as follows:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Total allowance for impairment at the beginning of the period, including:	**25,391**	**24,186**	**25,375**	**20,371**
- available-for-sale securities	3,432	3,370	3,432	3,370
- due from credit institutions	544	535	544	535
- other non-financial assets	21,415	20,281	21,399	16,466
Charge:	**5,954**	**2,164**	**18,190**	**4,988**
- available-for-sale securities	3,356	53	3,356	53
- due from credit institutions	23	–	23	–
- other non-financial assets	2,575	2,111	14,811	4,935
Release:	**(2,305)**	**(58)**	**(479)**	**–**
- other non-financial assets	(2,305)	(58)	(479)	–
Provision charged to the statement of income, net, including:	**3,649**	**2,106**	**17,711**	**4,988**
- available-for-sale securities	3,356	53	3,356	53
- due from credit institutions	23	–	23	–
- other financial and non-financial assets	270	2,053	14,332	4,935
Change of allowance due to write-offs, net:	**(3,412)**	**(935)**	**–**	**–**
- other non-financial assets	(3,412)	(935)	–	–
Effect of changes in currency exchange rates:	**(228)**	**34**	**(226)**	**16**
- available-for-sale securities	(159)	9	(159)	9
- due from credit institutions	(13)	9	(13)	9
- other non-financial assets	(56)	16	(54)	(2)
Total allowance for impairment at the end of the period, including:	**25,400**	**25,391**	**42,860**	**25,375**
- available-for-sale securities	6,629	3,432	6,629	3,432
- due from credit institutions	554	544	554	544
- other non-financial assets	18,217	21,415	35,677	21,399

Note 11. Taxation

Corporate income tax expense comprises the following items:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Current corporate income tax	378	213	12	16
Deferred income tax	3,187	775	4,568	1,203
Tax withheld abroad	321	489	321	489
Prior year adjustments	2	5	–	–
Total corporate income tax expense	**3,888**	**1,482**	**4,901**	**1,708**

The reconciliation of the Bank's and the Group's pre-tax loss for the period to the corporate income tax expense for the period may be specified as follows:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Profit / (loss) before corporate income tax	12,849	(163)	10,420	1,708
Corporate income tax (at standard rate)*	**1,927**	**(24)**	**1,563**	**256**
Effect of tax rates in foreign jurisdictions	8	(8)	–	–
Permanent differences, net	2,080	2,959	2,396	1,048
Temporary differences and utilised prior period tax loss	(127)	(1,450)	942	404
Prior year adjustments	–	5	–	–
Total effective corporate income tax	**3,888**	**1,482**	**4,901**	**1,708**

* standard domestic tax rate for the period ended 31 December 2012 was 15% (2011: 15%).

The movements in deferred corporate income tax liability / (asset) can be specified as follows:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
As at the beginning of the year	(28,895)	(29,609)	(28,777)	(29,980)
Charge to statement of income	3,187	775	4,568	1,203
Charge to statement of comprehensive income**	526	(61)	–	–
Total deferred income tax (asset) at the end of the year, net	**(25,182)**	**(28,895)**	**(24,209)**	**(28,777)**

Deferred corporate income tax assets and liabilities can be specified as follows:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	1,626	1,166	141	173
Other deferred tax liabilities	20	–	8	–
Deferred tax assets:				
Vacation pay accrual	(378)	(283)	(305)	(176)
Revaluation of securities and derivatives**	103	(3)	(260)	(3)
Non-taxable impairment allowance	(3,811)	(7,003)	(1,643)	(4,459)
Unutilised tax losses	(28,463)	(32,514)	(21,965)	(26,817)
Other deferred tax assets	(130)	–	(185)	–
Net deferred corporate income tax (asset)	**(31,033)**	**(38,637)**	**(24,209)**	**(31,282)**
Unrecognised deferred tax asset	5,851	9,742	–	2,505
Recognised deferred corporate income tax (asset), net	**(25,182)**	**(28,895)**	**(24,209)**	**(28,777)**

** all changes in deferred tax liability that are charged directly to statement of comprehensive income are related to revaluation of securities.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Expiry year:				
2012	–	115	–	–
2013	3,050	392	–	–
2014	13,657	788	–	–
2015	8,345	283	–	–
Undated***	164,699	214,647	146,434	178,780
Total unutilised tax losses	**189,751**	**216,225**	**146,434**	**178,780**

*** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

The movements in tax accounts of the Bank during 2012 can be specified as follows:

	Balance as at 01/01/2012	Calculated in 2012	Paid in 2012	Balance as at 31/12/2012
				LVL 000's
Corporate income tax	(12)	(327)	339	–
including corporate income tax withheld abroad	–	*(327)*	*327*	–
Social security contributions	(20)	(5,022)	5,033	(9)
Personal income tax	(10)	(3,494)	3,501	(3)
Value added tax	(7)	(548)	534	(21)
Real estate tax	–	(4)	4	–
Total tax (payable)/ receivable	**(49)**			**(33)**

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year. The Group's management believes that there are no material tax liabilities that can arise as a result of such inspections in the future.

Note 12. Cash and Deposits with Central Banks

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Cash	45,956	45,606	42,251	42,489
Deposits with the Bank of Latvia	53,383	177,680	53,383	177,680
Demand deposits with other central banks	91,621	19,953	79,074	9,490
Total cash and deposits with central banks	**190,960**	**243,239**	**174,708**	**229,659**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia. During the reporting year, the Bank was in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and certain Euro zone countries. As at 31 December 2012 and 31 December 2011, none of the amounts due from central banks were past due.

Note 13. Balances due from Credit Institutions

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Due from credit institutions registered in OECD countries	118,480	172,587	66,303	144,980
Due from credit institutions registered in Latvia	1,433	29,766	79	29,059
Due from credit institutions registered in other non-OECD countries	9,854	10,612	15,242	9,584
Total gross balances due from credit institutions	**129,767**	**212,965**	**81,624**	**183,623**
Incl. impaired balances	*554*	*544*	*554*	*544*
Impairment allowance	(554)	(544)	(554)	(544)
Total net balances due from credit institutions	**129,213**	**212,421**	**81,070**	**183,079**

As at 31 December 2012 and 2011, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor impaired balances due from credit institutions refer to Credit risk section of the Note 36. The Bank's balances with its subsidiary AB "Citadele" Bankas (Lithuania) accounted for 64% (2011: 7%) of the total net balances due from credit institutions registered in other non-OECD countries.

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Correspondent accounts (nostro)	70,530	55,590	43,088	45,735
Overnight deposits	15,775	132,669	21,246	133,281
Total demand deposits	**86,305**	**188,259**	**64,334**	**179,016**
Term deposits with credit institutions:				
due within 1 month	31,220	15,249	14,491	4,063
due within 1-3 months	9,685	8,039	2,249	–
due within 3-6 months	–	–	–	–
due within 6-12 months	279	335	–	–
due within 1-5 years	817	267	–	–
Over 5 years and undated	1,461	816	550	544
Total term deposits	**43,462**	**24,706**	**17,290**	**4,607**
Total gross balances due from credit institutions	**129,767**	**212,965**	**81,624**	**183,623**
Impairment allowance	(554)	(544)	(554)	(544)
Total net balances due from credit institutions	**129,213**	**212,421**	**81,070**	**183,079**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

Note 14. Loans and Receivables to Customers

The following table represents the current classes of the Group's loans:

	Group, LVL 000's			Group, LVL 000's		
	31/12/2012			31/12/2011		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	592,557	22,568	615,125	626,904	1,674	628,578
Utilised credit lines	71,655	20,594	92,249	41,873	40,373	82,246
Finance leases	48,865	–	48,865	40,624	–	40,624
Debit balances on payment cards	56,682	61,559	118,241	62,123	61,292	123,415
Overdraft facilities	2,333	11,262	13,595	460	7,369	7,829
Factoring	782	–	782	378	–	378
Due from investment counterparties	6,240	–	6,240	5,749	–	5,749
Total loans and receivables to customers	**779,114**	**115,983**	**895,097**	**778,111**	**110,708**	**888,819**
Impairment allowance	(62,671)	–	(62,671)	(60,969)	–	(60,969)
Total net loans and receivables to customers	**716,443**	**115,983**	**832,426**	**717,142**	**110,708**	**827,850**

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

The following table represents the current classes of the Bank's loans:

	Bank, LVL 000's			Bank, LVL 000's		
	31/12/2012			31/12/2011		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	510,876	20,692	531,568	551,243	1,054	552,297
Utilised credit lines	107,059	36,291	143,350	70,732	66,304	137,036
Debit balances on payment cards	50,067	53,429	103,496	55,076	53,097	108,173
Overdraft facilities	2,123	10,486	12,609	334	6,412	6,746
Due from investment counterparties	6,000	–	6,000	5,665	–	5,665
Total loans and receivables to customers	**676,125**	**120,898**	**797,023**	**683,050**	**126,867**	**809,917**
Impairment allowance	(47,321)	–	(47,321)	(57,277)	–	(57,277)
Total net loans and receivables to customers	**628,804**	**120,898**	**749,702**	**625,773**	**126,867**	**752,640**

Loans and advances by customer profile may be specified as follows:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Private individuals	344,061	366,027	245,643	255,746
Privately held companies	405,332	373,847	405,828	394,822
State owned enterprises	14,610	17,515	13,231	16,254
Municipality owned enterprises	4,372	7,495	3,962	6,934
Public and religious institutions	8,145	10,180	5,103	6,671
Local municipalities	2,554	3,033	2,327	2,620
Government	40	14	31	3
Total gross loans and receivables to customers	**779,114**	**778,111**	**676,125**	**683,050**
Impairment allowance	(62,671)	(60,969)	(47,321)	(57,277)
Total net loans and receivables to customers	**716,443**	**717,142**	**628,804**	**625,773**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Real estate purchase and management	112,163	112,620	137,982	153,604
Transport and communications	72,820	91,360	57,276	79,534
Manufacturing	59,659	34,374	53,667	29,223
Trade	55,651	57,049	37,969	42,754
Agriculture and forestry	38,827	27,415	28,615	18,175
Electricity, gas and water supply	20,142	8,600	19,371	7,972
Construction	17,349	13,384	12,426	9,230
Hotels, restaurants	13,398	25,920	11,425	23,645
Financial intermediation	12,358	10,428	53,015	44,196
Other industries	32,686	30,934	18,736	18,971
Total gross loans and receivables to corporate customers	**435,053**	**412,084**	**430,482**	**427,304**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Latvian residents	517,840	490,470	552,215	537,490
OECD region residents	54,284	49,679	48,346	44,966
Non-OECD region residents	206,990	237,962	75,564	100,594
Total gross loans and receivables to customers	**779,114**	**778,111**	**676,125**	**683,050**
Impairment allowance	(62,671)	(60,969)	(47,321)	(57,277)
Total net loans and receivables to customers	**716,443**	**717,142**	**628,804**	**625,773**

Note 15. Leases

The following table represents finance leases analysed by type of assets:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Transport vehicles	34,010	31,660	–	–
Manufacturing equipment	8,106	2,080	–	–
Real estate	606	691	–	–
Other	6,143	6,193	–	–
Total present value of finance lease payments, excluding impairment	**48,865**	**40,624**	**–**	**–**
Impairment allowance	(6,586)	(7,008)	–	–
Net present value of finance lease payments	**42,279**	**33,616**	**–**	**–**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Gross investment in finance leases receivable:				
within 1 year	16,232	11,351	–	–
later than 1 year and no later than in 5 years	35,807	31,852	–	–
later than in 5 years	436	713	–	–
Total gross investment in finance leases	**52,475**	**43,916**	**–**	**–**
Unearned finance income receivable:				
within 1 year	1,000	922	–	–
later than 1 year and no later than in 5 years	2,574	2,333	–	–
later than in 5 years	36	37	–	–
Total	**3,610**	**3,292**	**–**	**–**
Present value of minimum lease payments receivable:				
within 1 year	15,232	10,429	–	–
later than 1 year and no later than in 5 years	33,233	29,519	–	–
later than in 5 years	400	676	–	–
Total	**48,865**	**40,624**	**–**	**–**

Note 16. Fixed Income Securities

The Group's fixed income securities are further split as follows:

	31/12/2012				31/12/2011			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
								LVL 000's
Government bonds	134,479	175,831	3,234	313,544	118,690	69,027	97	187,814
Municipality bonds	24,733	1,494	–	26,227	479	744	–	1,223
Credit institution bonds	931	46,874	2,497	50,302	1,798	48,665	64	50,527
Corporate bonds	3,162	35,081	2,941	41,184	582	17,017	–	17,599
Other financial institution bonds	2,688	6,489	549	9,726	4,812	20,612	–	25,424
Total net fixed income securities	**165,993**	**265,769**	**9,221**	**440,983**	**126,361**	**156,065**	**161**	**282,587**

The above table represents a maximum credit risk exposure to the Group.

The Bank's fixed income securities are further split as follows:

	31/12/2012				31/12/2011			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
								LVL 000's
Government bonds	131,507	126,316	–	257,823	118,442	38,815	–	157,257
Municipality bonds	24,241	762	–	25,003	–	–	–	–
Credit institution bonds	–	39,151	–	39,151	–	33,689	–	33,689
Corporate bonds	–	26,359	–	26,359	–	16,282	–	16,282
Other financial institution bonds	–	6,489	–	6,489	–	5,042	–	5,042
Total net fixed income securities	**155,748**	**199,077**	**–**	**354,825**	**118,442**	**93,828**	**–**	**212,270**

The above table represents a maximum credit risk exposure to the Bank.

As at 31 December 2012, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2011: LVL nil).

As at 31 December 2012, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 1,465 thousand (2011: LVL 3,985 thousand).

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Government bonds:				
Latvia	214,814	142,700	211,397	142,665
OECD	46,800	16,588	38,059	10,025
Non-OECD	51,930	28,526	8,367	4,567
Total government bonds	**313,544**	**187,814**	**257,823**	**157,257**
Municipality bonds:				
Latvia	24,241	–	24,241	–
OECD	733	744	–	–
Non-OECD	1,253	479	762	–
Total municipality bonds	**26,227**	**1,223**	**25,003**	**–**
Credit institution bonds:				
Latvia	–	2,755	–	2,714
OECD	48,842	44,049	39,151	30,975
Non-OECD	1,460	3,723	–	–
Total credit institution bonds	**50,302**	**50,527**	**39,151**	**33,689**
Corporate bonds (OECD and non-OECD)	41,184	17,599	26,359	16,282
Other financial institution bonds (OECD and non-OECD)	9,726	25,424	6,489	5,042
Total net fixed income securities	**440,983**	**282,587**	**354,825**	**212,270**

All fixed income securities as at 31 December 2012 and 31 December 2011 are listed.

Note 17. Shares and Other Non-fixed Income Securities

The following table provides the split of the Group's and Bank's shares and other non-fixed income securities:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Foreign entities' equity shares:				
listed	–	56	–	–
unlisted	79	149	67	135
Total foreign entities' equity shares	79	205	67	135
Mutual investment funds	4,338	8,360	3,164	8,326
Total shares and other non-fixed income securities	**4,417**	**8,565**	**3,231**	**8,461**

The Group possesses limited information on the structure of investments in managed funds, which are managed on the behalf of investors by other financial institutions. As such, these investments are not analysed by their ultimate issuer. Investments in funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

Note 18. Financial Assets Designated at Fair Value through Profit and Loss

The Group's financial assets designated at fair value through profit and loss are further split as follows:

	31/12/2012 Group	31/12/2011 Group
		LVL 000's
Government bonds	3,055	1,367
Municipality bonds	183	–
Corporate bonds	16,425	126
Credit institution bonds	9,546	73
Other financial institution bonds	60	–
Mutual investment funds	6,239	4,815
Total financial assets designated at fair value through profit and loss	**35,508**	**6,381**

According to unit-linked investment contract terms, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2012 LVL 6,957 thousand of financial assets designated at fair value through profit and loss relate to this.

Note 19. Investments in Subsidiaries and Business Combinations

Changes in the Bank's investments in subsidiaries may be specified as follows:

	2012	2011
		LVL 000's
Balance at the beginning of the period	**44,195**	**43,839**
Establishment of new subsidiaries	–	8
Equity investments in existing subsidiaries	13,263	4,200
Impairment, net	(12,913)	(3,852)
Balance at the end of the period	**44,545**	**44,195**

In 2012 the Bank increased share capital of it's wholly owned subsidiary SIA "Rīgas Pirmā Garāža" by LVL 13,263 thousand. The management of the Bank concluded that there is an evidence of impairment of investment and an impairment allowance of a corresponding amount was recognised.

In 2012 LVL 350 thousand reversal of impairment in investment in SIA "Citadele Express Kredīts" was recorded; previously, in 2011 an additional impairment amounting to LVL 150 thousand was recognized for the same investment.

In December 2011, the Bank paid up share capital increase of SIA "Citadele līzings un faktorings" amounting to LVL 4,200 thousand. During 2011, for this investment additional impairment of LVL 3,702 thousand was recognized.

In September 2011, the Bank established SIA "Hortus Commercial", SIA "Hortus Land", SIA "Hortus TC", and SIA "Hortus Residental" to ensure more effective management of the repossessed assets.

As at 31 December 2012 and 2011 the Bank held the following direct and indirect investments in subsidiaries:

			31/12/2012			As at 31/12/2011			Carrying value LVL 000's	
Company	Country of registration	Business profile	Share capital LVL 000's	The Bank's share (%)	% of total voting rights	Share capital LVL 000's	The Bank's share (%)	% of total voting rights	31/12/2012	31/12/2011
AB "Citadele" Bankas	Lithuania	Banking	30,369	100.0	100.0	58,100	100.0	100.0	29,006	29,006
"AP Anlage & Privatbank" AG	Switzerland	Banking	5,820	100.0	100.0	5,630	100.0	100.0	9,702	9,702
AS "Citadele Atklātais Pensiju Fonds"	Latvia	Pension fund	450	100.0	100.0	450	100.0	100.0	454	454
IPAS "Citadele Asset Management"	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
OOO "Citadele Asset Management Ukraina"	Ukraine	Finance	610	100.0	100.0	621	100.0	100.0	–	–
UAB "Citadele Investiciju Valdymas"	Lithuania	Finance	730	100.0	100.0	727	100.0	100.0	–	–
OU "Citadele Leasing & Factoring"	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB "Citadele faktoringas ir lizingas"	Lithuania	Finance	306	100.0	100.0	305	100.0	100.0	–	–
SIA "Rīgas Pirmā Garāža"	Latvia	Misc.*	13,615	100.0	100.0	352	100.0	100.0	–	–
SIA "Citadele Express Kredīts"	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	413	63
SIA "E&P Baltic Properties"	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	–	–
SIA "Citadele Līzings un Faktorings"	Latvia	Leasing	13,600	100.0	100.0	13,600	100.0	100.0	498	498
AAS "Citadele Life"	Latvia	Life insurance	3,000	100.0	100.0	3,000	100.0	100.0	–	–
Calenia Investments Limited	Cyprus	Misc.*	–	100.0	100.0	–	100.0	100.0	–	–
OOO "Citadele Investments Ukraine"	Ukraine	Finance	43	100.0	100.0	44	100.0	100.0	–	–
SIA "RPG Interjers"	Latvia	Misc.*	952	100.0	100.0	2	100.0	100.0	–	–
SIA "Hortus Commercial"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus Land"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus TC"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "Hortus Residental"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA "PR Speciālie Projekti"	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	–	–
OAO "Parex Ukrainian Equity Fund"	Ukraine	Finance	–	–	–	–	100.0	100.0	–	–
ZAO "Parex Asset Management"	Russia	Finance	–	–	–	458	100.0	100.0	–	–
Total investments in subsidiaries									**44,545**	**44,195**

* Misc.—the companies are providing various support services

Note 20. Intangible Assets

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Software	539	443	373	315
Other intangible assets	236	307	20	2
Total intangible assets excluding advances	775	750	393	317
Advances for intangible assets	113	466	100	453
Total net book value of intangible assets	**888**	**1,216**	**493**	**770**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2012 and 2011 can be specified as follows:

	Software	Other intangible assets	Total intangible assets excluding advances
			LVL 000's
Historical cost less impairment allowance			
As at 31 December 2010	**8,904**	**2,422**	**11,326**
Additions	192	5	197
Disposals	(28)	–	(28)
As at 31 December 2011	**9,068**	**2,427**	**11,495**
Additions	1,203	3	1,206
Disposals	(3)	(4)	(7)
Transfers, impairment	(785)	–	(785)
As at 31 December 2012	**9,483**	**2,426**	**11,909**
Accumulated amortisation			
As at 31 December 2010	**8,300**	**1,807**	**10,107**
Charge for the year	350	313	663
Reversal due to disposals	(25)	–	(25)
As at 31 December 2011	**8,625**	**2,120**	**10,745**
Charge for the year	322	73	395
Reversal due to disposals	(3)	(3)	(6)
As at 31 December 2012	**8,944**	**2,190**	**11,134**
Net book value (incl. impairment allowance)			
As at 31 December 2010	**604**	**615**	**1,219**
As at 31 December 2011	**443**	**307**	**750**
As at 31 December 2012	**539**	**236**	**775**
Impairment allowance			
As at 31 December 2010	**–**	**–**	**–**
As at 31 December 2011	**–**	**–**	**–**
As at 31 December 2012	**(785)**	**–**	**(785)**

Note 21. Fixed Assets

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Leasehold improvements	341	606	341	606
Land and buildings	27,192	28,442	684	701
Transport vehicles	574	495	136	96
Other fixed assets	2,873	3,929	898	989
Total fixed assets excluding advances	30,980	33,472	2,059	2,392
Advances for fixed assets	40	60	34	57
Total net book value of fixed assets	**31,020**	**33,532**	**2,093**	**2,449**

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2012 and 2011:

	Leasehold improvements	Land and buildings	Transport vehicles	Other fixed assets	Construction in progress	Total fixed assets excluding advances
						LVL 000's
Historical cost less impairment allowance						
As at 31 December 2010	**3,667**	**35,261**	**2,540**	**25,084**	**–**	**66,552**
Additions	30	54	167	379	4	634
Disposals	(190)	–	(1,034)	(1,443)	–	(2,667)
Transfers	(30)	30	–	–	–	–
Impairment (charge) / reversal, net	(100)	9	–	–	–	(91)
As at 31 December 2011	**3,377**	**35,354**	**1,673**	**24,020**	**4**	**64,428**
Additions	52	71	356	619	55	1,153
Disposals	(226)	(3,345)	(307)	(2,507)	(59)	(6,444)
Transfers	301	–	–	186	–	487
Net impairment (charge) / reversal and write-offs	100	3,453	–	–	–	3,553
As at 31 December 2012	**3,604**	**35,533**	**1,722**	**22,318**	**–**	**63,177**
Accumulated depreciation						
As at 31 December 2010	**2,371**	**5,057**	**1,628**	**19,478**	**–**	**28,534**
Charge for the year	552	1,855	245	1,979	–	4,631
Reversal due to disposals	(152)	–	(695)	(1,362)	–	(2,209)
As at 31 December 2011	**2,771**	**6,912**	**1,178**	**20,095**	**–**	**30,956**
Charge for the year	326	1,798	205	1,659	–	3,988
Reversal due to disposals	(135)	(369)	(235)	(2,486)	–	(3,225)
Transfers	301	–	–	177	–	478
As at 31 December 2012	**3,263**	**8,341**	**1,148**	**19,445**	**–**	**32,197**
Net book value (incl. impairment allowance)						
As at 31 December 2010	**1,296**	**30,204**	**912**	**5,606**	**–**	**38,018**
As at 31 December 2011	**606**	**28,442**	**495**	**3,925**	**4**	**33,472**
As at 31 December 2012	**341**	**27,192**	**574**	**2,873**	**–**	**30,980**
Impairment allowance						
As at 31 December 2010	**–**	**(17,915)**	**–**	**–**	**–**	**(17,915)**
As at 31 December 2011	**(100)**	**(17,906)**	**–**	**–**	**–**	**(18,006)**
As at 31 December 2012	**–**	**(14,453)**	**–**	**–**	**–**	**(14,453)**

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2012 and 2011:

	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
					LVL 000's
Historical cost less impairment allowance					
As at 31 December 2010	**3,667**	**814**	**1,439**	**18,186**	**24,106**
Additions	30	9	–	253	292
Disposals	(190)	–	(398)	(1,196)	(1,784)
Transfers	(30)	30	–	–	–
Impairment (charge) / reversal, net	(100)	–	–	–	(100)
As at 31 December 2011	**3,377**	**853**	**1,041**	**17,243**	**22,514**
Additions	52	–	108	481	641
Disposals	(226)	–	(213)	(2,326)	(2,765)
Transfers	301	–	–	186	487
Impairment (charge) / reversal, net	100	–	–	–	100
As at 31 December 2012	**3,604**	**853**	**936**	**15,584**	**20,977**
Accumulated depreciation					
As at 31 December 2010	**2,371**	**135**	**1,158**	**16,585**	**20,249**
Charge for the year	552	17	132	838	1,539
Reversal due to disposals	(152)	–	(345)	(1,169)	(1,666)
As at 31 December 2011	**2,771**	**152**	**945**	**16,254**	**20,122**
Charge for the year	326	17	68	572	983
Reversal due to disposals	(135)	–	(213)	(2,317)	(2,665)
Transfers	301	–	–	177	478
As at 31 December 2012	**3,263**	**169**	**800**	**14,686**	**18,918**
Net book value (incl. impairment allowance)					
As at 31 December 2010	**1,296**	**679**	**281**	**1,601**	**3,857**
As at 31 December 2011	**606**	**701**	**96**	**989**	**2,392**
As at 31 December 2012	**341**	**684**	**136**	**898**	**2,059**
Impairment allowance					
As at 31 December 2010	**–**	**–**	**–**	**–**	**–**
As at 31 December 2011	**(100)**	**–**	**–**	**–**	**(100)**
As at 31 December 2012	**–**	**–**	**–**	**–**	**–**

Note 22. Non-current Assets Held for Sale

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Transport vehicles	390	2,347	–	–
Real estate	188	118	168	118
Other	85	135	–	–
Total gross non-current assets held for sale	**663**	**2,600**	**168**	**118**
Impairment allowance	(399)	(1,415)	–	–
Total net non-current assets held for sale	**264**	**1,185**	**168**	**118**

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Net carrying amount at the beginning of the period	**1,185**	**3,289**	**118**	**–**
Impairment charges	(193)	(737)	–	–
Impairment reversals	368	–	–	–
Decrease of impairment allowance due to disposals	841	867	–	–
Net impairment charge to income statements	**1,016**	**130**	**–**	**–**
Increase of initial carrying amount due to additions	308	720	50	118
Decrease of initial carrying amount due to disposals	(2,245)	(2,959)	–	–
Net change in initial carrying amount	**(1,937)**	**(2,239)**	**50**	**118**
Effect of changes in currency exchange rates	**–**	**5**	**–**	**–**
Initial carrying amount as at the end of the year	**663**	**2,600**	**168**	**118**
Impairment allowance at the end of the year	**(399)**	**(1,415)**	**–**	**–**
Net carrying amount at the end of the year	**264**	**1,185**	**168**	**118**

Note 23. Other Assets

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Deposits with card payment system companies	11,162	13,318	11,162	13,318
Money in transit	6,184	2,161	6,184	2,159
Prepayments	1,134	863	724	627
Other assets*	8,240	5,331	3,632	2,750
Total gross other assets	**26,720**	**21,673**	**21,702**	**18,854**
Impairment allowance	(2,270)	(1,368)	(1,987)	(872)
Total net other assets	**24,450**	**20,305**	**19,715**	**17,982**

* As at 31 December 2012, included in the Group's and Bank's other assets are balances amounting to LVL 889 thousand (2011: LVL1,267 thousand) and LVL nil (2011: LVL nil), respectively, which are delayed. The Group has recognized LVL 190 thousand (2011: LVL 478 thousand) impairment allowance on these balances. Additionally, as at 31 December 2012, the Group's and the Bank's other assets amounts that are not delayed but impaired amount to LVL 2,080 thousand (2011: LVL 891 thousand) and LVL 1,987 thousand (2011: LVL 872 thousand), respectively.

Note 24. Financial Liabilities Designated at fair value through Profit and Loss

	2012 Group	2011 Group
		LVL 000's
Balance as at the beginning of the period	**5,289**	**1,909**
Premiums received	5,490	3,880
Commissions and risk charges	(309)	(169)
Benefits paid to policyholders	(576)	(69)
Dividends received	53	4
Securities fair value revaluation result	445	(458)
Income from insurance contracts	43	13
Currency revaluation result	(67)	179
Balance as at the end of the period	**10,368**	**5,289**

Note 25. Balances due to Credit Institutions and Central Banks

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Due to credit institutions registered in OECD countries	17	1,447	28,845	17,949
Due to credit institutions registered in Latvia	17,930	39,844	17,930	38,190
Due to credit institutions registered in other non-OECD countries	7,530	6,179	586	15,629
Total balances due to credit institutions and central banks	**25,477**	**47,470**	**47,361**	**71,768**

The following table presents the Group's and Bank's balances due to credit institutions and central banks according to maturity profile:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Balances on demand	2,695	39,258	4,660	37,972
Overnight deposits	–	–	465	8,992
Total balances repayable on demand	**2,695**	**39,258**	**5,125**	**46,964**
Loans from credit institutions:				
due within 1 month	21,360	7,185	19,497	12,621
due within 1-3 months	134	–	10,024	10,005
due within 3-6 months	1,022	–	11,416	654
due within 6-12 months	266	1,027	817	1,524
due within 1-5 years	–	–	482	–
Total loans from credit institutions	**22,782**	**8,212**	**42,236**	**24,804**
Total due to credit institutions	**25,477**	**47,470**	**47,361**	**71,768**

Note 26. Deposits from Customers

The following table presents deposits from customers according to customer profile:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Privately held companies	630,022	579,261	464,961	443,640
Private individuals	550,210	529,258	468,944	456,788
State owned enterprises	80,954	109,843	80,728	109,750
Financial institutions	70,911	48,988	56,169	40,393
Government	31,135	36,585	30,520	35,920
Municipalities	26,493	8,775	26,493	8,754
Public and religious institutions	5,972	5,261	4,913	4,013
Total deposits from customers	**1,395,697**	**1,317,971**	**1,132,728**	**1,099,258**

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Demand deposits	955,256	676,277	762,667	527,727
Term deposits:				
due within 1 month	87,587	133,390	70,073	113,685
due within 1-3 months	100,579	186,701	86,679	171,110
due within 3-6 months	89,009	97,610	68,346	85,459
due within 6-12 months	132,138	200,555	118,967	179,936
due within 1-5 years	29,548	22,780	25,138	20,740
due in more than 5 years	1,580	658	858	601
Total term deposits	440,441	641,694	370,061	571,531
Total deposits from customers	**1,395,697**	**1,317,971**	**1,132,728**	**1,099,258**

Financing support from the Ministry of Finance

In 2012 the Bank has repaid the whole outstanding State support deposit. The payment was made ahead of the schedule. As at 31 December 2011 the financing support received from the Ministry of Finance amounted to LVL 33,250 thousand (2012: nil).

Note 27. Other Liabilities

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Accrued expense	6,298	4,991	4,768	4,191
Asset relief payment due (note 3)	–	3,540	–	3,540
Suspense liabilities	2,396	1,696	2,136	1,696
Amounts due to suppliers	877	992	373	1,403
Provisions for other liabilities	365	286	–	–
Deferred income	122	68	–	–
Other liabilities	4,411	3,300	739	1,418
Total other liabilities	**14,469**	**14,873**	**8,016**	**12,248**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

Note 28. Subordinated Debt

The following table represents the details of Bank's and Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost LVL 000's 31/12/2012	31/12/2011
Privatisation Agency	Latvia	EUR	53,128	9.393%	22/05/2009	21/05/2016	38,760	38,656
Privatisation Agency	Latvia	EUR	11,205	7.658%	02/08/2010	08/08/2016	8,120	8,156
EBRD	UK	EUR	7,195	7.658%	11/09/2009	08/08/2016	5,134	5,136
						Total	**52,014**	**51,948**

Note 29. Issued Share Capital

As at 31 December 2012, the Bank's registered and paid-in share capital was LVL 103,000 thousand (2011: LVL 103,000 thousand). In accordance with the Bank's statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2012, they all were issued and fully paid. As at 31 December 2012 and 2011, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2012 and 2011.

As at 31 December 2012, the Bank had 2 (2011: 2) shareholders. The respective shareholdings as at 31 December 2012 and 31 December 2011 may be specified as follows:

	31/12/2011 and 31/12/2012		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

Note 30. Off-balance Sheet Items

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2012 and 2011.

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Contingent liabilities:				
Outstanding guarantees	35,014	20,192	31,922	17,286
Outstanding letters of credit	611	1,178	611	1,021
Total contingent liabilities	**35,625**	**21,370**	**32,533**	**18,307**
Financial commitments:				
Loans granted, not fully drawn down	22,568	9,043	20,692	7,467
Unutilised credit lines and overdraft facilities	31,856	40,373	46,777	66,303
Credit card commitments	61,559	61,292	53,429	53,097
Bank placement commitments	–	15,001	–	15,001
Total financial commitments	**115,983**	**125,709**	**120,898**	**141,868**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount		Fair value			
	31/12/2012	31/12/2011	31/12/2012		31/12/2011	
			Assets	Liabilities	Assets	Liabilities
		LVL 000's				*LVL 000's*
Foreign exchange contracts:						
Spot exchange	18,460	132,677	29	(26)	737	(483)
Forwards	12,380	6,873	35	(20)	209	(249)
Swaps	361,610	251,968	924	(2,676)	2,537	(88)
Total foreign exchange contracts	**392,450**	**391,518**	**988**	**(2,722)**	**3,483**	**(820)**
Derivative financial instruments	**392,450**	**391,518**	**988**	**(2,722)**	**3,483**	**(820)**

The Bank:

	Notional amount		Fair value			
	31/12/2012	31/12/2011	31/12/2012		31/12/2011	
			Assets	Liabilities	Assets	Liabilities
		LVL 000's				*LVL 000's*
Foreign exchange contracts:						
Spot exchange	18,270	132,949	28	(26)	737	(483)
Forwards	14,622	44,145	38	(21)	233	(310)
Swaps	410,053	285,248	968	(2,719)	2,572	(1,017)
Total foreign exchange contracts	**442,945**	**462,342**	**1,034**	**(2,766)**	**3,542**	**(1,810)**
Derivative financial instruments	**442,945**	**462,342**	**1,034**	**(2,766)**	**3,542**	**(1,810)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2012, more than 41% (2011: 54%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2012, none (2011: nil) of the payments receivable arising out of derivative transactions was past due.

Note 31. Funds under Trust Management

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Fixed income securities:				
Government bonds	43,186	34,353	–	–
Credit institution bonds	23,441	32,053	–	–
Corporate bonds	35,608	33,349	–	–
Foreign municipality bonds	2,162	776	–	–
Other financial institution bonds	3,709	4,924	–	–
Total investments in fixed income securities	**108,106**	**105,455**	**–**	**–**
Other investments:				
Investment funds	99,001	63,980	–	–
Deposits with credit institutions	35,050	55,367	–	53
Shares	15,522	21,410	–	–
Real estate	20,434	19,773	–	–
Loans to corporate entities	10,188	39,533	31,193	36,589
Other	54,276	69,408	7,071	36,327
Total other investments	**234,471**	**269,471**	**38,264**	**72,969**
Total assets under trust management agreements	**342,577**	**374,926**	**38,264**	**72,969**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Pension Plans	129,855	129,774	–	–
Insurance companies, investment and pension funds	87,099	69,328	–	–
Other companies	64,919	81,858	31,236	36,642
Deposit guarantee fund	6,684	36,327	6,684	36,327
Private individuals	54,020	57,639	344	–
Total liabilities under trust management agreements	**342,577**	**374,926**	**38,264**	**72,969**

Note 32. Financial Assets Pledged

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Due from credit institutions*	12,490	10,612	11,846	10,612
Loans to customers**	19,998	155,363	19,998	155,363
Fixed income securities	6,821	–	–	–
Other assets*	11,162	13,318	11,162	13,318
Total financial assets pledged	**50,471**	**179,293**	**43,006**	**179,293**
Due to credit institutions and central banks	6,018	–	–	–
Deposits from Ministry of Finance	–	32,748	–	32,748
Total liabilities secured by pledged financial assets	**6,018**	**32,748**	**–**	**32,748**

* The amount consists of several placements to secure various Bank's transactions in the ordinary course of business.

** As at 31 December 2012 the Bank and the Group had part of the loan portfolio pledged as collateral to Ministry of Finance of Latvia to receive a guarantee. The guarantee was issued as a security to European Investment Bank's financing which was repaid ahead of the schedule in December 2012 (carrying amount as at 31 December 2011: LVL 17.8 million). The respective pledges as at year end formally are still registered with Commercial Register.

Note 33. Cash and Cash Equivalents

The table below provides a breakdown of cash and cash equivalents as at 31 December 2012 and 31 December 2011:

	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
				LVL 000's
Cash and demand deposits with central banks	190,960	243,239	174,708	229,659
Deposits with other credit institutions*	111,614	211,064	77,767	183,079
Demand deposits due to other credit institutions	(2,555)	(39,258)	(4,984)	(46,964)
Total cash and cash equivalents	**300,019**	**415,045**	**247,491**	**365,774**

* Deposits include term facilities with initial agreement term of 3 months or less.

Note 34. Litigation and Claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2012 will not result in material losses for the Group.

Note 35. Related Parties

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Supervisory Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties at respective dated.

	LVL 000's 31/12/2012	Interest income/ expense 2012	LVL 000's 31/12/2011	Interest income/ expense 2011
Credit exposure to related parties				
Securities:	235,638	8,699	142,666	8.314
Latvian treasury bills and government bonds	*211,397*	*7,676*	*142,666*	*8,314*
Municipality bonds	*24,241*	*1,023*		
Loans and receivables:	2,663	99	3,208	94
Management	*306*	*45*	*583*	*20*
State institutions and state controlled companies	*30*	–	–	–
Municipality institutions and municipality controlled companies	*2,327*	*54*	*2,625*	*74*
Derivatives—assets:	–	–	8	–
State institutions and state controlled companies	–	–	*8*	–
Financial commitments and outstanding guarantees:	3,338	4	3,223	–
Management	*133*	*4*	*51*	–
State institutions and state controlled companies	*3,195*	–	*3,162*	–
Municipality institutions and municipality controlled companies	*10*	–	*10*	–
Total credit exposure to related parties	**241,639**		**149,105**	
Due to related parties:	107,442	5,404	133,678	10,226
Deposits from Ministry of Finance	–	*238*	*33,250*	*5,044*
Subordinated loans from shareholder	*52,014*	*4,463*	*51,948*	*4,440*
Management	*383*	*7*	*436*	*7*
State institutions and state controlled companies	*28,977*	*611*	*31,223*	*664*
Municipality institutions and municipality controlled companies	*26,068*	*85*	*16,821*	*71*
Total amounts due to related parties	**107,442**		**133,678**	

No Group's exposures with related parties as at 31 December 2012 or for the year then ended were impaired (2011: nil).

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties at respective dates.

	LVL 000's 31/12/2012	Interest income/ expense 2012	LVL 000's 31/12/2011	Interest income/ expense 2011
Credit exposure to related parties				
Securities:	235,638	8,699	142,666	8,314
Latvian treasury bills and government bonds	*211,397*	*7,676*	*142,666*	*8,314*
Municipality bonds	*24,241*	*1,023*	*–*	*–*
Loans and receivables:	92,487	2,526	78,026	3,695
Management	*88*	*34*	*35*	*6*
State institutions and state controlled companies	*30*	*–*	*–*	*–*
Municipality institutions and municipality controlled companies	*2,327*	*54*	*2,625*	*74*
Subsidiaries	*90,042*	*2,438*	*75,366*	*3,615*
Derivatives—assets:	51	–	94	–
Subsidiaries	*51*	*–*	*86*	*–*
State institutions and state controlled companies	*–*	*–*	*8*	*–*
Financial commitments and outstanding guarantees:	19,910	7	30,566	–
Management	*64*	*4*	*51*	*–*
State institutions and state controlled companies	*3,195*	*–*	*3,162*	*–*
Municipality institutions and municipality controlled companies	*10*	*–*	*10*	*–*
Subsidiaries	*16,641*	*3*	*27,343*	*–*
Total credit exposure to related parties	**348,086**		**251,352**	
Due to related parties:	124,235	5,562	163,424	10,476
Deposits from Ministry of Finance	*–*	*238*	*33,250*	*5,044*
Subordinated loans from shareholders	*52,014*	*4,463*	*51,948*	*4,440*
Management	*172*	*3*	*203*	*4*
State institutions and state controlled companies	*28,977*	*611*	*31,223*	*664*
Municipality institutions and municipality controlled companies	*26,068*	*85*	*16,821*	*71*
Subsidiaries	*17,004*	*162*	*29,979*	*253*
Derivatives—liabilities:	46	–	999	–
Subsidiaries	*46*	*–*	*999*	*–*
Total amounts due to related parties	**124,281**		**164,423**	

In the year ended 31 December 2012 the Bank's net impairment charges on loans and receivables from subsidiaries amounted to a release of LVL 13,262 thousand (2011: net release of impairment allowance LVL 3,148 thousand). As at 31 December 2012 no impairment allowance was recognized on loans and receivables from subsidiaries (2011: LVL 13,262 thousand). No other Bank's exposures with related parties as at 31 December 2012 or for the year period then ended were impaired (2011: nil).

In 2012 the Bank's and the Group's fee expense for the guarantee received from Ministry of Finance of Latvia amounted to LVL 196 thousand (2011: LVL 106 thousand). The guarantee was issued as a security to European Investment Bank's financing.

Note 36. Risk Management

Risk management polices

Risk management principles are set out in Group's Risk and Capital Management Policy (as approved by the Supervisory Board and Management Board). The Group adheres to the following key risk management principles:

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

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent units—Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

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

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

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

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

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

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

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's							
	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	470,846	66,644	35,918	39,800	1,792	537	2,097	617,634
Not delayed—impaired	40,774	122	614	–	71	–	4,143	45,724
Total not delayed loans	**511,620**	**66,766**	**36,532**	**39,800**	**1,863**	**537**	**6,240**	**663,358**
Past due loans—not impaired								
Delayed days:								
=< 29	25,328	141	4,921	1,036	6	–	–	31,432
30-59	10,545	–	1,021	348	–	–	–	11,914
60-89	6,999	–	119	177	–	–	–	7,295
90 and more	5,745	–	163	314	–	63	–	6,285
Total past due loans—not impaired	**48,617**	**141**	**6,224**	**1,875**	**6**	**63**	**–**	**56,926**
Total past due loans—impaired	**32,320**	**4,748**	**6,109**	**15,007**	**464**	**182**	**–**	**58,830**
Total gross loans and receivables to customers	**592,557**	**71,655**	**48,865**	**56,682**	**2,333**	**782**	**6,240**	**779,114**
Impairment allowance	(36,360)	(1,638)	(6,586)	(15,922)	(536)	(235)	(1,394)	(62,671)
Total net loans and receivables to customers	**556,197**	**70,017**	**42,279**	**40,760**	**1,797**	**547**	**4,846**	**716,443**

	Group, LVL 000's							
	31/12/2011							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	505,534	40,271	27,583	42,923	460	74	569	617,414
Not delayed—impaired	45,361	–	486	–	–	–	5,180	51,027
Total not delayed loans	**550,895**	**40,271**	**28,069**	**42,923**	**460**	**74**	**5,749**	**668,441**
Past due loans—not impaired								
Delayed days:								
=< 29	26,130	55	4,579	1,019	–	–	–	31,783
30-59	7,041	41	551	436	–	–	–	8,069
60-89	3,208	–	87	302	–	–	–	3,597
90 and more	8,788	–	132	2,976	–	63	–	11,959
Total past due loans—not impaired	**45,167**	**96**	**5,349**	**4,733**	**–**	**63**	**–**	**55,408**
Total past due loans—impaired	**30,842**	**1,506**	**7,206**	**14,467**	**–**	**241**	**–**	**54,262**
Total gross loans and receivables to customers	**626,904**	**41,873**	**40,624**	**62,123**	**460**	**378**	**5,749**	**778,111**
Impairment allowance	(34,855)	(302)	(7,008)	(17,966)	–	(294)	(544)	(60,969)
Total net loans and receivables to customers	**592,049**	**41,571**	**33,616**	**44,157**	**460**	**84**	**5,205**	**717,142**

The tables below provide details of the Bank's loan portfolio delinquencies:

	Bank, LVL 000's							
	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	414,767	102,198	–	35,936	1,588	–	1,857	556,346
Not delayed—impaired	34,060	–	–	–	71	–	4,143	38,274
Total not delayed loans	**448,827**	**102,198**	**–**	**35,936**	**1,659**	**–**	**6,000**	**594,620**
Past due loans—not impaired								
Delayed days:								
=< 29	19,461	141	–	564	–	–	–	20,166
30-59	9,366	–	–	296	–	–	–	9,662
60-89	6,624	–	–	147	–	–	–	6,771
90 and more	4,418	–	–	314	–	–	–	4,732
Total past due loans—not impaired	**39,869**	**141**	**–**	**1,321**	**–**	**–**	**–**	**41,331**
Total past due loans—impaired	**22,180**	**4,720**	**–**	**12,810**	**464**	**–**	**–**	**40,174**
Total gross loans and receivables to customers	**510,876**	**107,059**	**–**	**50,067**	**2,123**	**–**	**6,000**	**676,125**
Impairment allowance	(30,117)	(1,572)	–	(13,703)	(535)	–	(1,394)	(47,321)
Total net loans and receivables to customers	**480,759**	**105,487**	**–**	**36,364**	**1,588**	**–**	**4,606**	**628,804**

	Bank, LVL 000's							
	31/12/2011							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed—not impaired	405,363	69,209	–	38,931	334	–	485	514,322
Not delayed—impaired	91,733	–	–	–	–	–	5,180	96,913
Total not delayed loans	**497,096**	**69,209**	**–**	**38,931**	**334**	**–**	**5,665**	**611,235**
Past due loans—not impaired								
Delayed days:								
=< 29	19,190	55	–	535	–	–	–	19,780
30-59	4,833	–	–	369	–	–	–	5,202
60-89	2,406	–	–	260	–	–	–	2,666
90 and more	4,467	–	–	512	–	–	–	4,979
Total past due loans—not impaired	**30,896**	**55**	**–**	**1,676**	**–**	**–**	**–**	**32,627**
Total past due loans—impaired	**23,251**	**1,468**	**–**	**14,469**	**–**	**–**	**–**	**39,188**
Total gross loans and receivables to customers	**551,243**	**70,732**	**–**	**55,076**	**334**	**–**	**5,665**	**683,050**
Impairment allowance	(40,971)	(264)	–	(15,498)	–	–	(544)	(57,277)
Total net loans and receivables to customers	**510,272**	**70,468**	**–**	**39,578**	**334**	**–**	**5,121**	**625,773**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2010	**20,403**	**244**	**5,956**	**18,686**	**823**	**240**	**553**	**46,905**
Impairment charge for the reported period—specific	12,807	7	1,400	1,140	–	1	–	15,355
Release of previously established impairment allowance—specific	(5,697)	(244)	(601)	(4)	(823)	–	–	(7,369)
Impairment charged to the statement of income, net	**7,110**	**(237)**	**799**	**1,136**	**(823)**	**1**	**–**	**7,986**
Change of impairment allowance due to write-offs, net	(700)	–	–	(5,356)	–	–	–	(6,056)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(359)	18	8	–	–	–	(9)	(342)
Outstanding specific impairment as at 31/12/2011	**26,454**	**25**	**6,763**	**14,466**	**–**	**241**	**544**	**48,493**
Impairment charge for the reported period—specific	7,534	1,602	1,933	2,256	535	–	987	14,847
Release of previously established impairment allowance—specific	(3,137)	(10)	(304)	(91)	–	(59)	(134)	(3,735)
Impairment charged to the statement of income, net	**4,397**	**1,592**	**1,629**	**2,165**	**535**	**(59)**	**853**	**11,112**
Change of impairment allowance due to write-offs, net	(1,345)		(1,969)	(1,634)	–	–	–	(4,948)
Increase/ (decrease) in impairment allowance due to currency fluctuations	194	–	–	–	–	–	(5)	189
Outstanding specific impairment as at 31/12/2012	**29,700**	**1,617**	**6,423**	**14,997**	**535**	**182**	**1,392**	**54,846**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2010	**29,996**	**3,145**	**–**	**18,686**	**823**	**–**	**553**	**53,203**
Impairment charge for the reported period—specific	12,719	–	–	1,140	–	–	–	13,859
Release of previously established impairment allowance—specific	(5,838)	(3,145)	–	(4)	(823)	–	–	(9,810)
Impairment charged to the statement of income, net	**6,881**	**(3,145)**	**–**	**1,136**	**(823)**	**–**	**–**	**4,049**
Change of impairment allowance due to write-offs, net	(555)	–	–	(5,356)	–	–	–	(5,911)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(360)	–	–	–	–	–	(9)	(369)
Outstanding specific impairment as at 31/12/2011	**35,962**	**–**	**–**	**14,466**	**–**	**–**	**544**	**50,972**
Impairment charge for the reported period—specific	4,614	1,572	–	24	535	–	987	7,732
Release of previously established impairment allowance—specific	(15,721)	–	–	(91)	–	–	(134)	(15,946)
Impairment charged to the statement of income, net	**(11,107)**	**1,572**	**–**	**(67)**	**535**	**–**	**853**	**(8,214)**
Change of impairment allowance due to write-offs, net	(1,262)	–	–	(1,588)	–	–	–	(2,850)
Increase/ (decrease) in impairment allowance due to currency fluctuations	193	–	–	–	–	–	(5)	188
Outstanding specific impairment as at 31/12/2012	**23,786**	**1,572**	**–**	**12,811**	**535**	**–**	**1,392**	**40,096**

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

Group, LVL 000's

	31/12/2012				31/12/2011			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	268,358	586,110	287,839	193,405	248,942	574,606	343,108	216,770
Utilised credit lines	33,406	76,788	36,611	22,114	22,109	55,744	19,461	12,730
Finance leases	40,224	41,613	2,055	1,506	28,736	29,824	4,880	4,734
Debit balances on settlement cards	13	45	40,747	–	–	–	44,157	–
Overdraft facilities	64	119	1,733	20	73	107	387	–
Factoring	–	–	547	537	–	–	84	74
Due from investment counterparties	–	–	4,846	–	–	–	5,205	–
Total net loans	**342,065**	**704,675**	**374,378**	**217,582**	**299,860**	**660,281**	**417,282**	**234,308**

Bank, LVL 000's

	31/12/2012				31/12/2011			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	208,461	465,210	272,298	183,527	165,157	438,693	345,115	222,283
Utilised credit lines	28,702	74,278	76,785	21,460	19,323	50,505	51,145	12,112
Debit balances on settlement cards	–	–	36,364	–	–	–	39,578	–
Overdraft facilities	–	–	1,588	–	–	–	334	–
Due from investment counterparties	–	–	4,606	–	–	–	5,121	–
Total net loans	**237,163**	**539,488**	**391,641**	**204,987**	**184,480**	**489,198**	**441,293**	**234,395**

* As at 31 December 2012 carrying value of Bank's loans without collateral or with guarantees amount to LVL 121,581 thousand (2011: LVL 111,439 thousand). Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group's and Bank's fixed securities portfolio quality:

	Group, LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	24,792	85,631	2,178	112,601	–	25,416	–	25,416
AA	814	11,218	445	12,477	–	33,430	–	33,430
A	–	22,126	3,626	25,752	3,740	23,719	63	27,522
BBB/Baa	138,108	145,053	2,603	285,764	119,936	73,500	34	193,470
Other lower ratings	2,279	770	262	3,311	2,685	–	–	2,685
Not rated	–	971	107	1,078	–	–	64	64
Total net fixed income securities	**165,993**	**265,769**	**9,221**	**440,983**	**126,361**	**156,065**	**161**	**282,587**

	Bank, LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	24,241	78,345	–	102,586	–	10,805	–	10,805
AA	–	4,898	–	4,898	–	22,101	–	22,101
A	–	14,200	–	14,200	–	14,723	–	14,723
BBB/Baa	131,507	99,893	–	231,400	118,442	46,199	–	164,641
Other lower ratings	–	770	–	770	–	–	–	–
Not rated	–	971	–	971	–	–	–	–
Total net fixed income securities	**155,748**	**199,077**	**–**	**354,825**	**118,442**	**93,828**	**–**	**212,270**

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group's assets and liabilities, as well as memorandum items outstanding as at 31 December 2012 and 31 December 2011 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	10,312	82,556	–	16,402	190,960
Balances due from credit institutions	1,433	3,279	60,495	6,010	57,996	129,213
Securities held for trading	1,415	5	6,702	1,096	1,178	10,396
Financial assets designated at fair value through profit or loss	2,702	66	15,257	1,860	15,623	35,508
Available-for-sale securities	84,165	48,162	73,363	6,462	56,859	269,011
Loans and receivables to customers	470,239	139,395	49,610	38,842	18,357	716,443
Held-to-maturity securities	155,748	2,972	–	3,220	4,053	165,993
Derivative financial instruments	335	–	117	46	490	988
Other assets	64,688	5,026	12,740	144	314	82,912
Total assets	**862,415**	**209,217**	**300,840**	**57,680**	**171,272**	**1,601,424**
Liabilities						
Financial liabilities designated at fair value through profit or loss	7,120	–	21	3,227	–	10,368
Financial liabilities measured at amortised cost	737,557	89,578	195,395	102,185	354,262	1,478,977
Derivative financial instruments	240	3	1,403	63	1,013	2,722
Other liabilities	10,069	3,433	399	61	535	14,497
Total liabilities	**754,986**	**93,014**	**197,218**	**105,536**	**355,810**	**1,506,564**
Equity	94,860	–	–	–	–	94,860
Total liabilities and equity	**849,846**	**93,014**	**197,218**	**105,536**	**355,810**	**1,601,424**
Memorandum items						
Contingent liabilities	29,259	1,940	1,040	2,338	1,048	35,625
Financial commitments	90,033	15,061	3,052	7,334	503	115,983

	Group as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,007	10,608	28,652	–	2,972	243,239
Balances due from credit institutions	29,766	958	139,006	9,080	33,611	212,421
Securities held for trading	35	–	97	63	–	195
Financial assets designated at fair value through profit or loss	2,276	410	2,463	73	1,159	6,381
Available-for-sale securities	28,896	27,480	55,318	15,360	37,542	164,596
Loans and receivables to customers	442,669	144,563	47,493	50,183	32,234	717,142
Held-to-maturity securities	118,442	–	–	4,180	3,739	126,361
Derivative financial instruments	2,777	28	189	166	323	3,483
Other assets	67,125	4,750	13,939	441	224	86,479
Total assets	**892,993**	**188,797**	**287,157**	**79,546**	**111,804**	**1,560,297**
Liabilities						
Financial liabilities designated at fair value through profit or loss	2,848	–	20	2,421	–	5,289
Financial liabilities measured at amortised cost	757,313	97,456	211,481	69,004	326,361	1,461,615
Derivative financial instruments	177	1	171	63	408	820
Other liabilities	12,252	1,883	442	30	422	15,029
Total liabilities	**772,590**	**99,340**	**212,114**	**71,518**	**327,191**	**1,482,753**
Equity	77,544	–	–	–	–	77,544
Total liabilities and equity	**850,134**	**99,340**	**212,114**	**71,518**	**327,191**	**1,560,297**
Memorandum items						
Contingent liabilities	15,844	2,066	284	1,826	1,350	21,370
Financial commitments	103,875	11,281	950	9,115	488	125,709

The following tables provide an analysis of the Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2012 and 31 December 2011 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	–	82,556	–	10,462	174,708
Balances due from credit institutions	79	9,472	43,854	5,205	22,460	81,070
Available-for-sale securities	81,551	7,570	59,550	5,795	47,842	202,308
Loans and receivables to customers	509,396	17,956	44,573	38,522	18,357	628,804
Held-to-maturity securities	155,748	–	–	–	–	155,748
Derivative financial instruments	337	44	117	46	490	1,034
Other assets	39,956	29,007	12,545	10	9,705	91,223
Total assets	**868,757**	**64,049**	**243,195**	**49,578**	**109,316**	**1,334,895**
Liabilities						
Financial liabilities measured at amortised cost	736,908	1,226	154,850	84,743	254,376	1,232,103
Derivative financial instruments	244	46	1,403	63	1,010	2,766
Other liabilities	7,712	23	207	60	14	8,016
Total liabilities	**744,864**	**1,295**	**156,460**	**84,866**	**255,400**	**1,242,885**
Equity	92,010	–	–	–	–	92,010
Total liabilities and equity	**836,874**	**1,295**	**156,460**	**84,866**	**255,400**	**1,334,895**
Memorandum items						
Contingent liabilities	29,216	–	931	2,164	222	32,533
Financial commitments	100,302	8,640	4,120	7,334	502	120,898

	Bank as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,007	–	28,652	–	–	229,659
Balances due from credit institutions	29,059	689	129,546	8,320	15,465	183,079
Available-for-sale securities	28,856	4,567	33,228	12,096	23,542	102,289
Loans and receivables to customers	482,948	17,310	43,691	49,923	31,901	625,773
Held-to-maturity securities	118,442	–	–	–	–	118,442
Derivative financial instruments	2,788	78	189	166	321	3,542
Other assets	41,757	29,006	13,806	18	9,704	94,291
Total assets	**904,857**	**51,650**	**249,112**	**70,523**	**80,933**	**1,357,075**
Liabilities						
Financial liabilities measured at amortised cost	756,349	16,072	160,184	59,059	270,089	1,261,753
Derivative financial instruments	169	998	171	63	409	1,810
Other liabilities	11,277	631	338	–	14	12,260
Total liabilities	**767,795**	**17,701**	**160,693**	**59,122**	**270,512**	**1,275,823**
Equity	81,252	–	–	–	–	81,252
Total liabilities and equity	**849,047**	**17,701**	**160,693**	**59,122**	**270,512**	**1,357,075**
Memorandum items						
Contingent liabilities	15,887	–	203	1,534	683	18,307
Financial commitments	122,309	7,904	2,053	9,114	488	141,868

b) Market risk

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

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

To manage market risk, the Group sets individual limits to issuers and financial instruments, as well as products exposed to market risk. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

c) Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

To assess equity price risk, the Group applies the scenario analysis "flight-to-quality" which refers to a fear of investors of global systemic failure when investors start selling assets they consider to be overly risky and substituting them with more dependable ones. According to the Bank's equity price risk assessment as at 31 December 2012, in the event that all equity (also including investments in investment funds) prices drop by 10% for equities in OECD countries, 20%—Baltic countries and CIS countries and 15%—other equities, revaluation loss charged directly to the equity would increase by approximately LVL 0.3 million (2011: LVL 0.7 million) and an impairment loss of LVL 0.3 million (2011: LVL 0.8 million) would be recognized in the income statement.

d) Interest rate risk

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

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

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

The following table represents the impact of a parallel change in all interest rates by 1.0% on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

	2012 Group	2011 Group	2012 Bank	2011 Bank
				LVL 000's
Scenario: +1%				
Pre-tax profit / (loss)	2,311	2,800	3,606	1,774
Securities fair value revaluation reserve	(5,711)	(3,493)	(3,263)	(1,397)
Total pre-tax effect on equity	**(3,400)**	**(693)**	**343**	**377**
Estimated net effect on equity	**(2,890)**	**(589)**	**292**	**320**
Scenario: -1%				
Pre-tax profit / (loss)	(2,321)	(2,802)	(3,616)	(1,775)
Securities fair value revaluation reserve	5,868	3,570	3,420	1,474
Total pre-tax effect on equity	**3,547**	**768**	**(196)**	**(301)**
Estimated net effect on equity	**3,015**	**653**	**(167)**	**(256)**

The following table represents the impact of a 2.0% parallel change in all interest rates by currencies on Bank's pre-tax profit and available-for-sale securities' fair value revaluation reserve in equity:

	31/12/2012				31/12/2011			
	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
								LVL 000's
Scenario: +2%								
Pre-tax profit/ (loss)	989	2,178	3,481	554	(4,284)	377	100	422
Securities fair value revaluation reserve	(1,554)	(2,997)	(1,829)	–	(947)	(1,157)	(598)	(21)
Total pre-tax effect on equity	**(565)**	**(819)**	**1,652**	**554**	**(5,231)**	**(780)**	**(498)**	**401**
Estimated net effect on equity	**(480)**	**(696)**	**1,404**	**471**	**(4,446)**	**(663)**	**(423)**	**341**
Scenario: -2%								
Pre-tax profit/ (loss)	(985)	(2,215)	(3,490)	(551)	4,749	(344)	(106)	(448)
Securities fair value revaluation reserve	1,689	3,318	2,000	–	1,031	1,311	668	22
Total pre-tax effect on equity	**704**	**1,103**	**(1,490)**	**(551)**	**5,780**	**967**	**562**	**(426)**
Estimated net effect on equity	**598**	**938**	**(1,267)**	**(468)**	**4,913**	**822**	**478**	**(362)**

e) Currency risk

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

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

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis. In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

	Group							
	31/12/2012				31/12/2011			
	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
								LVL 000's
Scenario:								
2% adverse change	33	251	4	1,041	124	178	3	945
5% adverse change	83	629	9	2,603	310	445	9	2,363

	Bank							
	31/12/2012				31/12/2011			
	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
								LVL 000's
Scenario:								
2% adverse change	2	6	1	164	59	1	2	596
5% adverse change	5	14	2	409	147	2	4	1,489

In 2012 and 2011 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2012 and 2011 by currency profile:

	Group as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,423	3,491	93,626	6,172	8,142	684	3,422	190,960
Balances due from credit institutions	1,341	95,777	17,450	3,634	187	5,142	5,682	129,213
Securities held for trading	611	863	7,579	1,272	–	71	–	10,396
Financial assets designated at fair value through profit or loss	–	18,156	11,057	6,295	–	–	–	35,508
Available-for-sale securities	55,410	81,053	95,556	2,745	34,146	–	101	269,011
Loans and receivables to customers	74,056	62,778	538,142	2,500	36,073	455	2,439	716,443
Held-to-maturity securities	127,530	5,349	30,142	–	2,972	–	–	165,993
Derivative financial instruments	984	–	–	4	–	–	–	988
Other assets	63,830	6,292	7,492	292	4,827	34	145	82,912
Total assets	**399,185**	**273,759**	**801,044**	**22,914**	**86,347**	**6,386**	**11,789**	**1,601,424**
Liabilities								
Financial liabilities designated at fair value through profit or loss	3,338	3,467	3,563	–	–	–	–	10,368
Financial liabilities measured at amortised cost	378,572	431,823	537,920	11,394	63,393	21,279	34,596	1,478,977
Derivative financial instruments	2,719	–	–	–	3	–	–	2,722
Other liabilities	7,005	1,909	2,362	513	2,011	355	342	14,497
Total liabilities	**391,634**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,506,564**
Equity	94,860	–	–	–	–	–	–	94,860
Total liabilities and equity	**486,494**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,601,424**
Net long/ (short) position for balance sheet items	(87,309)	(163,440)	257,199	11,007	20,940	(15,248)	(23,149)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,965)	4,919	212	(4)	(608)	(544)	4
Forward foreign exchange contracts	524	(1,232)	703	–	–	–	24	19
Swap exchange contracts	18,833	171,288	(233,172)	1,354	–	16,045	23,921	(1,731)
Net long/ (short) positions on foreign exchange	*20,351*	*165,091*	*(227,550)*	*1,566*	*(4)*	*15,437*	*23,401*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(66,958)**	**1,651**	**29,649**	**12,573**	**20,936**	**189**	**252**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	–	0.531	0.702804	0.582	0.204	0.0174	–	–

As at 31 December 2012 and 31 December 2011 LVL and LTL currencies are pegged to the EUR at a fixed rate.

	Group as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,512	6,513	21,202	3,170	9,188	1,008	2,646	243,239
Balances due from credit institutions	14,390	119,009	66,775	320	132	8,296	3,499	212,421
Securities held for trading	34	–	98	–	–	63	–	195
Financial assets designated at fair value through profit or loss	165	2,942	3,256	–	–	–	18	6,381
Available-for-sale securities	26,436	35,504	76,483	9,309	13,514	–	3,350	164,596
Loans and receivables to customers	62,017	81,178	534,060	2,782	36,632	459	14	717,142
Held-to-maturity securities	118,442	6,103	1,816	–	–	–	–	126,361
Derivative financial instruments	3,437	19	–	–	27	–	–	3,483
Other assets	66,100	8,952	6,655	265	3,902	54	551	86,479
Total assets	**490,533**	**260,220**	**710,345**	**15,846**	**63,395**	**9,880**	**10,078**	**1,560,297**
Liabilities								
Financial liabilities designated at fair value through profit or loss	988	2,654	1,647	–	–	–	–	5,289
Financial liabilities measured at amortised cost	361,700	331,198	616,039	11,280	67,491	30,330	43,577	1,461,615
Derivative financial instruments	725	–	25	1	69	–	–	820
Other liabilities	10,724	1,253	817	34	945	99	1,157	15,029
Total liabilities	**374,137**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,482,753**
Equity	77,544	–	–	–	–	–	–	77,544
Total liabilities and equity	**451,681**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,560,297**
Net long/ (short) position for balance sheet items	38,852	(74,885)	91,817	4,531	(5,110)	(20,549)	(34,656)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	407	(1,789)	464	–	(911)	851	(8)
Forward foreign exchange contracts	810	1,111	(2,835)	866	(1)	–	–	(49)
Swap exchange contracts	(69,246)	79,561	(94,440)	3,031	23,385	21,630	38,740	2,661
Net long/ (short) positions on foreign exchange	*(67,466)*	*81,079*	*(99,064)*	*4,361*	*23,384*	*20,719*	*39,591*	*2,604*
Net long/ (short) position as at 31 December 2011	**(28,614)**	**6,194**	**(7,247)**	**8,892**	**18,274**	**170**	**4,935**	**2,604**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	–	0.544	0.702804	0.577	0.204	0.017	–	–

	Bank as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,396	2,914	92,486	205	149	586	2,972	174,708
Balances due from credit institutions	79	60,148	9,504	2,935	1,231	4,775	2,398	81,070
Available-for-sale securities	55,411	65,187	81,609	–	–	–	101	202,308
Loans and receivables to customers	112,163	61,046	450,176	2,500	–	455	2,464	628,804
Held-to-maturity securities	127,531	–	28,217	–	–	–	–	155,748
Derivative financial instruments	1,034	–	–	–	–	–	–	1,034
Other assets	78,706	6,232	6,230	1	2	6	46	91,223
Total assets	**450,320**	**195,527**	**668,222**	**5,641**	**1,382**	**5,822**	**7,981**	**1,334,895**
Liabilities								
Financial liabilities measured at amortised cost	381,506	322,427	470,222	7,210	109	19,568	31,061	1,232,103
Derivative financial instruments	2,766	–	–	–	–	–	–	2,766
Other liabilities	4,914	1,319	1,329	3	3	328	120	8,016
Total liabilities	**389,186**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,242,885**
Equity	92,010	–	–	–	–	–	–	92,010
Total liabilities and equity	**481,196**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,334,895**
Net long/ (short) position for balance sheet items	(30,876)	(128,219)	196,671	(1,572)	1,270	(14,074)	(23,200)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,785)	4,730	212	–	(637)	(513)	1
Forward foreign exchange contracts	2,632	(1,233)	(1,405)	–	–	–	24	18
Swap exchange contracts	18,833	134,133	(194,001)	1,354	(347)	14,745	23,556	(1,727)
Net long/ (short) positions on foreign exchange	*22,459*	*128,115*	*(190,676)*	*1,566*	*(347)*	*14,108*	*23,067*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(8,417)**	**(104)**	**5,995**	**(6)**	**923**	**34**	**(133)**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	–	0.531	0.702804	0.582	0.204	0.0174	–	–

	Bank as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,494	6,024	20,439	165	137	950	2,450	229,659
Balances due from credit institutions	13,750	100,797	58,735	32	637	8,261	867	183,079
Available-for-sale securities	26,436	17,495	54,549	–	731	–	3,078	102,289
Loans and receivables to customers	61,629	79,623	481,249	2,782	–	459	31	625,773
Held-to-maturity securities	118,442	–	–	–	–	–	–	118,442
Derivative financial instruments	3,523	19	–	–	–	–	–	3,542
Other assets	79,644	8,743	5,713	1	–	1	189	94,291
Total assets	**502,918**	**212,701**	**620,685**	**2,980**	**1,505**	**9,671**	**6,615**	**1,357,075**
Liabilities								
Financial liabilities measured at amortised cost	362,754	272,432	550,975	7,150	107	29,970	38,365	1,261,753
Derivative financial instruments	1,792	–	18	–	–	–	–	1,810
Other liabilities	9,853	1,132	407	3	3	85	777	12,260
Total liabilities	**374,399**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,275,823**
Equity	81,252	–	–	–	–	–	–	81,252
Total liabilities and equity	**455,651**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,357,075**
Net long/ (short) position for balance sheet items	47,267	(60,863)	69,285	(4,173)	1,395	(20,384)	(32,527)	–
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	174	(1,587)	464	–	(911)	881	(9)
Forward foreign exchange contracts	2,918	1,110	9,112	866	(14,087)	–	–	(81)
Swap exchange contracts	(69,246)	56,647	(69,628)	2,800	23,385	21,380	36,435	1,773
Net long/ (short) positions on foreign exchange	*(65,358)*	*57,931*	*(62,103)*	*4,130*	*9,298*	*20,469*	*37,316*	*1,683*
Net long/ (short) position as at 31 December 2011	**(18,091)**	**(2,932)**	**7,182**	**(43)**	**10,693**	**85**	**4,789**	**1,683**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	–	0.544	0.702804	0.577	0.204	0.017	–	–

f) Liquidity risk

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

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

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

In 2012 and 2011 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	Highest	Lowest	Average	Year-end
2012	70%	52%	61%	56%
2011	79%	61%	68%	72%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012

	Group as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	187,255	–	–	–	–	3,705	190,960
Balances due from credit institutions	117,521	9,685	–	279	817	911	129,213
Securities held for trading	–	366	71	854	6,929	2,176	10,396
Financial assets designated at fair value through profit or loss	–	1,775	5,055	2,762	19,502	6,414	35,508
Available-for-sale securities	9,178	21,583	17,352	23,374	153,220	44,304	269,011
Loans and receivables to customers	8,554	18,561	29,233	69,808	407,403	182,884	716,443
Held-to-maturity securities	–	52,748	–	5,691	69,883	37,671	165,993
Derivative financial instruments	882	97	9	–	–	–	988
Other assets	19,315	90	773	1,201	1,784	59,749	82,912
Total assets	**342,705**	**104,905**	**52,493**	**103,969**	**659,538**	**337,814**	**1,601,424**
Liabilities							
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	10,368	10,368
Financial liabilities measured at amortised cost	1,059,400	100,959	89,683	137,501	83,390	8,044	1,478,977
Derivative financial instruments	1,403	1,319	–	–	–	–	2,722
Other liabilities	12,405	521	44	164	–	1,363	14,497
Total liabilities	**1,073,208**	**102,799**	**89,727**	**137,665**	**83,390**	**19,775**	**1,506,564**
Equity	–	–	–	–	–	94,860	94,860
Total liabilities and equity	**1,073,208**	**102,799**	**89,727**	**137,665**	**83,390**	**114,635**	**1,601,424**
Net balance sheet position—long/ (short)	(730,503)	2,106	(37,234)	(33,696)	576,148	223,179	–
Memorandum items							
Contingent liabilities	35,625	–	–	–	–	–	35,625
Financial commitments	115,983	–	–	–	–	–	115,983

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2012:

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	10,368	10,368
Financial liabilities measured at amortised cost	1,066,187	98,384	90,664	153,637	84,479	7,277	1,500,628
Memorandum items							
Contingent liabilities	35,625	–	–	–	–	–	35,625
Financial commitments	115,983	–	–	–	–	–	115,983

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Group as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	232,631	–	–	–	–	10,608	243,239
Balances due from credit institutions	203,508	8,039	–	335	267	272	212,421
Securities held for trading	34	–	–	–	126	35	195
Financial assets designated at fair value through profit or loss	–	–	368	172	4,618	1,223	6,381
Available-for-sale securities	3,581	10,209	5,581	20,412	105,531	19,282	164,596
Loans and receivables to customers	17,650	15,553	37,308	54,258	421,070	171,303	717,142
Held-to-maturity securities	1	–	1,198	1,137	114,875	9,150	126,361
Derivative financial instruments	2,640	57	786	–	–	–	3,483
Other assets	19,070	256	95	755	639	65,664	86,479
Total assets	**479,115**	**34,114**	**45,336**	**77,069**	**647,126**	**277,537**	**1,560,297**
Liabilities							
Financial liabilities designated at fair value through profit or loss	–	–	–	–	4,547	742	5,289
Financial liabilities measured at amortised cost	856,189	207,739	97,767	201,731	96,833	1,356	1,461,615
Derivative financial instruments	480	103	237	–	–	–	820
Other liabilities	13,321	260	133	98	110	1,107	15,029
Total liabilities	**869,990**	**208,102**	**98,137**	**201,829**	**101,490**	**3,205**	**1,482,753**
Equity	–	–	–	–	–	77,544	77,544
Total liabilities and equity	**869,990**	**208,102**	**98,137**	**201,829**	**101,490**	**80,749**	**1,560,297**
Net balance sheet position – long/ (short)	(390,875)	(173,988)	(52,801)	(124,760)	545,636	196,788	–
Memorandum items							
Contingent liabilities	21,370	–	–	–	–	–	21,370
Financial commitments	125,709	–	–	–	–	–	125,709

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2011:

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities designated at fair value through profit or loss	–	–	–	–	4,547	742	5,289
Financial liabilities measured at amortised cost	857,494	212,110	101,356	206,880	115,233	1,172	1,494,245
Memorandum items							
Contingent liabilities	21,370	–	–	–	–	–	21,370
Financial commitments	125,709	–	–	–	–	–	125,709

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012

	Bank as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	174,708	–	–	–	–	–	174,708
Balances due from credit institutions	78,821	2,249	–	–	–	–	81,070
Available-for-sale securities	7,789	17,413	15,381	16,463	118,270	26,992	202,308
Loans and receivables to customers	8,659	51,692	31,312	62,187	341,256	133,698	628,804
Held-to-maturity securities	–	52,196	–	4,978	60,902	37,672	155,748
Derivative financial instruments	921	100	13	–	–	–	1,034
Other assets	18,202	–	–	–	–	73,021	91,223
Total assets	**289,100**	**123,650**	**46,706**	**83,628**	**520,428**	**271,383**	**1,334,895**
Liabilities							
Financial liabilities measured at amortised cost	855,855	96,949	79,414	119,644	79,463	778	1,232,103
Derivative financial instruments	1,449	1,317	–	–	–	–	2,766
Other liabilities	8,016	–	–	–	–	–	8,016
Total liabilities	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**778**	**1,242,885**
Equity	–	–	–	–	–	92,010	92,010
Total liabilities and equity	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**92,788**	**1,334,895**
Net balance sheet position – long/ (short)	(576,220)	25,384	(32,708)	(36,016)	440,965	178,595	–
Memorandum items							
Contingent liabilities	32,533	–	–	–	–	–	32,533
Financial commitments	120,898	–	–	–	–	–	120,898

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities measured at amortised cost	862,484	94,263	80,265	135,437	79,037	–	1,251,486
Memorandum items							
Contingent liabilities	32,533	–	–	–	–	–	32,533
Financial commitments	120,898	–	–	–	–	–	120,898

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Bank as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	229,659	–	–	–	–	–	229,659
Balances due from credit institutions	183,079	–	–	–	–	–	183,079
Available-for-sale securities	1,404	6,412	735	13,036	69,889	10,813	102,289
Loans and receivables to customers	10,346	48,979	35,459	46,668	366,551	117,770	625,773
Held-to-maturity securities	–	–	–	–	109,292	9,150	118,442
Derivative financial instruments	2,701	47	794	–	–	–	3,542
Other assets	17,930	3	7	49	11	76,291	94,291
Total assets	**445,119**	**55,441**	**36,995**	**59,753**	**545,743**	**214,024**	**1,357,075**
Liabilities							
Financial liabilities measured at amortised cost	700,997	202,112	86,113	181,460	90,470	601	1,261,753
Derivative financial instruments	1,259	314	237	–	–	–	1,810
Other liabilities	12,260	–	–	–	–	–	12,260
Total liabilities	**714,516**	**202,426**	**86,350**	**181,460**	**90,470**	**601**	**1,275,823**
Equity	–	–	–	–	–	81,252	81,252
Total liabilities and equity	**714,516**	**202,426**	**86,350**	**181,460**	**90,470**	**81,853**	**1,357,075**
Net balance sheet position – long/ (short)	(269,397)	(146,985)	(49,355)	(121,707)	455,273	132,171	–
Memorandum items							
Contingent liabilities	18,307	–	–	–	–	–	18,307
Financial commitments	141,868	–	–	–	–	–	141,868

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
							LVL 000's
Financial liabilities measured at amortised cost	702,136	206,294	89,483	185,920	109,159	–	1,292,992
Memorandum items							
Contingent liabilities	18,307	–	–	–	–	–	18,307
Financial commitments	141,868	–	–	–	–	–	141,868

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

	Group, 31/12/2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	(510)	(1,199)	–	–	–	–	(1,709)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(2,551)	(8,920)	(2,176)	–	–	–	(13,647)
inflow	2,540	8,898	2,194	–	–	–	13,632

	Group, 31/12/2011						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	(440)	(86)	(237)	–	–	–	(763)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,160)	(212)	–	–	–	–	(8,372)
inflow	8,167	222	–	–	–	–	8,389

	Bank, 31/12/2012						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	(494)	(1,195)	–	–	–	–	(1,689)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,143)	(8,877)	(2,176)	–	–	–	(19,196)
inflow	8,111	8,858	2,194	–	–	–	19,163

	Bank, 31/12/2011						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
							LVL 000's
Derivatives settled on a net basis							
Foreign exchange derivatives	(1,218)	(314)	(237)	–	–	–	(1,769)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,448)	–	–	–	–	–	(8,448)
inflow	8,453	–	–	–	–	–	8,453

Fair Values of Financial Assets and Liabilities

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks

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

Balances due from credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to short-term maturity profiles.

Loans and receivables to customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by LVL 7.3 million (2011: LVL 8.6 million).

Held-to-maturity securities

Held-to-maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.04 million (2011: LVL 0.2 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount.

Fair value hierarchy

Quoted market prices (Level 1)

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique—observable market inputs (Level 2)

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique—non-market observable inputs (Level 3)

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities.

	31/12/2012		31/12/2011		Fair value hierarchy level
	Carrying value	Fair value	Carrying value	Fair value	
Cash and demand deposits with central banks	190,960	190,960	243,239	243,239	n/a
Balances due from credit institution	129,213	129,213	212,421	212,422	n/a
Held for trading securities	10,396	10,396	195	195	Level 1
Financial assets designated at fair value through profit or loss	35,508	35,508	6,381	6,381	Level 1
Derivatives	988	988	3,483	3,483	Level 2
Available-for-sale securities	269,011	269,011	164,596	164,596	Level 1
Loans and receivables to customers	716,443	704,609	717,142	704,473	n/a
Held-to-maturity securities	165,993	166,367	126,361	129,485	n/a
Total financial assets	**1,518,512**	**1,507,052**	**1,473,818**	**1,464,274**	
Derivatives	2,722	2,722	820	820	Level 2
Financial liabilities designated at fair value through profit or loss	10,368	10,368	5,289	5,289	Level 1
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,477	25,477	47,470	47,482	n/a
Customer deposits	1,395,697	1,394,657	1,317,971	1,316,418	n/a
Issued debt	–	–	20,925	20,928	n/a
Subordinated liabilities	52,014	52,014	51,948	51,948	n/a
Other financial liabilities	5,789	5,677	23,301	23,817	n/a
Total financial liabilities	**1,492,067**	**1,490,915**	**1,467,724**	**1,466,702**	

The following table presents fair values of Bank's financial assets and liabilities.

	31/12/2012		31/12/2011		Fair value hierarchy level
	Carrying value	Fair value	Carrying value	Fair value	
Cash and demand deposits with central banks	174,708	174,708	229,659	229,659	n/a
Balances due from credit institution	81,070	81,070	183,079	183,079	n/a
Derivatives	1,034	1,034	3,542	3,542	Level 2
Available-for-sale securities	202,308	202,308	102,289	102,289	Level 1
Loans and receivables to customers	628,804	618,975	625,773	612,274	n/a
Held-to-maturity securities	155,748	160,929	118,442	122,002	n/a
Total financial assets	**1,243,672**	**1,239,024**	**1,262,784**	**1,252,845**	
Derivatives	2,766	2,766	1,810	1,810	Level 2
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	47,361	47,361	71,768	71,768	n/a
Customer deposits	1,132,728	1,131,617	1,099,258	1,097,557	n/a
Issued debt	–	–	20,997	21,000	n/a
Subordinated liabilities	52,014	52,014	51,948	51,948	n/a
Other financial liabilities	–	–	17,782	17,782	n/a
Total financial liabilities	**1,234,869**	**1,233,758**	**1,263,563**	**1,261,865**	

g) Operational risk

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

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

The Group applies following approaches for operational risk management:

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

- Business continuity planning;
- Risk assessment within development projects.

h) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets. In second half of 2011, for the first time ever FCMC calculated Bank's capital adequacy ratio, based on FCMC internal policies and guidelines. From then on, the calculation is performed once a year. The 2012 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 8.4%. The increase in ratio is related to the non-resident business of the Bank. At the same time, FCMC's guidelines stipulate that well capitalised banks should have at least 10% minimum capital adequacy ratio. As a result, FCMC has requested that the Bank and the Group has to maintain the capital adequacy ratio above 10%. The management believes that the Group will comply with the aforementioned target throughout 2013.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operational risk charge.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank plans its capital adequacy strategy under assumptions of the adverse macroeconomic scenario. The following represents the assessment summary of risk profile:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	High	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (counterparty credit risk in derivatives, participations etc)	Low	Standardized approach	n/a
Market risk	Position risk	High	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Moderate	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework, Pillar I) can be disclosed as follows:

	31/12/2012	31/12/2011	31/12/2012	31/12/2011
	Group	Group as restated (note 3)	Bank	Bank as restated (note 3)
				LVL 000's
Tier 1				
- paid-in share capital	103,000	103,000	103,000	103,000
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(11,860)	(20,441)	(13,908)	(19,427)
Less				
- intangible assets	(859)	(1,172)	(493)	(770)
- negative securities fair value revaluation reserve	–	(2,789)	–	(2,321)
- restructuring reserve and other reserves	(3,153)	(3,389)	–	–
- Investments in subsidiaries—insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**85,628**	**73,709**	**87,099**	**78,982**
Tier 2				
- subordinated debt	50,270	50,270	50,270	50,270
- amortisation of subordinated debt	(20,108)	(10,054)	(20,108)	(10,054)
- Tier 2 excess over 50% from Tier 1	–	(2,611)	–	–
- investments in subsidiaries—insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**28,662**	**36,105**	**28,662**	**38,716**
Equity to be utilised in the capital adequacy ratio	**114,290**	**109,814**	**115,761**	**117,698**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	893	497	494	29
Municipalities	2,105	112	2,037	41
Government institutions	51	9	51	9
Credit institutions	3,993	7,009	5,141	7,071
Companies	38,578	33,784	38,833	35,078
Assets qualifying for "retail" definition	5,562	5,624	4,000	3,970
Qualifying residential mortgage loans	7,878	7,745	6,112	5,715
Assets qualifying for "past due" definition	1,561	1,293	1,179	990
Covered bonds	–	109	–	109
Investment funds	253	666	253	666
Other assets	11,145	12,876	7,315	8,698
Other risk capital charges:				
Foreign currency open positions subject to capital charge	5,068	3,143	604	1,860
Fixed income securities position risk capital charge	399	144	233	144
Commodities risk capital charge	14	60	14	60
Operational risk capital charge	9,981	10,624	7,713	8,364
Total capital charges	**87,481**	**83,695**	**73,979**	**72,804**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**10.5%**	**10.5%**	**12.5%**	**12.9%**

* AAS "Citadele Life" is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

Translation from Latvian original*

Independent Auditor's Report

To the Shareholders of AS Citadele banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Citadele banka and its subsidiaries (the "Group") and financial statements of AS Citadele banka (the "Bank") on pages 9 to 78, which comprise the balance sheets as of 31 December 2012 and the statements of income and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give true and fair views of the financial positions of the Group and the Bank as of 31 December 2012, and of their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers SIA, Kr. Valdemara iela 21-21, Riga LV-1010, Latvia
T: +371 6709 4400, F:+371 6783 0055, www.pwc.lv

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No.5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejina
Certified auditor in charge
Certificate No. 168

Riga, Latvia
8 March 2013

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AS Citadele banka

(incorporated and registered in Latvia, with registered number 40103303559)

Republikas laukums 2A, Riga, LV-1010, Latvia

Sole Global Coordinator and Joint Bookrunner

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
London E14 5LB
United Kingdom

Joint Bookrunner

EFG Hermes UAE Limited
Gate Building
West Wing 6th Floor
DIFC, Dubai, United Arab Emirates

EFG Hermes Promoting and Underwriting SAE
Building No. B129 Phase 3, Smart Village
Km 28 Cairo Alexandria Desert Road
6 October 12577 Egypt

Co-lead Managers

AS LHV Pank
Tartu mnt 2
10145 Tallinn
Estonia

Mediobanca – Banca di Credito Finanziario S.p.A.
P.tta Enrico Cuccia, 1
20121 Milan
Italy

Raiffeisen Bank International AG
Am Stadtpark 9
1030 Wien
Austria

Prospectus dated 23 October 2015

LEGAL ADVISERS TO CITADELE

As to English law
Slaughter and May
One Bunhill Row
London EC1Y 8YY
United Kingdom

As to Latvian law
Eversheds Bitans
Terbatas Business Center
Lacplesa Street
20a (3rd Floor)
Riga LV-1011
Latvia

As to U.S. law
Cravath, Swaine & Moore LLP
CityPoint
One Ropemaker Street
London EC2Y 9HR
United Kingdom

LEGAL ADVISERS TO THE MANAGERS

As to U.S. and English law
Shearman & Sterling (London) LLP
9 Appold Street
London EC2A 2AP
United Kingdom

As to Latvian law
Borenius Attorneys
Lacplesa Street
20a (6th Floor)
Riga LV-1011
Latvia

INDEPENDENT AUDITORS TO CITADELE

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

PricewaterhouseCoopers SIA
Kr. Valdemara iela 21-21
Riga LV 1010
Latvia

DEPOSITARY

Citibank, N.A.
388 Greenwich Street, 14th Floor
New York, NY 10013
United States of America

LEGAL ADVISERS TO THE DEPOSITARY

Morgan, Lewis & Bockius UK LLP
Condor House
5-10 St. Paul's Churchyard
London EC4M 8AL
United Kingdom

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