AS Citadele banka

Annual report

for the year ended
31 December 2017

Citadele

KEY FIGURES

EUR millions	Group 2017	Group 2016	Group Change	Bank 2017	Bank 2016	Bank Change
Net interest income	75.4	66.2	14%	56.5	50.1	13%
Net commission and fee income	36.7	40.1	(9%)	22.6	27.1	(17%)
Operating income[(1)]	132.5	134.3	(1%)	100.8	107.1	(6%)
Impairment charges and reversals, net	(4.4)	(10.1)	(56%)	(12.1)	(10.2)	19%
Net profit	16.0	40.7	(61%)	1.3	36.3	(97%)
Return on average assets (ROA)[(2)]	0.48%	1.29%	(0.81pp)	0.05%	1.44%	(1.39pp)
Return on average equity (ROE)[(3)]	6.1%	17.2%	(11.1pp)	0.5%	16.2%	(15.7pp)
Cost to income ratio (CIR)[(4)]	64.4%	60.4%	4.1pp	61.5%	55.3%	6.2pp
Cost of risk ratio (COR)[(5)]	1.0%	0.9%	(0.1pp)	1.1%	0.9%	0.2pp
Adjusted for major one-time items[(6)]:						
Net profit	31.5	31.1	1%	20.6	21.6	(5%)
Return on average assets (ROA)[(2)]	0.94%	0.99%	(0.04pp)	0.80%	0.86%	(0.06pp)
Return on average equity (ROE)[(3)]	11.9%	13.3%	(1.4pp)	8.5%	9.9%	(1.3pp)

EUR millions	Group 2017	Group 2016	Group Change	Bank 2017	Bank 2016	Bank Change
Total assets	3,312	3,350	(1%)	2,545	2,630	(3%)
Loans to customers	1,331	1,241	7%	1,117	1,009	11%
Deposits from customers	2,880	2,919	(1%)	2,144	2,149	(0%)
Shareholders' equity	269	254	6%	240	238	1%
Loan-to-deposit ratio[(7)]	46%	42%	4pp	52%	47%	5pp
Total capital adequacy ratio (CAR)	18.4%	16.5%	1.9pp	20.0%	19.0%	1.0pp
Common equity Tier 1 capital ratio (CET1)	15.0%	13.5%	1.5pp	15.9%	15.4%	0.5pp

(1) Operating income consists of the following income statement items: net interest income, net commission and fee income, net gain on transactions with financial instruments and other income.
(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period.
(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period.
(4) Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income.
(5) Cost of risk ratio (COR) is calculated as the sum of net collective and specific loans' impairment charges, net provisions for off-balance sheet credit risk products, and recovered written-off assets divided by the average of gross loans at the beginning and the end of the period.
(6) 2017 adjusted for one-time expense in the amount of EUR 23.2 million due to the write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime (the Group and the Bank), EUR 7.7 million reversal of impairment on property and equipment (the Group only) and EUR 3.9 million income on dividends from subsidiaries (the Bank only). 2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc (the Group and the Bank), EUR 5.1 million income on dividends from subsidiaries (the Bank only) and EUR -1.8 million loss on sale of a single AFS (former HTM) security exposure before maturity (the Group and the Bank).
(7) Loan to deposit ratio is calculated as the carrying value of loans to customers divided by deposits from customers at the end of the relevant period.

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Rounding and Percentages

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

In these financial statements, certain percentage figures have been included for convenience purposes in comparing changes in financial and other data over time. However, certain percentages may not sum to 100% due to rounding.

LETTER FROM THE MANAGEMENT

FINANCIAL PERFORMANCE

In 2017 Citadele Group (hereafter – the Group) maintained stable growth in its main business segments across all three Baltic states and Switzerland and continued to grow its customer base with improved asset quality metrics. AS Citadele banka (hereafter – the Bank) increased its credit portfolio in Latvia, kept deposits at a stable level, and invested in innovations and improved customer service.

The Group's net profit before one-time items was EUR 31.5 million (Bank: EUR 20.6 million). The tax reform introduced by the government of Latvia lead to a EUR 23.2 million one-time write-off of deferred tax assets. Meanwhile, re-evaluation of the Group's property and equipment allowed EUR 7.6 million reversal of impairment. Comparing against adjusted numbers for 2016 (excluding gain on VISA share sale and a loss on sale of a single security exposure), the Group's net profit grew by 1% in 2017. The Group's as reported net profit in 2017 was EUR 16.0 million (Bank: EUR 1.3 million).

Group reached adjusted ROE of 11.9% (Bank: 8.5%) and adjusted ROA of 0.94% (Bank: 0.80%). Corresponding adjusted numbers in 2016 were 13.3% (Bank: 9.9%) and 0.99% (Bank: 0.86%).

Net interest income grew by 14% compared to 2016 and reached EUR 75.4 million (Bank: EUR 56.5 million). The increase was mainly driven by higher yield and growth of the Baltic loan portfolio.

Net commission income decreased by 9% to EUR 36.7 million (Bank: EUR 22.6 million). The decrease was mainly associated with risk mitigating actions regarding USD transfers.

Administrative expense was EUR 79.0 million (Bank: EUR 59.0 million) – a 5% increase compared to 2016. This was the result from the Group's continuous investment in its personnel as well as in state-of-the-art technology solutions.

The number of full time equivalent active employees decreased to 1,540 at the end of 2017 (Bank: 1,173), compared to 1,603 at the end of 2016 (Bank: 1,110). The decrease in the employee count was due to the sale of the Group's company SIA CBL Cash Logistics in 2017.

The Group continued to improve its asset quality. Non-performing loan (NPL) ratio decreased to 8.3% (Bank: 9.0%) in comparison to 9.9% (Bank: 11.0%) in 2016. NPL ratio improved due to fewer delayed loans in retail and corporate segments. The capital position of the Group remained at a high level and the capital adequacy ratio (CAR) was 18.4% (Bank: 20.0%) at the end of 2017, compared to 16.5% (Bank: 19.0%) at the end of 2016. The Group's liquidity position remained strong without significant changes in client deposit levels. Loan-to-deposit ratio remained at a comfortable level – 46%.

The net loan portfolio maintained its growth and reached EUR 1.33 billion – a 7% increase compared to 2016. In-line with the Group's strategy, the main drivers of lending's continued growth were Baltic retail and SME operations.

Client deposits at the end of 2017 were EUR 2.88 billion, a 1% decrease compared to the previous year. The deposits in Latvia grew by 6% and reached EUR 1.99 billion. In Lithuania, deposits grew by 8% and reached EUR 453 million. Total deposits in Estonia decreased to EUR 151 million.

PRODUCT AND SERVICE IMPROVEMENTS

In 2017, Citadele Group continued to develop new offers, upgrade customer service and attract new customers among both private individuals and businesses.

The Group invested more than EUR 3 million in new innovation and digitalization of products and services in 2017. These improvements included mobile payments, new functionalities in the Bank's mobile application, improvements to the internet bank, and an automated credit scoring process for lending.

Citadele Group completed several projects to modernize its payment system. Since the beginning of 2017, Citadele began issuing contactless payment cards in order to create a suitable infrastructure for mobile payments in Latvia. By the third quarter of 2017, more than 50% of Citadele's card terminals supported contactless payments. Citadele Bank also signed an agreement for a long-term partnership with global payments company Visa in April 2017. The agreement anticipates close cooperation in developing new and innovative card and payment products and services to be introduced across all three Baltic States over the next six years. The first joint product developed by Visa and Citadele is a new brand of credit card with three card types: X Card, X Platinum and X Infinite for different client segments.

Citadele Bank was the first bank in the Baltics to introduce mobile payments using near-field communication (NFC) technology to ensure that the mobile payment solution was easy-to-use and applicable in diverse, everyday payment situations. In September, once beta-testing was complete, payments using mobile phones were made available to people who use smartphones with an Android operating system (Samsung, HTC, Huawei etc.), representing around 80% of all phone users in Latvia. For users of smartphones with other operating systems, Citadele offered alternative mobile payment solutions – bracelets and stickers with NFC technology. Currently, mobile payments using NFC technology are possible in over 15,000 places in Latvia where contactless payments are accepted. It is expected that by 2020 every payment terminal in Latvia will be fitted with contactless payment function.

Citadele Bank in Latvia continues to actively invest in improvements to its mobile application. Customers in Latvia are making 10 times more payments on the Bank's app than a year ago. This year, widening its range of communication channels, the Bank began offering mortgage consultations in Latvia over Skype, and introduced WhatsApp and iMessage as communications channels with customers.

Citadele Bank was the first bank in Latvia to join the Bank of Latvia instant-payment network. The instant-payment system was launched on November 21 and allows Citadele's clients to make instant payments to other European and Latvian banks that joined the system. The limit for each payment is set to EUR 30.00 in the system's early stages, but gradually will increase to EUR 15,000 – the maximum permitted limit of an instant payment. Instant payments are non-cash transfers provided 24 hours a day, 7 days a week, every day of the year, including public holidays and weekends, and are processed within a few seconds. This change brought significant convenience to clients, as previously payments between banks in Europe were possible only on working days and processing took multiple hours.

MOODY'S UPGRADE AND OTHER RECOGNITIONS

On 19 April 2017, Moody's Investors Service (Moody's) increased Citadele's long-term credit rating by two notches (from B1 to Ba2), and maintained positive outlook. This upgrade reflected the Group's on-going strategy to develop and grow its business across the Baltic States, as well as the Group's improved capital levels and asset quality. Moody's also positively valued the Group's rapid development over the last year.

In the 1st quarter of 2017, Citadele's operations in Latvia and Lithuania received the highest rating from the customer service research firm Dive, which undertakes an annual review of the customer service of Baltic banks. Both in Latvia and in Lithuania, Citadele was recognized as the bank with the best customer service. This represented the second year in a row that Citadele has received this award in Lithuania.

The Group company CBL Asset Management's managed funds are repeatedly recognized by Lipper Fund Awards. In March 2017, for the second year running, international investment fund research company Lipper recognized CBL Eastern European Bond Fund R Acc USD as the best fund in 2016 in terms of returns and risks in the European Emerging Markets Bond's category over a three and five year period.

DEVELOPMENT IN LENDING

In 2017, Citadele Group actively served and provided funds to private individuals and businesses across all three Baltic States.

Citadele Group's net loan portfolio grew to EUR 1.33 billion in 2017, with EUR 469 million granted in new loans a 10% more than in 2016. For private individuals, the amount of new loans granted by the Group was EUR 129 million, a 3% increase compared to the same period in 2016. For businesses, the amount of new loans was EUR 340 million, a 13% increase.

In Latvia, the net loan portfolio reached EUR 1.0 billion as the Bank granted EUR 266 million in new loans. For private individuals, EUR 89 million was granted in new loans. For businesses, EUR 177 million was granted.

In Lithuania, the net loan portfolio reached EUR 255 million in 2017, with EUR 142 million granted in new loans. For private individuals, EUR 13 million was granted in new loans. For businesses, EUR 129 million was granted.

In Estonia, the net loan portfolio grew to EUR 112 million in 2017, with EUR 64 million granted in new loans. For private individuals, EUR 26 million was granted in new loans, and for businesses EUR 38 million was granted.

The Group's **leasing entities** showed steady growth, with the total Baltic leasing portfolio reaching EUR 159 million, growing 5% compared to 2016, driven primarily by Latvia and Lithuania. The net leasing portfolio in Latvia grew by 13% compared to 2016, reaching EUR 76 million. In Lithuania the net leasing portfolio grew by 19% reaching EUR 62 million.

REGULATORY COMPLIANCE AND OTHER

On 1 January 2018, IFRS 9 and IFRS 15 become effective for the Group. Throughout 2017 and also in 2018, Citadele Group has been working diligently to implement these and other upcoming accounting, compliance and regulatory requirements in a timely manner. Management is confident that the Group is on track for implementation of all known regulatory and compliance requirements. For the estimated impact of IFRS 9 and IFRS 15 requirements, refer to the Financial Statements.

In November 2017, the Bank completed its EUR 20 million issuance of subordinated debt as part of its second subordinated bonds program. The objective of the offering was to refinance the portion of the subordinated debt to the European Bank for Reconstruction and Development and to continue improving the Group's capital adequacy ratio, which reached 18.4% (Bank: 20.0%) at 31 December 2017.

Also, in October 2017, the Supervisory Board of AS Citadele banka approved Johan Akerblom as the Chief Financial Officer of the Bank. On 29 January 2018 J. Akerblom received the approval of the Financial and Capital Market Commission and on 1 February 2018 commenced his duties.

Guntis Belavskis Chairman of the Management Board	Klāvs Vasks Member of the Supervisory Board

Riga,
21 February 2018

CORPORATE GOVERNANCE

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

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

Audit Committee's report to the shareholders

In 2017 Audit Committee of AS Citadele banka (hereinafter – the Committee) acted in the role of audit committee as required by the Financial Instruments Market Law.

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

- *Supervised the preparation of the annual report for the year ended 31 December 2017;*
- *Supervised the process of audit of the annual report for the year ended 31 December 2017;*
- *Supervised the effectiveness of internal controls, risk management and internal audit systems as applicable to the process of the preparation of financial statements;*
- *Supervised the approval of the external auditor for audit of the annual report for the year ended 31 December 2017;*
- *Supervised the compliance of the auditor of the annual report for the year ended 31 December 2017 with independence and objectivity requirements set forth in the Law of the Provision of Audit Services;*
- *Communicated to the Supervisory Board the conclusions made by the auditor of the annual report for the year ended 31 December 2017.*

In 2017 the Committee was not hindered in any way, and full access to any information required by the Committee was ensured. The Committee throughout the year kept informed the Management Board and the Supervisory Board about the conclusions and recommendations made by it.

In the course of discharging its duties as related to the preparation of the annual report for the year ended 31 December 2017 the Committee did not encounter any evidence that would suggest that these financial statements would not be true and fair.

A detailed report on the activities of the Committee in 2017 has been submitted to the Supervisory Board of the Bank.

The Supervisory Board of the Bank:

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Dominic Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Catherine Margaret Ashton	Member of the Supervisory Board	3 May 2017

David Shuman, a former member of the Supervisory Board, resigned on 1 February 2017. On 3 May 2017, after receiving Financial and Capital Market Commission's approval, Catherine Margaret Ashton was appointed as a Member of the Supervisory Board.

Timothy C. Collins is the Chief Executive Officer of Ripplewood Advisors LLC, an investment firm based in the US Over the last 20 years, Ripplewood has successfully invested in and grown companies globally, including in Europe, the Middle East and Asia. Before founding Ripplewood, Mr. Collins held executive positions with Onex Corporation, Lazard Freres & Company, Booz Allen & Hamilton and Cummins Engine Company. He currently serves on the Board of Directors of Palm Hills Developments SAE. Mr Collins holds a BA in Philosophy from DePauw University and an MBA in Public & Private Management from Yale University.

Elizabeth Critchley is a Partner of Ripplewood Advisors Limited. Prior to Ripplewood, Mrs Critchley was a Founding Partner of Resolution Operations, which raised £660 million via a listed vehicle at the end of 2008, and went on to make three acquisitions from the financial services sector. Until forming Resolution Operations, Mrs Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. She has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs Critchley holds a First Class Honours Degree in Mathematics from University College London.

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

Dhananjaya Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as online banking, 24-hr ATMs, and real-time data, while maintaining cost control. He has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management.

Lawrence N. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28-year career in investment banking. At Ripplewood, he focuses primarily on companies in the financial services and telecommunications industries. Mr Lavine was previously a Managing Director of Credit Suisse First Boston (CSFB) in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a managing director in M&A since 1987. Mr Lavine started his career on Wall Street at Kidder Peabody & Co. in 1976. He holds a BS from Northeastern University and an MBA from Harvard Business School.

Klāvs Vasks was Chairman of the Supervisory Board from the restructuring the bank in 2010 until April 2015. He has 20 years of experience in the banking sector. He was vice president of the SEB Bank Latvia as well as director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University.

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

Karina Saroukhanian is a senior banker in the Financial Institutions Team at the EBRD. She has over 15 years' industry experience, with recent focus on financial institutions sector. At the EBRD, Karina specialises in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD Karina was an Associate Director in the M&A group at Nomura International in London and a Vice President at Sindicatum, a specialist financial advisory and asset management firm. Karina holds an MSc in Economics from the London School of Economics and the New Economic School, Moscow as well as BSc in Mathematical Economics from the Moscow State University.

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

The Management Board of the Bank:

Name	Current position	Responsibility
Guntis Beļavskis	Chairman of the Management Board, per procura	Chief Executive Officer
Valters Ābele	Member of the Management Board, per procura	Chief Risk Officer
Kaspars Cikmačs	Member of the Management Board	Chief Operations Officer
Santa Purgaile	Member of the Management Board	Chief Commercial Officer Corporate
Vladislavs Mironovs	Member of the Management Board	Chief Commercial Officer Retail
Uldis Upenieks	Member of the Management Board	Chief Compliance Officer
Slavomir Mizak	Member of the Management Board	Chief Technology Officer
Johan Åkerblom	Member of the Management Board	Chief Financial Officer

On 1 August 2017 after receiving Financial and Capital Market Commission's approval, Uldis Upenieks (Chief Compliance Officer) and Slavomir Mizak (Chief Technology Officer) were appointed as new Members of the Management Board. On 29 January 2018 the Bank received Financial and Capital Market Commission approval for Johan Akerblom's candidacy in the Citadele Management Board. On 1 February 2018 Johan Akerblom was appointed as Member of the Management Board.

Guntis Beļavskis, Chief Executive Officer (CEO) and Chairman of the Management Board.

Mr Beļavskis is Member of the Management Board since 30 June 2010 and Chairman since 1 May 2012.

Mr Beļavskis has 15 years of experience in the banking sector and over 23 years of experience in business operations. In 2002, he was invited to head the sales department of Parex banka. One year later he became the head of sales and marketing, and after another year – the head of retail and SME services network. In December 2008, when the Latvian State took over Parex banka, Guntis Beļavskis was invited to work in the new Management Board of the bank, and after the successful split-up, he assumed the same post in Citadele. He acquired his bachelor degree in business management at the Riga Transport and Telecommunications Institute.

Valters Ābele, Risk Director

Mr Ābele has been Member of the Management Board since 30 June 2010.

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

Santa Purgaile

Ms Purgaile has been Member of the Management Board since 19 September 2012.

Santa Purgaile is responsible for the development and management of the banking group’s business in Latvia and the Baltic States in relation to various aspects of client services. Santa has more than 20 years of experience in the banking sector, including nine years at the management level in various areas of business. Prior to joining the Citadele board, Santa ran SEB Bank’s private banking business in Latvia and the Baltic States. She has also served as director of SEB Bank’s SME Business Support and before that as director of Vidzeme region. Santa holds a bachelor’s degree in business administration from the Turība School of Business and a master’s degree in international economics and business from the University of Latvia.

Kaspars Cikmačs

Mr Cikmačs has been Member of the Management Board since 21 September 2010.

Kaspars Cikmačs is responsible for administrative services and bank operations at Citadele Bank. Kaspars has worked in banking since 1996. Previously, he has headed the Help Desk at Hansabanka and run Baltic IT Monitoring Department and IT maintenance processes. Later Kaspars became the Head of IT Operations Department at Swedbank Baltic Banking. He has a bachelor’s degree in Computer technologies from the University of Latvia, has graduated from the Business Leadership Programme for top-performing managers at INSEAD University in France, and has an Executive MBA degree from the Stockholm School of Economics.

Vladislavs Mironovs

Mr Mironovs has been Member of the Management Board since 16 December 2016.

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

Uldis Upenieks

Mr Upenieks has been Member of the Management Board since 1 August 2017.

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

Slavomir Mizak

Mr Mizak has been Member of the Management Board since 1 August 2017.

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

Johan Åkerblom

Mr Åkerblom has been Member of the Management Board since 1 February 2018.

Johan Akerblom is responsible for the financial functions of the Group. With 10 years of experience in the financial sector, Johan has spent the previous two years as Chief Financial Officer for the Baltic division at SEB Group. Prior to that, he worked for SEB Group's German subsidiary as Chief Financial Officer starting in 2014. Before that in 2011 he was responsible for Business Development and Controlling at SEB Group's German subsidiary. Johan joined SEB in 2008 working in the CFO office in Sweden. Before joining SEB, he worked in Sweden for "ISS Facility Services" and "McKinsey & Company". Johan holds a master's degree in industrial management and engineering from the Lund Institution of Technology.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The financial statements set out on pages 11 to 73 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2017 and 2016 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 4 to 6 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Citadele banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Guntis Beļavskis Chairman of the Management Board	Klāvs Vasks Member of the Supervisory Board

Riga,
21 February 2018

INCOME STATEMENT

		EUR 000's			
	Notes	2017 Group	2016 Group	2017 Bank	2016 Bank
Interest income	4	93,990	84,737	72,205	66,113
Interest expense	4	(18,616)	(18,542)	(15,753)	(15,966)
Net interest income		**75,374**	**66,195**	**56,452**	**50,147**
Commission and fee income	5	56,441	57,398	40,453	42,178
Commission and fee expense	5	(19,714)	(17,253)	(17,903)	(15,033)
Net commission and fee income		**36,727**	**40,145**	**22,550**	**27,145**
Gain on transactions with financial instruments, net	6	16,096	25,324	13,636	21,840
Other income	33	4,289	2,651	8,178	8,012
Other expense	7	(1,073)	(981)	(322)	(261)
Administrative expenses	7,8	(79,016)	(75,431)	(58,953)	(56,780)
Amortisation and depreciation charge		(5,267)	(4,654)	(2,692)	(2,178)
Impairment charges and reversals, net	9	(4,422)	(10,121)	(12,110)	(10,163)
Profit before taxation		**42,708**	**43,128**	**26,739**	**37,762**
Corporate income tax	10	(26,745)	(2,440)	(25,482)	(1,484)
Net profit for the period		**15,963**	**40,688**	**1,257**	**36,278**
Basic earnings per share in EUR		0.10	0.26	0.01	0.23
Weighted average number of shares outstanding during the period in thousands	25	156,556	156,556	156,556	156,556

The notes on pages 16 to 73 are an integral part of these financial statements.

The financial statements on pages 11 to 73 have been approved and authorised for issue by the Management Board and the Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Net profit for the period	**15,963**	**40,688**	**1,257**	**36,278**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve				
Fair value revaluation reserve charged to statement of income	(236)	(11,288)	(267)	(10,589)
Change in fair value	750	4,655	830	3,323
Deferred income tax charged / (credited) directly to equity	(48)	212	(62)	(17)
Other reserves				
Foreign exchange retranslation	(1,767)	195	-	-
Other comprehensive income / (loss) for the period	**(1,301)**	**(6,226)**	**501**	**(7,283)**
Total comprehensive income for the period	**14,662**	**34,462**	**1,758**	**28,995**

The notes on pages 16 to 73 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
		EUR 000's			
Assets					
Cash and balances with central banks	11	715,468	799,198	494,848	647,606
Balances due from credit institutions	12	151,276	141,691	205,292	154,419
Securities held for trading:					
- fixed income	13	7,962	7,699	-	-
- shares and other non-fixed income	13	5,812	5,786	-	-
Derivative financial instruments	26	2,406	4,583	2,481	4,710
Financial assets designated at fair value through profit or loss:					
- fixed income	13	121,506	110,337	-	-
- shares and other non-fixed income	13	24,973	22,989	-	-
Available for sale securities:					
- fixed income	13	850,045	890,185	619,938	681,946
- shares and other non-fixed income	13	8,816	13,004	8,799	12,988
Loans and receivables from customers	14,15	1,330,595	1,240,516	1,117,190	1,008,506
Property and equipment	16	51,198	43,947	4,994	4,968
Intangible assets	17	4,166	3,075	3,877	2,762
Investments in subsidiaries	18	-	-	64,725	61,884
Current income tax assets		44	135	-	-
Deferred income tax assets	10	1,514	26,301	-	24,685
Other assets	19	35,987	40,069	23,285	25,136
Total assets		**3,311,768**	**3,349,515**	**2,545,429**	**2,629,610**
Liabilities					
Derivative financial instruments	26	3,166	1,817	3,168	1,923
Financial liabilities designated at fair value through profit or loss	20	37,150	39,678	-	-
Balances due to credit institutions and central banks	21	4,518	13,346	59,560	129,930
Deposits from customers	22	2,879,997	2,918,892	2,144,467	2,149,223
Current income tax liabilities		1,582	581	832	-
Deferred income tax liabilities	10	111	136	-	-
Other liabilities	23	37,349	26,224	18,507	15,789
Subordinated liabilities	24	79,000	94,608	79,000	94,608
Total liabilities		**3,042,873**	**3,095,282**	**2,305,534**	**2,391,473**
Equity					
Share capital	25	156,556	156,556	156,556	156,556
Reserves		5,325	6,234	1,511	1,010
Retained earnings		107,014	91,443	81,828	80,571
Total equity		**268,895**	**254,233**	**239,895**	**238,137**
Total liabilities and equity		**3,311,768**	**3,349,515**	**2,545,429**	**2,629,610**
Off-balance sheet items					
Contingent liabilities	26	29,422	28,204	25,252	22,997
Financial commitments	26	236,157	216,025	287,455	243,452

The notes on pages 16 to 73 are an integral part of these financial statements.

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Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity:

	EUR 000's					
	Issued Share capital	Securities fair value revaluation reserve	Foreign currency retranslation	Other reserves	Retained earnings	Total equity
Balance as at 31/12/2015	**156,556**	**8,116**	**3,829**	**271**	**50,999**	**219,771**
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	40,688	40,688
Other comprehensive income / (loss) for the period	-	(6,421)	195	-	-	(6,226)
Transactions with shareholders						
Transfer to reserves *	-	-	-	244	(244)	-
Balance as at 31/12/2016	**156,556**	**1,695**	**4,024**	**515**	**91,443**	**254,233**
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	15,963	15,963
Other comprehensive income / (loss) for the period	-	466	(1,767)	-	-	(1,301)
Transactions with shareholders						
Transfer to reserves *	-	-	-	392	(392)	-
Balance as at 31/12/2017	**156,556**	**2,161**	**2,257**	**907**	**107,014**	**268,895**

* On dividend pay-out, subsidiaries in certain jurisdiction have to retain part of standalone earnings as special reserves. Such reserves in the Group's financial statements are presented as other reserves. Group's policy is to ultimately reclassify restructuring reserve directly to the retained earnings and the restructuring reserve relates to the Group's earnings in the period before the restructuring date. Thus in these financial statements the restructuring reserve is shown within retained earnings. For the Group's accounting policy on accounting of the restructuring reserve refer to the section d) of Note 3.

Changes in the Bank's equity:

	EUR 000's			
	Issued share capital	Securities fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31/12/2015	**156,556**	**8,293**	**44,293**	**209,142**
Total comprehensive income for the period				
Net profit for the period	-	-	36,278	36,278
Other comprehensive income / (loss) for the period	-	(7,283)	-	(7,283)
Balance as at 31/12/2016	**156,556**	**1,010**	**80,571**	**238,137**
Total comprehensive income for the period				
Net profit for the period	-	-	1,257	1,257
Other comprehensive income / (loss) for the period	-	501	-	501
Balance as at 31/12/2017	**156,556**	**1,511**	**81,828**	**239,895**

The notes on pages 16 to 73 are an integral part of these financial statements.

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Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CASH FLOWS

	Notes	EUR 000's 2017 Group	 2016 Group	 2017 Bank	 2016 Bank
Cash flows from operating activities					
Profit before tax		42,708	43,128	26,739	37,762
Dividends income		-	-	(3,913)	(5,127)
Amortisation of intangible assets and depreciation of property and equipment		5,267	4,654	2,692	2,178
Change in impairment allowances and other provisions	9	4,422	10,121	12,110	10,163
Interest income	4	(93,990)	(84,737)	(72,205)	(66,113)
Interest expense	4	18,616	18,542	15,753	15,966
Currency translation of available for sale securities and other non-cash items *		63,476	(12,560)	52,862	(15,064)
Cash flows before changes in assets and liabilities		**40,499**	**(20,852)**	**34,038**	**(20,235)**
Change in derivative financial instruments		3,526	240	3,474	276
(Increase) / decrease in other assets		3,500	(8,704)	2,361	(4,354)
Increase / (decrease) in other liabilities		11,125	961	2,718	(2,330)
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		(15,970)	(13,889)	-	-
(Increase) / decrease in balances due from credit institutions		(3,445)	9,814	185	7,755
(Increase) / decrease in loans and receivables from customers		(103,340)	(82,015)	(120,895)	(37,240)
Increase / (decrease) in balances due to credit institutions and central banks		(8,007)	(16,952)	(58,104)	49,361
Increase / (decrease) in deposits from customers		(37,065)	335,048	(3,052)	111,500
Cash generated from / (used in) operating activities before interest and corporate income tax		**(109,177)**	**203,651**	**(139,275)**	**104,733**
Interest received during the period		93,572	86,275	71,785	67,734
Interest paid during the period		(16,234)	(13,548)	(13,266)	(11,296)
Corporate income tax paid during the period		(683)	(444)	(29)	(29)
Net cash flows from / (used in) operating activities		**(32,522)**	**275,934**	**(80,785)**	**161,142**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(4,334)	(4,953)	(3,857)	(3,454)
Proceeds from disposal of property and equipment		38	97	13	321
Purchase of held to maturity securities		-	(205,886)	-	(203,975)
Proceeds from held to maturity securities		-	236,848	-	227,436
Purchase of available for sale securities		(477,561)	(626,540)	(351,230)	(455,481)
Cash inflows from available for sale securities		456,015	514,606	362,579	400,496
Dividends received		-	-	3,913	5,127
Proceeds from sale or investments in subsidiaries		1,546	-	(162)	(435)
Net cash flows from / (used in) investing activities		**(24,296)**	**(85,828)**	**11,256**	**(29,965)**
Cash flows from financing activities					
Interest paid on subordinated liabilities during the period		(5,056)	(4,033)	(5,056)	(4,033)
Proceeds from issued subordinated liabilities		19,941	-	19,941	-
Repayment of subordinated liabilities		(34,728)	39,720	(34,728)	39,720
Net cash flows from / (used in) financing activities	24	**(19,843)**	**35,687**	**(19,843)**	**35,687**
Net cash flows for the period		**(76,661)**	**225,793**	**(89,372)**	**166,864**
Cash and cash equivalents at the beginning of the period		**935,434**	**709,641**	**784,180**	**617,316**
Cash and cash equivalents at the end of the period	29	**858,773**	**935,434**	**694,808**	**784,180**

* EUR 62 million (Bank: EUR 55 million) of these Group's cash flows from operating activities in the year ended 31 December 2017 relate to foreign exchange translation of available for sale securities.

The notes on pages 16 to 73 are an integral part of these financial statements.

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Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

NOTES TO THE FINANCIAL STATEMENTS

If not mentioned otherwise, referral to the Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as of 31 December 2016 or for the year ended 31 December 2016, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 16 February 2018 and the Supervisory Board on 21 February 2018 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 these 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 2017, the Bank was operating a total of 31 (2016: 33) branches and client service centres in Riga and throughout Latvia. The Bank has 1 (2016: 1) foreign branch in Tallinn (Estonia). The Bank owns directly and indirectly 21 (2016: 24) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group.

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, servicing cards, providing finance leases, and foreign exchange transactions. The Group also offers its clients trust management and private banking services, local and international payments, as well as a wide range of other financial services.

As at 31 December 2017, the Group had 1,540 (2016: 1,603) and the Bank had 1,173 (2016: 1,110) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2017. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

The following guidance with effective date of 1 January 2017 did not have any material impact on these consolidated financial statements:

- *Amendments to IAS 7*
- *Annual Improvements to IFRSs.*

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2017 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt any of these standards early. Those which may have significant potential effect to the Group are set out below:

- *IFRS 9 – Financial Instruments (replaces IAS 39).*Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. As of issuance of these financial statements, the Group is working on the necessary processes, systems, models and capabilities for implementation of IFRS 9. Certain refinements are still ongoing. These are expected to be evolving for the foreseeable future. The Group has set up an internal IFRS 9 implementation project. The implementation team is dealing with direct accounting and presentation aspects of the new standard as well as related aspects like IT requirements, necessary procedures and instructions as well as development of relevant expected credit loss models. The project is Group wide. External competence is attracted where and when deemed necessary. Within the scope of the project, the Group has reworked models, IT systems, while processes and documentation are under refinement and during finalisation of this process the Group and Bank may revise some of the aspects of models established so far. Final testing and validation is still ongoing. As much as possible the Group leveraged on existing definitions, processes, systems, models and data used for regulatory and risk management purposes in order to implement IFRS 9 impairment requirements, although in many areas new models and revisions to the existing models were developed. The Group has invested resources to collect sufficient historical data to support forward looking impairment models.

  The Group's assessment of major assets, which currently are accounted at amortised cost, is to be finalised for 'solely payment of principal and interest (SPPI)' principle for amortised cost classification under the new standard. Based on preliminary re-assessment of business models and subject to finalisaiton of the SPPI assessment, the impact of the change in classification and measurement requirements are not expected to affect the Group' loans significantly upon implementation of the new standard. Certain detailed procedures on SPPI assessment are still ongoing. For securities exposures, implementation of the new standard will require amortised cost classification for certain security classes which currently are classified as available for sale. Part of financial assets designated at fair value through profit or loss would need to be reclassified to fair value through other comprehensive income category. After reclassification this would impact the way revaluation gains are recognised in comprehensive income versus the current regime for the reclassified assets.

For measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors. New impairment assessment models were developed for both lifetime expected credit loss calculation and for 12-months expected credit loss calculations. Planned model validation includes reviews of input data, underlying assumptions used for expected credit loss estimation, and review of model outputs by comparing them to back-testing results. Back-testing is planned to be performed by comparing the actual historical performance of portfolio to the expected credit loss estimation results as per developed models. 30 days past due (for certain products less) is one of the main quantitative indicators used to assess the "significant increase in credit risk" (proxy for transferring from stage 1 to stage 2) augmented by other additional risk factors (e.g. payment discipline, internal credit rating grade, watch-list, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer between impairment stages. The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days (for certain products earlier), significant restructuring, insolvency or bankruptcy or similar legal proceedings started and other unlikeliness to pay indicators. The Bank has had a parallel run of expected credit loss model since mid-2017 to assist in calibration and model fine-tuning.

The Group is in the final stage of the IFRS 9 implementation impact assessment. The estimated impact on impairment due to a release of the current allowances and creation of a new loss allowances according to IFRS 9, are estimated to results in a net increase in loss allowances of EUR 3 million for the Group and EUR 2 million for the Bank. Mostly this relates to card products and off balance sheet commitments. The estimated impact on classification and measurement is a negative market re-valuation of less than EUR 1 million for both the Group and the Bank. Both of these effects will lead to a reduction in the shareholders equity. For the Bank EUR 421 million of fixed income securities are estimated to be reclassified out of available for sale (IAS 39 classification) to amortised cost (IFRS 9 classification) with all remaining available for sale classified securities retaining fair value through other comprehensive income classification under IFRS 9. For the Group as a result of IFRS 9 related reclassifications, securities designated at fair value through profit and loss are estimated to decrease by EUR 122 million, securities classified at fair value through other comprehensive income are estimated to decrease by EUR 417 million (as compared to securities classified as available for sale under IAS 39) and carrying value of securities at amortised cost are estimated to increase by EUR 538 million (as compared to securities classified as held to maturity under IAS 39).

- *IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27).* Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases in a way that is different to the currently applied accounting treatment. For qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model, unless specific other conditions persists. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied. For lessors classification of lease as an operating lease or a finance lease remains; therefore, the Group as a lessor estimates no significant direct effect form the new standard if it was early implemented as at the period end. For the Group as a lessee the major class of current operating lease contracts which would qualify for right-of-use asset are rent agreements for branch network and certain other premises used for the Group's operating needs as well as such equipment as POS terminals. Most of the contracts may be early terminated; many contracts may be extended at discretion of the Group beyond their current term. The Group owns its headquarters building, which is leased by the Bank (among other tenants) from one of its subsidiary. As both parties are under common control the lease term may be extended or decreased at Management's choice. In estimating the impact of IFRS 16 management has made a judgement that the Bank has committed to lease the building for three more years which is aligned to planning horizon of internal PPE usage plans. The amount of right-of-use asset and corresponding lease liability which would be recognised if the new standard was early adopted as at the period end would be c.a. EUR 14 million for the Bank and EUR 8 million for the Group. Most of the contracts may be early terminated, but this is mostly disregarded in the estimate as currently there is no such intention.
- *IFRS 15 – Revenue from contracts with customers.* Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The new Standard provides a framework that replaces

existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised 1) over time, in a manner that depicts the entity's performance; or 2) at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Majority of Group's income is derived from financial instruments or relates to services where revenue recognition is performed at point in time when service is delivered with little judgment involved and for such income streams the new standard is not expected to have a significant impact; however, the Group and Bank are yet to perform an in-depth reassessment of the revenue recognition policies.

Those which are not expected to have a significant potential effect to the Group are set out below:

- *Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions*. Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. The amendments clarify share-based payment accounting on the following areas 1) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 2) share-based payment transactions with a net settlement feature for withholding tax obligations; and 3) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- *Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.
- *Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture*. The effective date has not yet been determined by the IASB, however earlier adoption is permitted. The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses*. Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. The amendments clarify how and when to account for deferred tax assets in certain situations and clarifies how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
- *Amendments to IAS 40 – Transfers of Investment Property*. The amendments reinforce the principle for transfers into, or out of, investment property in *IAS 40 Investment Property* to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*. Effective for annual periods beginning on or after 1 January 2018. The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
- *Annual Improvements to IFRSs*.

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

b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union 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.

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

Given the developments subsequent to the year end in the Latvian banking sector outlined in Note 35 (*Events after the Balance Sheet Date*), the management of the Bank and the Group is continuously monitoring and assessing the market situation, and its potential impact of the above market developments on the Bank and the Group, if any. Based on information available to the management at the date of this report, the management is confident that the measures in place at the Bank are sufficient, appropriate, and operations of the Bank and the Group are not affected significantly as at signing of these financial statements, or in the future. Furthermore, the management confirms that they have not identified events or conditions that may cast significant doubt upon the Group's or the Bank's ability to continue as a going concern.

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 the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

c) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The functional currency of many of the Group's foreign subsidiaries is also Euro. The accompanying financial statements are presented in thousands of Euros (EUR 000's).

d) 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, i.e. on transferee's 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.

Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. The triggering event for reclassification is a disposal of a Group's company to which a part of restructuring reserve was attributed on 1 August 2010. Restructuring reserve is presented within retained earnings. All other amounts presented in other comprehensive income are to be subsequently reclassified to statement of income when specific conditions are met.

e) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 18 (*Investments in Subsidiaries*).

The financial statements of AS Citadele banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets 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.

f) 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.

g) 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.

h) 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). The Bank and the Group's Latvian subsidiaries will have to pay income tax on profit distribution starting from 2018. Correspondingly, for the Group's 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 balance is measured at a tax rate which is applicable for undistributed profits until decision of profits distribution is made. Therefore, for jurisdictions where income tax is payable on profit distribution (e.g. dividends) any deferred tax liabilities or benefits are recognised at tax rate applicable to undistributed profits. Deferred tax assets and liabilities are netted only within the individual companies of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each 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.

i) 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 or 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 or 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.

No financial assets are classified as held to maturity if, during the current financial year or during the two preceding financial years, more than an insignificant amount of held to maturity investments has been sold or reclassified before maturity. In such case, any remaining investments previously classified as held to maturity are reclassified as available for sale. The difference between their carrying amount and their fair value is recognised in other comprehensive income until the financial asset is derecognised.

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 from customers.

j) 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.

k) 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.

l) 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. The purposes of these financial statements, finance lease receivables are included in loans and receivables from 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.

m) 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.

n) Impairment of loans and receivables from customers

The Group issues commercial and consumer loans to customers. The economic conditions of the markets the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group 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 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.

Objective evidence that a loan or portfolio of loans and receivables from 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 from 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.

Fully impaired loans and receivables, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is finally determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as 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 within 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.

o) 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.

p) Intangible assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly. The cost of separately acquired intangible assets doesn't include future payments of variable fees which are dependent on achievement of key performance indicators. Variable fees are recognised when relevant key performance indicators are achieved and fees become payable.

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 33%. All intangible assets, except for goodwill, are with definite lives.

q) 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	14% - 20%
Other	14% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

r) 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.

s) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-current assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line "Impairment 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.

t) 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, except for buildings where depending on the type and condition up to 50% annual depreciation rate may be applied. 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.

u) 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 or loss. Insurance reserves are shown as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate. Insurance risk in view of the management is not material to accounts of the Group.

v) 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.

w) 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 from 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 *v)*.

x) 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.

y) 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.

z) 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. 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.

aa) 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 balances with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more than 3 months from the date of acquisition, less demand deposits due to credit institutions and central banks.

bb) 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.

cc) 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.

dd) 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.

ee) Customer loyalty programmes

To reward and promote customers to actively use Group's products, the Group has implemented several customer loyalty programs. All benefits awarded to customers are expensed to income statement at the moment the benefits are awarded to customers. Any unredeemed award credits are accrued at full until settlement or expiry.

ff) Use of estimates and judgements in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by

EU, requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial asset losses, determining fair values of the financial assets and liabilities as explained in note z) above, impairment of non-financial assets, and determination of the control of investees for consolidation purposes.

Impairment of loans

The Group regularly reviews its loans and receivables for assessment of 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 specifically impaired loans and receivables from customers by +/-5% would result in EUR 0.3 million lower or EUR 0.3 million higher specific impairment allowance for the Bank (2016: EUR 0.3 million lower or EUR 0.1 million higher) and EUR 0.3 million lower or EUR 0.3 million higher specific impairment allowance for the Group (2016: EUR 0.3 million lower or EUR 0.2 million higher). If estimated value of collaterals of specifically impaired loans and receivables from customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR 2.3 million lower or EUR 2.3 million higher for the Bank (2016: EUR 2.9 million or EUR 2.8 million) and by EUR 2.5 million lower or EUR 2.6 million higher for the Group (2016: EUR 3.1 million or EUR 3.1 million).

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 LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +2.5/-2.7 million for the Bank and EUR +3.6/-3.9 million for the Group (2016: EUR +2.3/-2.5 million for the Bank and EUR 3.5/-3.6 million for the Group). 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 PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +/-2.8 million for the Bank and EUR +/-3.1 million for the Group (2016: EUR +/-2.3 million for the Bank and EUR +/-2.6 million for the Group).

Impairment of securities classified as available for sale

The Group regularly conducts an impairment test for securities held on its books. A number of principles are defined for classifying any bond or fund either as performing or having evidence of impairment. Besides conventional impairment indicators (e.g. missed payment or material deterioration of creditworthiness), the Group assesses other factors such as prevailing credit spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below) and liquidity of the instrument (frequency of available quotes, traded volumes). When estimating impairment amount for securities with triggered indicators for value erosion, appropriate assumptions are made with respect to timeframe needed for and the volume of recovery.

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 2017, increase or decrease in credit spread delta by 200 basis points would not change Group's impairment (2016: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to Note 30.

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 18 (*Investments in Subsidiaries*) and Note 16 (*Property and Equipment*) respectively.

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to Note 18 (*Investments in Subsidiaries*). For investments in securities which are not consolidated refer to Note 13 (*Fixed and Non-fixed Income Securities*). In the ordinary course of business IPAS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the funds should not be consolidated.

NOTE 4. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2017 Group	**2016 Group**	**2017 Bank**	**2016 Bank**
Interest income on:				
- financial assets measured at amortised cost:	82,300	74,834	64,768	59,413
- loans and receivables from customers	*81,315*	*72,042*	63,873	*57,318*
- balances due from credit institutions and central banks	*985*	*803*	895	*710*
- held to maturity securities	-	*1,989*	-	*1,385*
- available for sale securities	9,907	8,551	7,437	6,700
- held for trading securities	202	237	-	-
- financial assets designated at fair value through profit or loss	1,581	1,115	-	-
Total interest income	**93,990**	**84,737**	**72,205**	**66,113**
Interest expense on:				
- financial liabilities measured at amortised cost:	(16,927)	(17,250)	(14,298)	(15,025)
- deposits from customers	*(9,942)*	*(10,584)*	*(7,281)*	*(8,158)*
- subordinated liabilities	*(4,213)*	*(4,184)*	*(4,213)*	*(4,184)*
- balances due to credit institutions and central banks	*(2,772)*	*(2,482)*	*(2,804)*	*(2,683)*
- interest expense on financial liabilities designated at fair value through profit or loss	(233)	(351)	-	-
- other interest expense	(1,456)	(941)	(1,455)	(941)
Total interest expense	**(18,616)**	**(18,542)**	**(15,753)**	**(15,966)**
Net interest income	**75,374**	**66,195**	**56,452**	**50,147**

Effective interest rate on some high quality liquid assets is negative, in particular certain central bank, central government and credit institution exposures. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

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

	EUR 000's			
	2017 Group	**2016 Group**	**2017 Bank**	**2016 Bank**
Interest income recognised on impaired assets	4,321	2,932	4,071	2,509

NOTE 5. COMMISSION AND FEE INCOME AND EXPENSE

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Commission and fee income:				
- transactions with cards	25,540	23,291	23,252	21,418
- payment transfers	10,810	12,199	7,764	9,209
- custody, trust and asset management fees	9,302	9,260	1,531	1,492
- account maintenance	4,309	4,213	2,959	2,937
- cash operations	1,252	1,335	1,009	1,160
- cash collection	1,217	2,367	-	1,826
- review of loan applications and collateral evaluation	900	894	898	891
- securities, financial instrument brokerage fees	829	887	598	669
- letters of credit and guarantees	566	608	284	411
- other fees	1,716	2,344	2,158	2,165
Total commission and fee income	**56,441**	**57,398**	**40,453**	**42,178**

Cash collection income relates to the former subsidiary SIA CBL Cash Logistics which was disposed in the second half of 2017.

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Commission and fee expense:				
- fees related to cards	(15,949)	(13,694)	(14,605)	(12,540)
- fees related to correspondent accounts	(1,467)	(1,462)	(1,269)	(1,300)
- brokerage and custodian fees	(944)	(966)	(621)	(565)
- other fees	(1,354)	(1,131)	(1,408)	(628)
Total commission and fee expense	**(19,714)**	**(17,253)**	**(17,903)**	**(15,033)**
Net commission and fee income	**36,727**	**40,145**	**22,550**	**27,145**

NOTE 6. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Gain from foreign exchange trading and revaluation of open positions, net	15,990	13,830	13,369	11,471
Gain / (loss) from disposal of available for sale securities, net	236	11,288	267	10,589
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	255	111	-	(220)
Gain / (loss) on financial assets and financial liabilities designated at fair value through profit or loss	(385)	95	-	-
Gain on transactions with financial instruments, net	**16,096**	**25,324**	**13,636**	**21,840**

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	236	11,288	267	10,589
Net gain on financial instruments at fair value through profit or loss	15,860	14,036	13,369	11,251
Gain on transactions with financial instruments, net	**16,096**	**25,324**	**13,636**	**21,840**

In 2016 a gain of EUR 11.3 million was recognised on the disposal of Citadele's available for sale shares in Visa Europe to Visa Inc. The consideration included a cash transfer of EUR 9.0 million, deferred cash payment of EUR 0.8 million, and an equity interest in Visa Inc. For more information on valuation of preference stocks in Visa Inc. which were received as part of the consideration refer to the Note 30 (*Fair values of financial assets and liabilities*). Also the 2016 result from disposal of available for sale securities includes EUR 1.8 million loss on a sale of a single AFS (former HTM) security exposure before its maturity.

NOTE 7. ADMINISTRATIVE AND OTHER EXPENSES

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Personnel	47,867	47,031	34,289	34,475
Consulting and professional services	7,347	6,556	6,207	4,957
IT expense	4,666	4,083	3,240	2,814
Rent, utilities, maintenance	3,691	3,707	4,870	5,006
Non-refundable value added tax	3,562	3,692	2,603	2,856
Advertising, marketing and sponsorship	4,438	3,301	3,496	2,616
Office administration	814	736	560	506
Communications	633	673	376	387
Other	5,998	5,652	3,312	3,163
Total administrative expenses	**79,016**	**75,431**	**58,953**	**56,780**
Other expense	1,073	981	322	261
Total administrative and other expenses	**80,089**	**76,412**	**59,275**	**57,041**

Total operating expenses increased in 2017 as a result of an increased spending for the Group's personnel and their development, as well as an increase in consulting, IT and marketing costs over the prior year.

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within administrative expenses. Tax services provided related to transfer pricing, other advisory services related to IFRS 9 gap identification, remuneration policies and accounting advisory related to impacts of the Bank's clients accounting. These fees by the type of service provided may be specified as follows:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Annual and interim audit fees	378	338	151	120
Other audit and similar fees	112	11	9	9
Tax advisory fees	3	12	2	4
Other advisory, training and similar fees	61	33	27	33

NOTE 8. PERSONNEL EXPENSE

Personnel expense in these financial statements is presented within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefit costs. Part of the remuneration for the work is deferred up to the period of one year and subsequent pay-outs may be conditional. As at 31 December 2017 the Group and the Bank has a compulsory deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 502 thousand and EUR 307 thousand which will become payable in 2018 if certain conditions are met (2016: EUR 414 thousand and EUR 267 thousand, respectively).

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Remuneration:				
- management	2,883	2,692	1,142	1,195
- other personnel	34,744	34,505	25,464	25,791
Total remuneration for work	**37,627**	**37,197**	**26,606**	**26,986**
Social security and solidarity tax contributions:				
- management	528	490	261	242
- other personnel	8,468	8,299	6,314	6,343
Total social security and solidarity tax contributions	**8,996**	**8,789**	**6,575**	**6,585**
Other personnel expense*	**1,244**	**1,045**	**1,108**	**904**
Total personnel expense	**47,867**	**47,031**	**34,289**	**34,475**
Number of full time equivalent employees at the end of the period	1,540	1,603	1,173	1,110

* Other personnel expense includes health insurance, training, education and similar expenditure.

NOTE 9. IMPAIRMENT CHARGES AND REVERSALS, NET

Total net impairment allowance charged to statement of income:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Loans – specifically assessed impairment	(15,304)	(9,361)	(14,436)	(7,514)
Loans – collectively assessed impairment	(818)	(3,432)	(579)	(3,401)
Available for sale securities	-	109	-	109
Other financial and non-financial assets	9,107	996	655	(683)
Recovered written-off assets	2,593	1,567	2,250	1,326
Total impairment allowance and provisions charged to income statement, net	**(4,422)**	**(10,121)**	**(12,110)**	**(10,163)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. When a loan is written-off, the claim against the borrower normally is not forgiven. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears or as a result of other resolution. Such recoveries are reported as recovered written-off assets.

Change in allowances for impairment of loans and receivables:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Total impairment allowance at the beginning of the period:	**82,529**	**90,175**	**70,672**	**73,662**
- loans – specifically assessed impairment	56,670	67,751	48,743	55,135
- loans – collectively assessed impairment	25,859	22,424	21,929	18,527
Charge:	**27,918**	**20,663**	**23,526**	**15,979**
- loans – specifically assessed impairment	20,814	14,046	17,810	10,543
- loans – collectively assessed impairment	7,104	6,617	5,716	5,436
Release:	**(11,796)**	**(7,870)**	**(8,511)**	**(5,064)**
- loans – specifically assessed impairment	(5,510)	(4,685)	(3,374)	(3,029)
- loans – collectively assessed impairment	(6,286)	(3,185)	(5,137)	(2,035)
Allowance charged to the statement of income, net:	**16,122**	**12,793**	**15,015**	**10,915**
- loans – specifically assessed impairment	15,304	9,361	14,436	7,514
- loans – collectively assessed impairment	818	3,432	579	3,401
Change of allowance due to write-offs	**(19,614)**	**(20,548)**	**(15,892)**	**(14,012)**
Effect of changes in currency exchange rates:	**(555)**	**109**	**(554)**	**107**
- loans – specifically assessed impairment	(553)	106	(553)	106
- loans – collectively assessed impairment	(2)	3	(1)	1
Total impairment allowance at the end of the period:	**78,482**	**82,529**	**69,241**	**70,672**
- loans – specifically assessed impairment	51,807	56,670	46,734	48,743
- loans – collectively assessed impairment	26,675	25,859	22,507	21,929

During the ordinary course of business the recoverability of some loans deteriorates while for others it improves; some loans which cannot be recovered are written-off. Loan write-offs directly decrease specifically assessed accumulated impairment allowance. Change in charges for collectively assessed impairment allowance in the reporting period represents a growth in the Bank's and the Group's lending business, particularly retail segment, and related increase in past due individually unimpaired loan balances.

Change in impairment of other assets:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Total impairment allowance at the beginning of the period:	**16,123**	**25,921**	**54,125**	**61,441**
- available for sale securities	1,640	6,924	1,640	6,924
- due from credit institutions	981	950	981	950
- other financial and non-financial assets	13,502	18,047	51,504	53,567
Charge:	**751**	**1,207**	**3,991**	**683**
- available for sale securities	-	-	-	-
- other financial and non-financial assets	751	1,207	3,991	683
Release:	**(9,858)**	**(2,312)**	**(4,646)**	**(109)**
- available for sale securities	-	(109)	-	(109)
- other financial and non-financial assets	(9,858)	(2,203)	(4,646)	-
Allowance charged to the statement of income, net:	**(9,107)**	**(1,105)**	**(655)**	**574**
- available for sale securities	-	(109)	-	(109)
- other financial and non-financial assets	(9,107)	(996)	(655)	683
Change of allowance due to write-offs:	**(1,942)**	**(8,582)**	**(1,524)**	**(7,790)**
- available for sale securities	-	(5,044)	-	(5,044)
- due from credit institutions	(981)	-	(981)	-
- other financial and non-financial assets	(961)	(3,538)	(543)	(2,746)
Effect of changes in currency exchange rates:	**(278)**	**(111)**	**(253)**	**(100)**
- available for sale securities	(253)	(131)	(253)	(131)
- due from credit institutions	-	31	-	31
- other financial and non-financial assets	(25)	(11)	-	-
Total impairment allowance at the end of the period:	**4,796**	**16,123**	**51,693**	**54,125**
- available for sale securities	1,387	1,640	1,387	1,640
- due from credit institutions	-	981	-	981
- other financial and non-financial assets	3,409	13,502	50,306	51,504

Net changes in impairment allowance of non-financial assets consist mostly of changes in impairment for property and equipment, mainly relating to the reduction in impairment allowance for the Citadele's headquarters building. Gradual decrease in required yields and persistent positive tendencies in the rental office segment was the main factor in increased re-estimated fair value, based on which a reversal of impairment took place. For more details about changes in impairment allowance for other financial and non-financial assets refer to Note 16 (*Property and Equipment*) and Note 18 (*Investments in Subsidiaries*).

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Current corporate income tax	2,003	595	831	-
Deferred income tax	24,714	1,816	24,623	1,455
Tax withheld abroad	28	29	28	29
Total corporate income tax expense	**26,745**	**2,440**	**25,482**	**1,484**

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which became effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to this date corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and are not paid out in dividends, corporate income tax from 1 January 2018 is not payable.

The current version of the amended tax legislation retains certain conditional transitional provisions where the new tax doesn't apply to distribution of retained earnings from previous tax regime (currently no expiry date) and unutilised tax losses may be offset against certain tax payables (5 year expiry date). The Group, in case dividends were to be distributed, might have positive tax benefits from these transitional provisions, but as deferred tax is calculated on tax rate which applies to undistributed earnings, no deferred tax asset may be recognised until actual distribution.

Due to changes in the tax regime, the Group and the Bank had to write-off most of the previously recognised deferred tax assets in accordance with these amendments. As a result in the reporting period a one-off expense of EUR 23.2 million was incurred. Deferred tax assets in other Group's jurisdictions remain unaffected by the changes in the Latvian tax regime.

Reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Profit before corporate income tax	42,708	43,128	26,739	37,762
Corporate income tax (at 15%)	**6,406**	**6,469**	**4,011**	**5,664**
Effect of tax rates in foreign jurisdictions	39	245	-	-
Non-deductible expense	465	636	228	401
Non-taxable income	(2,277)	(4,037)	(1,703)	(3,553)
Write-off of deferred tax assets due to change in legislation	23,246	-	23,246	-
Other tax differences, net (incl. changes in unrecognised deferred tax assets and prior period adjustments)	(1,134)	(873)	(300)	(1,028)
Total effective corporate income tax	**26,745**	**2,440**	**25,482**	**1,484**

Besides one-off tax asset write-off in 2017, earnings for 2016 include a non-taxable gain from sale of Citadele's share in Visa Europe to Visa Inc. (the Group and the Bank) and dividends received from subsidiaries (the Bank only). This contributed to substantially lower effective tax rate for 2016 than for 2017. According to the new income tax regime, from 1 January 2018 for the Group's Latvian entities the corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions. Therefore, undistributed profits will be treated favourably under the new Latvian income tax regime.

Movements in deferred corporate income tax asset / (liability):

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
As at the beginning of the year	26,165	27,769	24,685	26,157
Charge to statement of income	(24,714)	(1,816)	(24,623)	(1,455)
Charge to statement of comprehensive income	(48)	212	(62)	(17)
Total deferred income tax asset at the end of the year, net	**1,403**	**26,165**	**-**	**24,685**

Recognised deferred corporate income tax assets and liabilities:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Deferred tax assets / (liabilities):				
Accumulated excess of tax depreciation over accounting depreciation	-	(821)	-	(750)
Temporary differences due to accrual	148	1,302	-	880
Revaluation of securities and derivatives	(146)	(255)	-	(109)
Temporary impairment allowance differences	219	2,969	-	2,808
Unutilised tax losses with undated expiry date as per tax legislation as at reporting date	3,545	31,678	-	21,856
Unrecognised tax losses	(2,362)	(8,708)		
Other deferred tax items	(1)	-	-	-
Net deferred corporate income tax asset	**1,403**	**26,165**	**-**	**24,685**

Part of the Group's unutilised tax losses are not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax losses at particular subsidiary's level. The recognisable amount assessment is based on reasonably certain 3 year forecast of the respective subsidiary's ability to utilised tax losses. The Group and the Bank has not recognised any deferred tax asset on possible tax benefits from transitional provisions which become effective in Latvia on 1 January 2018 if dividends were to be distributed, as for deferred tax assessment tax rate which applies to undistributed earnings has to be applied.

NOTE 11. CASH AND BALANCES WITH CENTRAL BANKS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Cash	53,385	54,048	48,198	48,518
Balances with the Bank of Latvia	419,609	573,670	419,609	573,670
Balances with other central banks	242,474	171,480	27,041	25,418
Total cash and balances with central banks	**715,468**	**799,198**	**494,848**	**647,606**

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 2017 and 2016 no amounts due from central banks were overdue.

NOTE 12. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Due from credit institutions registered in other OECD countries	128,739	130,130	187,042	146,028
Due from credit institutions registered in Latvia	4,985	2,839	1,765	558
Due from credit institutions registered in non-OECD countries	17,552	9,703	16,485	8,814
Total gross balances due from credit institutions	**151,276**	**142,672**	**205,292**	**155,400**
Incl. impaired balances	-	*981*	-	*981*
Impairment allowance	-	(981)	-	(981)
Total net balances due from credit institutions	**151,276**	**141,691**	**205,292**	**154,419**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively. As at 31 December 2017 and 2016, 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 34 (*Risk Management*).

NOTE 13. FIXED AND NON-FIXED INCOME SECURITIES

The Group's fixed income securities by issuers profile and classification:

	EUR 000's 31/12/2017				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Held for trading	4,324	-	-	3,638	7,962
Financial assets designated at fair value through profit or loss	21,176	1,411	43,905	55,014	121,506
Available for sale	452,083	-	183,549	214,413	850,045
Total fixed income securities	**477,583**	**1,411**	**227,454**	**273,065**	**979,513**

	EUR 000's 31/12/2016				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Held for trading	795	3,610	-	3,294	7,699
Financial assets designated at fair value through profit or loss	19,839	1,434	39,828	49,236	110,337
Available for sale	399,312	-	216,989	273,884	890,185
Total fixed income securities	**419,946**	**5,044**	**256,817**	**326,414**	**1,008,221**

The Bank's fixed income securities by issuers profile and classification:

	EUR 000's 31/12/2017				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	321,487	-	124,304	174,147	619,938
Total fixed income securities	**321,487**	**-**	**124,304**	**174,147**	**619,938**

	EUR 000's 31/12/2016				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	317,385	-	141,654	222,907	681,946
Total fixed income securities	**317,385**	**-**	**141,654**	**222,907**	**681,946**

As at 31 December 2017, there are no Group's or Bank's fixed-income securities on which payments are past due or which were restructured during the reporting period (2016: EUR nil). For the year ended 31 December 2017 no fixed income securities were impaired (2016: 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 securities, shares and other non-fixed income securities by issuer's country, net:

	EUR 000's					
	31/12/2017			31/12/2016		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	265,055	1,916	266,971	253,580	7,847	261,427
Lithuania	144,879	520	145,399	72,665	-	72,665
United States	12,566	80,406	92,972	10,592	76,794	87,386
Netherlands	-	84,275	84,275	4,992	83,783	88,775
Canada	2,227	34,472	36,699	6,105	42,867	48,972
Germany	7,233	26,034	33,267	7,181	37,995	45,176
United Kingdom	-	32,675	32,675	-	40,868	40,868
France	9,764	19,170	28,934	9,722	18,192	27,914
Singapore	-	24,886	24,886	-	28,947	28,947
Finland	11,722	13,208	24,930	15,871	14,943	30,814
Australia	-	23,907	23,907	-	28,127	28,127
Sweden	6,831	16,999	23,830	11,797	26,041	37,838
Multilateral development banks	-	43,604	43,604	-	52,439	52,439
Other countries*	17,306	102,302	119,608	27,441	131,395	158,836
Total fixed income securities and shares, net	**477,583**	**504,374**	**981,957**	**419,946**	**590,238**	**1,010,184**
Investments in managed funds**	-	37,157	37,157	-	39,816	39,816
Total securities, net	**477,583**	**541,531**	**1,019,114**	**419,946**	**630,054**	**1,050,000**

Bank's fixed income securities, shares and other non-fixed income securities by issuer's country, net:

	EUR 000's					
	31/12/2017			31/12/2016		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	249,477	1,421	250,898	240,367	3,511	243,878
United States	8,385	43,860	52,245	8,680	47,936	56,616
Netherlands	-	49,027	49,027	4,992	47,868	52,860
Lithuania	39,512	-	39,512	25,948	-	25,948
Germany	1,009	14,390	15,399	7,181	25,177	32,358
Singapore	-	23,408	23,408	-	27,202	27,202
United Kingdom	-	15,990	15,990	-	26,235	26,235
Multilateral development banks	-	24,901	24,901	-	40,710	40,710
Other countries*	23,104	127,882	150,986	30,217	147,869	178,086
Total fixed income securities and shares, net	**321,487**	**300,879**	**622,366**	**317,385**	**366,508**	**683,893**
Investments in managed funds**	-	6,371	6,371	-	11,041	11,041
Total securities, net	**321,487**	**307,250**	**628,737**	**317,385**	**377,549**	**694,934**

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 13,449 thousand and EUR 21,341 thousand respectively (2016: EUR 24,676 thousand and EUR 28,703 thousand).

** Investments in managed funds are not presented by their issuer's country but shown separately.

All fixed income securities as at 31 December 2017 and 31 December 2016 are listed.

The Group's shares and other non-fixed income securities by issuers profile and classification:

	EUR 000's							
	31/12/2017				31/12/2016			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	5,812	5,812	-	-	5,786	5,786
Financial assets designated at fair value through profit or loss	-	-	24,973	24,973	-	-	22,989	22,989
Available for sale	2,320	124	6,372	8,816	1,839	124	11,041	13,004
Total non-fixed income securities, net	**2,320**	**124**	**37,157**	**39,601**	**1,839**	**124**	**39,816**	**41,779**

All exposures in mutual investment funds 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 2017 EUR 24,973 thousand (2016: EUR 22,989 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:

	EUR 000's							
	31/12/2017				31/12/2016			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Available for sale	2,304	124	6,371	8,799	1,823	124	11,041	12,988
Total non-fixed income securities, net	**2,304**	**124**	**6,371**	**8,799**	**1,823**	**124**	**11,041**	**12,988**

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 31 December 2017, the carrying amount of the Group's and Bank's securities, which were impaired, but not past due, amounted to EUR 0 thousand (2016: EUR 0 thousand).

As at 31 December 2017 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.4 million (2016: EUR 6.1 million) and EUR 20.9 million (2016: EUR 20.7 million) which are managed by IPAS CBL Asset Management or its subsidiaries. EUR 12.7 million of these Group's investments relate to unit-linked contracts where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter (2016: EUR 12.5 million).

These exposures have been acquired only with investment intentions.

NOTE 14. LOANS AND RECEIVABLES FROM CUSTOMERS

The following table represents the current classes of the Group's loans:

	EUR 000's					
	31/12/2017			31/12/2016		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	1,045,291	77,516	1,122,807	978,455	48,702	1,027,157
Utilised credit lines and overdraft facilities	141,280	54,144	195,424	129,867	62,723	192,590
Finance leases	154,999	-	154,999	148,543	-	148,543
Debit balances on cards	57,960	91,810	149,770	53,553	87,189	140,742
Factoring	5,514	12,687	18,201	7,438	17,411	24,849
Due from investment counterparties	4,033	-	4,033	5,189	-	5,189
Total loans and receivables from customers	**1,409,077**	**236,157**	**1,645,234**	**1,323,045**	**216,025**	**1,539,070**
Impairment allowance and provisions	(78,482)	-	(78,482)	(82,529)	-	(82,529)
Total net loans and receivables from customers	**1,330,595**	**236,157**	**1,566,752**	**1,240,516**	**216,025**	**1,456,541**

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:

	EUR 000's					
	31/12/2017			31/12/2016		
	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	861,930	65,085	927,015	819,514	38,448	857,962
Utilised credit lines and overdraft facilities	267,661	140,889	408,550	206,277	129,531	335,808
Debit balances on cards	53,351	81,481	134,832	48,819	75,473	124,292
Due from investment counterparties	3,489	-	3,489	4,568	-	4,568
Total loans and receivables from customers	**1,186,431**	**287,455**	**1,473,886**	**1,079,178**	**243,452**	**1,322,630**
Impairment allowance and provisions	(69,241)	-	(69,241)	(70,672)	-	(70,672)
Total net loans and receivables from customers	**1,117,190**	**287,455**	**1,404,645**	**1,008,506**	**243,452**	**1,251,958**

Loans and advances by customer profile:

	EUR 000's			
	31/12/2017 Group	**31/12/2016 Group**	**31/12/2017 Bank**	**31/12/2016 Bank**
Privately held companies	818,853	757,312	746,235	668,430
Private individuals	574,646	544,399	427,160	394,311
Municipality owned enterprises	6,783	8,310	5,866	7,135
State owned enterprises	4,340	5,932	4,340	5,930
Local municipalities	1,542	4,359	9	839
Public and religious institutions	2,908	2,718	2,821	2,533
Government	5	15	-	-
Total gross loans and receivables from customers	**1,409,077**	**1,323,045**	**1,186,431**	**1,079,178**
Impairment allowance	(78,482)	(82,529)	(69,241)	(70,672)
Total net loans and receivables from customers	**1,330,595**	**1,240,516**	**1,117,190**	**1,008,506**

The borrowers' industry profile of the gross loans and receivables to other than private individuals:

	EUR 000's			
	31/12/2017 Group	**31/12/2016 Group**	**31/12/2017 Bank**	**31/12/2016 Bank**
Real estate purchase and management	185,450	176,218	197,627	197,606
Manufacturing	147,145	126,317	97,816	87,053
Trade	118,016	108,565	66,782	59,126
Transport and communications	126,646	106,541	73,432	64,461
Agriculture and forestry	86,607	89,214	66,154	67,620
Construction	40,524	36,215	21,780	23,374
Electricity, gas and water supply	30,393	30,953	27,290	28,202
Hotels, restaurants	21,379	22,277	16,210	17,799
Financial intermediation	21,079	17,039	169,557	111,919
Other industries	57,192	65,307	22,623	27,707
Total gross loans and receivables from corporate customers	**834,431**	**778,646**	**759,271**	**684,867**

Geographical profile of loans and receivables from customers by the place of customers' reported residence:

	EUR 000's			
	31/12/2017 Group	**31/12/2016 Group**	**31/12/2017 Bank**	**31/12/2016 Bank**
Latvian residents	863,546	827,188	911,489	878,639
Other OECD region residents	157,369	162,614	151,632	147,443
Non-OECD region residents	388,162	333,243	123,310	53,096
Total gross loans and receivables from customers	**1,409,077**	**1,323,045**	**1,186,431**	**1,079,178**
Impairment allowance	(78,482)	(82,529)	(69,241)	(70,672)
Total net loans and receivables from customers	**1,330,595**	**1,240,516**	**1,117,190**	**1,008,506**

As at 31 December 2017 and 31 December 2016, the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Group's loan portfolio by overdue days:

	EUR 000's					
	31/12/2017			31/12/2016		
	Gross Loans	**Impairment allowance**	**Net carrying amount**	**Gross loans**	**Impairment allowance**	**Net carrying amount**
Not past due – not impaired	1,256,756	-	1,256,756	1,143,363	-	1,143,363
Not past due – impaired	48,372	(18,948)	29,424	72,647	(24,406)	48,241
Total not past due loans	**1,305,128**	**(18,948)**	**1,286,180**	**1,216,010**	**(24,406)**	**1,191,604**
Past due loans - not impaired						
Delayed days:						
=< 29	26,151	-	26,151	36,461	-	36,461
30-59	7,825	-	7,825	8,453	-	8,453
60-89	1,953	-	1,953	3,544	-	3,544
90 and more	9,327	-	9,327	10,122	-	10,122
Total past due loans - not impaired	**45,256**	**-**	**45,256**	**58,580**	**-**	**58,580**
Past due loans – impaired						
Delayed days:						
=< 89	14,992	(7,152)	7,840	10,320	(5,159)	5,161
90 and more	43,701	(25,707)	17,994	38,135	(27,105)	11,030
Total past due loans - impaired	**58,693**	**(32,859)**	**25,834**	**48,455**	**(32,264)**	**16,191**
Total loans and receivables from customers	**1,409,077**	**(51,807)**	**1,357,270**	**1,323,045**	**(56,670)**	**1,266,375**
Collective impairment allowance		(26,675)	(26,675)		(25,859)	(25,859)
Total net loans and receivables from customers			**1,330,595**			**1,240,516**

Bank's loan portfolio by overdue days:

	EUR 000's					
	31/12/2017			31/12/2016		
	Gross loans	**Impairment allowance**	**Net carrying amount**	**Gross loans**	**Impairment allowance**	**Net carrying amount**
Not past due – not impaired	1,062,156	-	1,062,156	940,768	-	940,768
Not past due – impaired	47,139	(16,916)	30,223	73,930	(21,923)	52,007
Total not past due loans	**1,109,295**	**(16,916)**	**1,092,379**	**1,014,698**	**(21,923)**	**992,775**
Past due loans - not impaired						
Delayed days:						
=< 29	12,401	-	12,401	14,628	-	14,628
30-59	3,488	-	3,488	3,216	-	3,216
60-89	1,298	-	1,298	1,970	-	1,970
90 and more	5,935	-	5,935	5,774	-	5,774
Total past due loans - not impaired	**23,122**	**-**	**23,122**	**25,588**	**-**	**25,588**
Past due loans – impaired						
Delayed days:						
=< 89	13,563	(6,412)	7,151	7,938	(3,997)	3,941
90 and more	40,451	(23,406)	17,045	30,954	(22,823)	8,131
Total past due loans – impaired	**54,014**	**(29,818)**	**24,196**	**38,892**	**(26,820)**	**12,072**
Total loans and receivables from customers	**1,186,431**	**(46,734)**	**1,139,697**	**1,079,178**	**(48,743)**	**1,030,435**
Collective impairment allowance		(22,507)	(22,507)		(21,929)	(21,929)
Total net loans and receivables from customers			**1,117,190**			**1,008,506**

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

Certain loan portfolio's financial ratios

	EUR 000's			
	31/12/2017 Group	**31/12/2016 Group**	**31/12/2017 Bank**	**31/12/2016 Bank**
Non-performing loans ratio[1)]	8.3%	9.9%	9.0%	11.0%
Non-performing loans coverage ratio[2)]	67.4%	62.9%	64.7%	59.6%
90 days past due ratio[3)]	3.8%	3.6%	3.9%	3.4%
90 days past due coverage ratio[4)]	148%	171%	149%	192%

1) Non-performing loans ratio is calculated as non-performing loans divided by total gross loans and receivables from customers as at the end of the relevant period. Non-performing loans are defined as total gross loans and receivables from customers that are 90 days or more overdue or that are specifically impaired as at the end of the relevant period.

2) Non-performing loans coverage ratio is calculated as total allowance for impairment for loans and receivables from customers at the end of the relevant period, divided by gross non-performing loans, as at the end of the relevant period.

3) 90 days past due ratio is calculated as gross loans and receivables from customers that are 90 or more days overdue divided by total gross loans and receivables from customers as at the end of the relevant period.

4) 90 days past due coverage ratio is calculated as total allowance for loan 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.

In the reporting period the Group and the Bank has written-off certain fully impaired loan balances. For details see Note 9 (*Impairment Charges and Reversals, net*). Write-off had some positive impact on non-performing loans and past due ratios, and negative impact on non-performing loans coverage and past due coverage ratios. Despite this, non-performing loans coverage ratios improved due to additional impairment charges on non-performing loan balances.

NOTE 15. LEASES

The following table represents finance leases by type of assets funded:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Transport vehicles	124,560	108,367	-	-
Manufacturing equipment	18,461	17,377	-	-
Real estate	3,788	4,151	-	-
Other	8,190	18,648	-	-
Total present value of finance lease payments, excluding impairment	**154,999**	**148,543**	**-**	**-**
Impairment allowance	(4,015)	(6,281)	-	-
Net present value of finance lease payments	**150,984**	**142,262**	**-**	**-**

In 2017, Group's finance leases in the amount of EUR 1,587 thousand were written-off (2016: EUR 4,070 thousand). As a result, accumulated impairment allowance for finance lease contracts has decreased during the period. For more information on impairment movement refer to Note 9 (*Impairment Charges and Reversals, net*).

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Gross investment in finance leases receivable:				
within 1 year	63,954	63,629	-	-
later than 1 year and no later than in 5 years	101,881	97,228	-	-
later than in 5 years	1,344	9	-	-
Total gross investment in finance leases	**167,179**	**160,866**	**-**	**-**
Unearned finance income receivable:				
within 1 year	5,865	5,889	-	-
later than 1 year and no later than in 5 years	5,956	6,434	-	-
later than in 5 years	359	-	-	-
Total	**12,180**	**12,323**	**-**	**-**
Present value of minimum lease payments receivable:				
within 1 year	58,089	57,740	-	-
later than 1 year and no later than in 5 years	95,925	90,794	-	-
later than in 5 years	985	9	-	-
Total	**154,999**	**148,543**	**-**	**-**

NOTE 16. PROPERTY AND EQUIPMENT

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Leasehold improvements	419	587	341	480
Land and buildings	46,397	38,926	876	901
Transport vehicles	419	605	176	189
IT and other equipment	3,961	3,814	3,599	3,384
Total excluding prepayments	**51,196**	**43,932**	**4,992**	**4,954**
Prepayments for property and equipment	2	15	2	14
Total net book value of property and equipment	**51,198**	**43,947**	**4,994**	**4,968**

Changes in the Group's property and equipment excluding prepayments:

	Leasehold improvements	Land and buildings	Transport vehicles	IT and other equipment	Total excluding prepayments
	EUR 000's				
Historical cost					
As at 31 December 2015	**4,660**	**71,142**	**1,973**	**30,380**	**108,155**
Additions	509	29	445	2,159	3,142
Disposals	(4,127)	-	(1,326)	(3,055)	(8,508)
As at 31 December 2016	**1,042**	**71,171**	**1,092**	**29,484**	**102,789**
Additions	1	77	66	1,836	1,980
Disposals	(383)	(449)	(246)	(2,488)	(3,566)
As at 31 December 2017	**660**	**70,799**	**912**	**28,832**	**101,203**
Accumulated depreciation					
As at 31 December 2015	**4,481**	**19,393**	**1,304**	**26,723**	**51,901**
Charge for the year	100	2,105	186	1,349	3,740
Impairment release/(charge)	-	445	-	-	445
Reversal due to disposals	(4,126)	-	(1,048)	(2,803)	(7,977)
As at 31 December 2016	**455**	**21,943**	**442**	**25,269**	**48,109**
Charge for the year	152	2,200	186	1,460	3,998
Impairment release/(charge)	-	351	-	(2)	349
Reversal due to disposals	(366)	(92)	(180)	(2,372)	(3,010)
As at 31 December 2017	**241**	**24,402**	**448**	**24,355**	**49,446**
Impairment allowance					
As at 31 December 2015	**-**	**(12,771)**	**(46)**	**(373)**	**(13,190)**
Net reversal and write-offs	-	2,469	1	(28)	2,442
As at 31 December 2016	**-**	**(10,302)**	**(45)**	**(401)**	**(10,748)**
Net reversal and write-offs	-	10,302	-	(115)	10,187
As at 31 December 2017	**-**	**-**	**(45)**	**(516)**	**(561)**
Net book value (incl. impairment allowance)					
As at 31 December 2015	**179**	**38,978**	**623**	**3,284**	**43,064**
As at 31 December 2016	**587**	**38,926**	**605**	**3,814**	**43,932**
As at 31 December 2017	**419**	**46,397**	**419**	**3,961**	**51,196**

In 2017 the Group's land and buildings were re-evaluated and their impairment reversed. Significant contributors to the EUR 7.6 million increase in valuation are decreased market yields and increased rental income. Impairment assessment of the Group's land and buildings is based on the value-in-use discounted cash flows model. The valuation is supported by both an external valuation and an internal model. Internally the value is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate of 9.0% (2016: 9.5%), long term growth rate of 2.0% (2016: 2.0%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR -5.2 million and EUR +6.9 million respectively (2016: EUR -3.9 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 +/-4.4 million (2016: EUR +/-3.6 million).

Changes in the Bank's property and equipment excluding prepayments:

	Leasehold Improvements	Land and buildings	Transport vehicles	IT and other equipment	Total excluding prepayments
	EUR 000's				
Historical cost					
As at 31 December 2015	**4,660**	**1,239**	**1,348**	**21,757**	**29,004**
Additions	382	-	34	1,741	2,157
Disposals	(4,127)	-	(855)	(2,768)	(7,750)
As at 31 December 2016	**915**	**1,239**	**527**	**20,730**	**23,411**
Additions	-	-	67	1,549	1,616
Disposals	(382)	-	(100)	(2,273)	(2,755)
As at 31 December 2017	**533**	**1,239**	**494**	**20,006**	**22,272**
Accumulated depreciation					
As at 31 December 2015	**4,481**	**313**	**1,060**	**18,795**	**24,649**
Charge for the year	81	25	100	1,200	1,406
Reversal due to disposals	(4,127)	-	(822)	(2,649)	(7,598)
As at 31 December 2016	**435**	**338**	**338**	**17,346**	**18,457**
Charge for the year	123	25	78	1,333	1,559
Reversal due to disposals	(366)	-	(98)	(2,272)	(2,736)
As at 31 December 2017	**192**	**363**	**318**	**16,407**	**17,280**
Net book value					
As at 31 December 2015	**179**	**926**	**288**	**2,962**	**4,355**
As at 31 December 2016	**480**	**901**	**189**	**3,384**	**4,954**
As at 31 December 2017	**341**	**876**	**176**	**3,599**	**4,992**

NOTE 17. INTANGIBLE ASSETS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Software	2,508	2,804	2,314	2,568
Other intangible assets	122	129	99	94
Total excluding prepayments	**2,630**	**2,933**	**2,413**	**2,662**
Prepayments for intangible assets	1,536	142	1,464	100
Total net book value of intangible assets	**4,166**	**3,075**	**3,877**	**2,762**

In the reporting period the Bank and the Group has recognised a prepayment for externally generated intangible asset which relates to development services received from an unrelated party. The recognised cost of the asset of prepayment for a separately acquired intangible asset does not include future payments of variable fees which are dependent on achievement of key performance indicators in the future. Variable fees within intangible asset cost are recognised when relevant key performance indicators are achieved and fees become payable. The total committed amount for this development service contract is EUR 9.0 million where fixed part payable on service delivery is EUR 3.6 million and the remainder is variable fee which may or may not be payable being conditional on performance or discretional. Only a part of the total committed amount is expected to qualify for capitalisation.

Movements in the Group's intangible assets excluding prepayments:

	EUR 000's		
	Software	Other intangible assets	Total excluding prepayments
Historical cost			
As at 31 December 2015	**16,768**	**1,158**	**17,926**
Additions	1,634	149	1,783
Disposals	(13)	(3)	(16)
As at 31 December 2016	**18,389**	**1,304**	**19,693**
Additions	927	46	973
Disposals	(150)	(9)	(159)
As at 31 December 2017	**19,166**	**1,341**	**20,507**
Accumulated amortisation			
As at 31 December 2015	**14,147**	**941**	**15,088**
Charge for the year	870	38	908
Impairment release/(charge)	248	-	248
Reversal due to disposals	(8)	(3)	(11)
As at 31 December 2016	**15,257**	**976**	**16,233**
Charge for the year	1,242	27	1,269
Impairment release/(charge)	(5)	-	(5)
Reversal due to disposals	(40)	(9)	(49)
As at 31 December 2017	**16,454**	**994**	**17,448**
Impairment allowance			
As at 31 December 2015	**(508)**	**(108)**	**(616)**
Write-offs	248	-	248
Net impairment	(68)	(91)	(159)
As at 31 December 2016	**(328)**	**(199)**	**(527)**
Write-offs	124	-	124
Net impairment	-	(26)	(26)
As at 31 December 2017	**(204)**	**(225)**	**(429)**
Net book value (incl. impairment allowance)			
As at 31 December 2015	**2,113**	**109**	**2,222**
As at 31 December 2016	**2,804**	**129**	**2,933**
As at 31 December 2017	**2,508**	**122**	**2,630**

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For details of the value in use calculation please refer to Note 18 (*Investments in Subsidiaries*). 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 items of Lithuanian banking subsidiary.

Movements in the Bank's intangible assets excluding prepayments:

	EUR 000's		
	Software	Other intangible assets	Total excluding prepayments
Historical cost			
As at 31 December 2015	**15,324**	**125**	**15,449**
Additions	1,345	57	1,402
As at 31 December 2016	**16,669**	**182**	**16,851**
Additions	868	21	889
Disposals	(7)	(9)	(16)
As at 31 December 2017	**17,530**	**194**	**17,724**
Accumulated amortisation			
As at 31 December 2015	**12,984**	**60**	**13,044**
Charge for the year	745	28	773
Impairment release/(charge)	248	-	248
As at 31 December 2016	**13,977**	**88**	**14,065**
Charge for the year	1,117	16	1,133
Impairment release/(charge)	124	-	124
Reversal due to disposals	(2)	(9)	(11)
As at 31 December 2017	**15,216**	**95**	**15,311**
Impairment allowance			
As at 31 December 2015	**(372)**	**-**	**(372)**
Write-offs	248	-	248
As at 31 December 2016	**(124)**	**-**	**(124)**
Write-offs	124	-	124
As at 31 December 2017	**-**	**-**	**-**
Net book value (incl. impairment allowance)			
As at 31 December 2015	**1,968**	**65**	**2,033**
As at 31 December 2016	**2,568**	**94**	**2,662**
As at 31 December 2017	**2,314**	**99**	**2,413**

NOTE 18. INVESTMENTS IN SUBSIDIARIES

Changes in the Bank's investments in subsidiaries:

	EUR 000's	
	2017	2016
Balance at the beginning of the period, net	**61,884**	**61,580**
Equity investments in existing subsidiaries	-	435
Acquisition of subsidiary	2,149	-
Sale of subsidiary	(441)	-
Impairment, net	1,133	(131)
Balance at the end of the period, net	**64,725**	**61,884**

On 22 November 2017, legal name of SIA Rīgas Pirmā Garāža was changed to SIA Citadeles moduļi. In August 2017, UAB Citadele faktoringas ir lizingas was sold by AB Citadele bankas (Lithuania) to AS Citadele banka (Latvia). The transaction was between the Group's entities thus did not have an impact on the Group's consolidated figures. On 16 August 2017 consolidated subsidiary SIA PR Speciālie projekti was liquidated. On 1 August 2017, AS Citadele banka sold its wholly owned subsidiary SIA CBL Cash Logistics. The sale resulted in a complete de-recognition of the investment and since that date transactions of this entity are excluded from the Group's financial statements. The consideration received exceeded the net book value of the investment in this entity as at the sales date. On 17 February 2017, AS Citadele banka sold its subsidiary SIA Hortus MD. The subsidiary was a part of businesses managing the Group's repossessed assets. The whole company was sold as the client was acquiring real estate portfolio of the particular subsidiary in its entirety. The carrying amount of the real estate sold was EUR 569 thousand. The Bank recognised EUR 162 thousand sales gain on the disposal of the subsidiary.

In 2017, based on the forecasted performance impairment levels of investments in certain subsidiaries were re-adjusted by (net) EUR 1,113 thousand (2016: EUR -131 thousand). In line with forecasted future performance EUR 3,352 thousand was released on investment in SIA Citadele Līzings un Faktorings, EUR 1,112 thousand was released on investment in SIA Citadeles moduļi and EUR 3,462 thousand additional impairment allowance created on investment in AB Citadele bankas. As at 31 December 2017 total Bank's gross investment in subsidiaries is EUR 113,388 thousand (2016: EUR 111,243 thousand).

As at 31 December 2017 and 2016 the Bank held the following direct and indirect investments which are consolidated:

Company	Country of registration	Business profile	31/12/2017				31/12/2016			Carrying value EUR 000's	
			Share capital EUR 000's	The Group's share (%)	% of total voting rights	Owned by the Bank	Share capital EUR 000's	The Group's share (%)	% of total voting rights	31/12/2017	31/12/2016
AB Citadele bankas	Lithuania	Banking	43,112	100	100	Directly	43,112	100	100	36,563	40,025
AP Anlage & Privatbank AG	Switzerland	Banking	8,546	100	100	Directly	9,312	100	100	13,805	13,805
SIA Citadele Līzings un Faktorings	Latvia	Leasing	19,351	100	100	Directly	19,351	100	100	4,061	709
OU Citadele Leasing & Factoring	Estonia	Leasing	500	100	100	Directly	500	100	100	445	445
UAB Citadele faktoringas ir lizingas	Lithuania	Leasing	434	100	100	Directly	434	100	100	2,149	-
IPAS CBL Asset Management	Latvia	Finance	5,905	100	100	Directly	5,905	100	100	5,906	5,906
AS CBL Atklātais Pensiju Fonds	Latvia	Pension fund	640	100	100	Directly	640	100	100	646	646
AAS CBL Life	Latvia	Life insurance	4,269	100	100	Indirectly	4,269	100	100	-	-
SIA PR Speciālie Projekti **	Latvia	Misc.*	-	-	-	-	3	100	100	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100	100	Directly	2	100	100	-	-
OOO Mizush Asset Management Ukraina	Ukraine	Finance	643	100	100	Indirectly	683	100	100	-	-
SIA Citadele Express Kredīts	Latvia	Leasing	45	100	100	Directly	45	100	100	38	38
SIA Citadeles moduļi	Latvia	Real estate rent and management	19,372	100	100	Directly	19,372	100	100	-	-
SIA RPG Interjers	Latvia	Misc.*	1,355	100	100	Indirectly	1,355	100	100	1,112	-
SIA CBL Cash Logistics **	Latvia	Misc.*	-	-	-	-	438	100	100	-	310
SIA Hortus Commercial	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus Land	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus TC	Latvia	Misc.*	428	100	100	Directly	428	100	100	-	-
SIA Hortus Residential	Latvia	Misc.*	203	100	100	Directly	203	100	100	-	-
SIA Hortus MD **	Latvia	Misc.*	-	-	-	-	3	100	100	-	-
SIA Hortus JU	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus RE	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus BR	Latvia	Misc.*	403	100	100	Directly	403	100	100	-	-
SIA Hortus NI	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
Total investments in subsidiaries										**64,725**	**61,884**

* Misc. – the companies are providing various support services. ** Group's entity disposed or liquidated in 2017

Carrying value of investment in subsidiary SIA Citadeles moduļi depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group's consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group's property and equipment refer to Note 16.

Carrying value of investment in AB Citadele bankas (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate of 14.0% (2016: 14.0%), 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 -2.4 million loss or EUR +2.9 million gain respectively (2016: EUR -3.8 million loss or EUR 4.7 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR -3.6 million loss or EUR 3.6 million gain (2016: EUR +/-4.9 million); fluctuation in forecasted profitability by +/-10% would result in EUR -3.8 million loss or EUR +3.8 million gain (2016: EUR -6.4 million loss or EUR -6.4 million gain).

Carrying value of investment in SIA Citadele Līzings un Faktorings (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate of 12.0% (2016: 12.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity.

NOTE 19. OTHER ASSETS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Deposits with card payment system companies	13,626	13,002	13,626	13,002
Money in transit	7,257	9,198	6,052	7,135
Prepayments	3,674	3,217	2,131	1,600
Inventories	7,213	8,731	15	944
Other assets *	6,637	8,148	3,104	4,039
Total gross other assets	**38,407**	**42,296**	**24,928**	**26,720**
Impairment allowance	(2,420)	(2,227)	(1,643)	(1,584)
Total net other assets	**35,987**	**40,069**	**23,285**	**25,136**

* As at 31 December 2017, carrying amount of unimpaired delayed other assets was EUR nil (2016: EUR nil). As at 31 December 2017, the impaired other assets mostly related to capitalised debt collection expenditure: EUR 2,420 thousand (2016: EUR 2,227 thousand) for the Group and EUR 1,643 thousand (2016: EUR 1,584 thousand) for the Bank. These amounts carried impairment allowances of EUR 2,420 thousand for the Group (2016: EUR 2,227 thousand) and EUR 1,643 thousand for the Bank (2016: EUR 1,584 thousand).

NOTE 20. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	EUR 000's			
	2017 Unit-linked	2017 Other	2016 Unit-linked	2016 Other
Balance as at the beginning of the period	**23,064**	**16,614**	**19,341**	**14,574**
Premiums received	4,908	4,205	6,457	4,066
Commissions and risk charges	(370)	(235)	(382)	(291)
Paid to policyholders	(3,131)	(8,545)	(3,422)	(1,966)
Trading	1,492	-	733	-
Other	8	76	3	227
Currency revaluation result	(925)	(11)	334	4
Balance as at the end of the period	**25,046**	**12,104**	**23,064**	**16,614**

All unit-linked insurance plan liabilities are covered by financial assets designated at fair value through profit or loss. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

In 2017 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 166 thousand in the statement of income (2016: EUR 117 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 21. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Due to credit institutions registered in Latvia	3,034	11,147	3,034	11,147
Due to credit institutions registered in non-OECD countries	1,455	2,157	24,177	15,842
Due to credit institutions registered in other OECD countries	29	42	32,349	102,941
Total balances due to credit institutions and central banks	**4,518**	**13,346**	**59,560**	**129,930**

NOTE 22. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Privately held companies	1,155,814	1,286,817	770,747	823,390
Private individuals	1,304,191	1,206,807	969,446	903,822
Financial institutions	126,035	253,656	137,359	268,083
State and municipality owned enterprises	167,256	116,199	164,936	113,999
Municipalities	19,277	18,757	19,277	18,757
Public and religious institutions	81,130	18,469	78,380	16,466
Government	26,294	18,187	4,322	4,706
Total deposits from customers	**2,879,997**	**2,918,892**	**2,144,467**	**2,149,223**

Deposits from customers according to contractual maturity:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Demand deposits	2,163,339	2,113,175	1,675,090	1,641,388
Term deposits:				
due within 1 month	165,087	108,566	100,046	67,654
due within 2-3 months	145,208	174,183	94,282	86,599
due within 4-6 months	96,831	138,396	55,314	84,027
due within 7-12 months	177,539	229,387	109,944	148,746
due within 2-5 years	121,252	146,262	101,194	115,420
due in more than 5 years	10,741	8,923	8,597	5,389
Total term deposits	716,658	805,717	469,377	507,835
Total deposits from customers	**2,879,997**	**2,918,892**	**2,144,467**	**2,149,223**

NOTE 23. OTHER LIABILITIES

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Accrued expense	14,682	14,334	11,047	10,532
Suspense liabilities and money in transit	4,953	3,237	3,273	2,428
Deferred income	384	331	-	-
Other liabilities	17,330	8,322	4,187	2,829
Total other liabilities	**37,349**	**26,224**	**18,507**	**15,789**

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 24. SUBORDINATED LIABILITIES

Details of the Group's and the Bank's subordinated liabilities:

Debt issuance programme or counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's) 31/12/2017	31/12/2016
Publicly listed unsecured subordinated bonds	EUR	5.50%	24/11/2027	20,000	20,057	-
Publicly listed unsecured subordinated bonds	EUR	6.25%	06/12/2026	40,000	39,924	39,901
Privatisation Agency	-	-	-	-	-	35,688
EBRD	EUR	8.30%	08/08/2020	18,400	19,019	19,019
					79,000	**94,608**

On 4 January 2017, AS Citadele banka made an early repayment of the EUR 34.7 million subordinated loan outstanding and the accrued interest of EUR 0.98 million to the State Joint Stock Company Privatisation Agency. This was made possible by previously issued subordinated bonds in the amount of EUR 40 million. The remaining proceeds from the issuance were used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics.

On 17 November 2017, Citadele completed EUR 20 million 10 year Tier 2 capital qualifying subordinated bonds issuance. These bonds were issued to further strengthen the Group's overall capital position, to facilitate the execution of the Bank's growth strategy across the Baltics and to repay the subordinated debt owed to the EBRD. For more details on capital adequacy refer to *Capital Management* section of Note 34 (*Risk Management*).

Subsequent to the period end subordinated liabilities to EBRD with a principal amount of EUR 18.4 million were repaid. For more details refer to Note 35 (*Events after the Balance Sheet Date*).

NOTE 25. SHARE CAPITAL

As at 31 December 2017, the Bank's registered and paid-in share capital was EUR 156,555,796 (2016: EUR 156,555,796). All shares as at 31 December 2017 and 31 December 2016 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the year ended 31 December 2017 and 2016.

Bank's shareholders as at 31 December 2017 and 2016:

	31/12/2017		31/12/2016	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	35,082,302	35,082,302	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	13,864,142	13,864,142	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.[4]	13,864,142	13,864,142	13,864,142	13,864,142
Amolino Holdings Inc.[5]	13,863,987	13,863,987	13,863,987	13,863,987
Shuco LLC[6]	10,998,979	10,998,979	10,998,979	10,998,979
Other shareholders	14,146,136	14,146,136	14,146,136	14,146,136
Total	**156,555,796**	**156,555,796**	**156,555,796**	**156,555,796**

[1] RA Citadele Holdings LLC (United States) is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins
[2] Delan S.à.r.l. is beneficially owned by the Baupost Group LLC
[3] EMS LB LLC is beneficially owned by Mr Edmond M. Safra
[4] NNS Luxembourg Investments S.à.r.l. is beneficially owned by Mr Nassef O. Sawiris
[5] Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie
[6] Shuco LLC is beneficially owned by Mr Stanley S. Shuman

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

NOTE 26. OFF-BALANCE SHEET ITEMS

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

Contingent liabilities (showing maximum credit exposure) and financial commitments outstanding as at 31 December 2017 and 2016:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Contingent liabilities:				
Outstanding guarantees	27,808	24,937	23,638	19,729
Outstanding letters of credit	1,614	3,267	1,614	3,268
Total contingent liabilities	**29,422**	**28,204**	**25,252**	**22,997**
Financial commitments:				
Loans granted, not fully drawn down	77,516	48,796	65,085	38,542
Unutilised credit lines and overdraft facilities	54,144	60,733	140,889	127,540
Card commitments	91,810	89,085	81,481	77,370
Factoring commitments	12,687	17,411	-	-
Total financial commitments	**236,157**	**216,025**	**287,455**	**243,452**

Notional amounts and fair values of foreign exchange contracts and derivative financial instruments:

Group:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2017	31/12/2016	31/12/2017		31/12/2016	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	222	553	-	-	27	-
Swaps	768,617	463,482	2,406	(3,166)	4,556	(1,817)
Total foreign exchange contracts	**768,839**	**464,035**	**2,406**	**(3,166)**	**4,583**	**(1,817)**
Derivative financial instruments	**768,839**	**464,035**	**2,406**	**(3,166)**	**4,583**	**(1,817)**

Bank:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2017	31/12/2016	31/12/2017		31/12/2016	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	222	553	-	-	27	(1)
Swaps	799,506	524,050	2,481	(3,168)	4,683	(1,922)
Total foreign exchange contracts	**799,728**	**524,603**	**2,481**	**(3,168)**	**4,710**	**(1,923)**
Derivative financial instruments	**799,728**	**524,603**	**2,481**	**(3,168)**	**4,710**	**(1,923)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with a private individual or a company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2017, more than 32% (2016: 66%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2017, none (2016: nil) of the payments receivable arising out of derivative transactions were past due.

NOTE 27. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Fixed income securities:				
Government bonds	138,574	147,032	-	-
Corporate bonds	68,968	69,161	-	-
Credit institution bonds	17,442	23,498	-	-
Other financial institution bonds	18,006	14,102	-	-
Total investments in fixed income securities	**242,990**	**253,793**	**-**	**-**
Other investments:				
Investment funds	348,005	256,942	6,239	6,486
Loans	2,014	54,618	2,013	54,618
Deposits with credit institutions	43,427	36,479	-	1,815
Shares	27,634	24,846	-	-
Real estate	4,310	1,774	-	-
Other	77,059	108,164	-	-
Total other investments	**502,449**	**482,823**	**8,252**	**62,919**
Total assets under trust management agreements	**745,439**	**736,616**	**8,252**	**62,919**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Pension Plans	431,934	386,509	-	-
Insurance companies, investment and pension funds	119,294	114,273	-	-
Other companies	130,006	183,178	8,252	62,919
Private individuals	64,205	52,656	-	-
Total liabilities under trust management agreements	**745,439**	**736,616**	**8,252**	**62,919**

NOTE 28. FINANCIAL ASSETS PLEDGED

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Due from credit institutions and central banks	15,556	5,430	14,327	4,359
Loans to customers	2,363	2,482	1,818	1,861
Securities	1,672	1,912	-	-
Other assets	11,784	13,090	11,784	13,090
Total financial assets pledged	**31,375**	**22,914**	**27,929**	**19,310**
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 29. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2017 and 2016:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Cash and balances with central banks	715,468	799,198	494,848	647,606
Balances with other credit institutions*	145,045	138,797	205,011	153,870
Demand balances due to other credit institutions	(1,740)	(2,561)	(5,051)	(17,296)
Total cash and cash equivalents	**858,773**	**935,434**	**694,808**	**784,180**

* Only facilities with initial agreement term of 3 months or less.

NOTE 30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are no active markets. Accordingly, fair value for these has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and 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 and 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 the reporting period and credit margins, which are adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 13.3 million (2016: EUR 11.4 million).

Available for sale securities

Most available for sale securities are valued using unadjusted quoted prices in active markets. Investments in available for sale securities also include Citadele's equity interest in Visa Inc. which has been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount of 50%. The Level 3 presented preference stocks in Visa Inc. are part of consideration received for the sale of Citadele's share in Visa Europe to Visa Inc.

Derivatives

Derivatives are valued using techniques based on observable market data.

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 the period-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.16 million (2016: EUR 0.14 million).

Subordinated liabilities

The fair value of publically listed unsecured subordinated bonds is estimated based on the quoted prices. The fair value of unlisted subordinated borrowing from EBRD as at 31 December 2017 is estimated as its carrying amount as an early repayment in February 2018 took place. For more information refer to Note 35 (*Events after the Balance Sheet Date*).

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective borrowing rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +/-20 thousand (2016: EUR 7 thousand and EUR -6 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.

Fair values of Group's financial assets and liabilities as at 31 December 2017.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	13,774	13,774	13,774	-	-
Financial assets designated at fair value through profit or loss	146,479	146,479	146,479	-	-
Derivatives	2,406	2,406	-	2,406	-
Available for sale securities	858,861	858,861	856,416	-	2,444
Financial assets not measured at fair value:					
Cash and deposits with central banks	715,468	715,468	-	-	-
Balances due from credit institution	151,276	151,276	-	-	-
Loans and receivables from customers	1,330,595	1,331,527	-	-	1,331,527
Total assets	**3,218,859**	**3,219,791**	**1,016,669**	**2,406**	**1,333,971**
Derivatives	3,166	3,166	-	3,166	-
Financial liabilities designated at fair value through profit or loss	37,150	37,150	25,046	-	12,104
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	4,518	4,518	-	-	-
Customer deposits	2,879,997	2,881,561	-	-	2,881,561
Subordinated liabilities	79,000	82,219	-	82,219	-
Total liabilities	**3,003,831**	**3,008,614**	**25,046**	**85,385**	**2,893,665**

Fair values of Group's financial assets and liabilities as at 31 December 2016.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	13,485	13,485	13,485	-	-
Financial assets designated at fair value through profit or loss	133,326	133,326	133,326	-	-
Derivatives	4,583	4,583	-	4,583	-
Available for sale securities	903,189	903,189	901,225	-	1,964
Financial assets not measured at fair value:					
Cash and deposits with central banks	799,198	799,198	-	-	-
Balances due from credit institution	141,691	141,691	-	-	-
Loans and receivables from customers	1,240,516	1,242,408	-	-	1,242,408
Total assets	**3,235,988**	**3,237,880**	**1,048,036**	**4,583**	**1,244,372**
Derivatives	1,817	1,817	-	1,817	-
Financial liabilities designated at fair value through profit or loss	39,678	39,678	23,064	-	16,614
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	13,346	13,346	-	-	-
Customer deposits	2,918,892	2,921,555	-	-	2,921,555
Subordinated liabilities	94,608	95,869	-	95,869	-
Total liabilities	**3,068,341**	**3,072,265**	**23,064**	**97,686**	**2,938,169**

Fair values of Bank's financial assets and liabilities as at 31 December 2017.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	2,481	2,481	-	2,481	-
Available for sale securities	628,737	628,737	626,309	-	2,428
Financial assets not measured at fair value:					
Cash and deposits with central banks	494,848	494,848	-	-	-
Balances due from credit institution	205,292	205,292	-	-	-
Loans and receivables from customers	1,117,190	1,108,949	-	-	1,108,949
Total assets	**2,448,548**	**2,440,307**	**626,309**	**2,481**	**1,111,377**
Derivatives	3,168	3,168	-	3,168	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	59,560	59,560	-	-	-
Customer deposits	2,144,467	2,146,350	-	-	2,146,350
Subordinated liabilities	79,000	82,219	-	82,219	-
Total liabilities	**2,286,195**	**2,291,297**	**-**	**85,387**	**2,146,350**

Fair values of Bank's financial assets and liabilities as at 31 December 2016.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	4,710	4,710	-	4,710	-
Available for sale securities	694,934	694,934	692,987	-	1,947
Financial assets not measured at fair value:					
Cash and deposits with central banks	647,606	647,606	-	-	-
Balances due from credit institution	154,419	154,419	-	-	-
Loans and receivables from customers	1,008,506	1,001,445	-	-	1,001,445
Total assets	**2,510,175**	**2,503,114**	**692,987**	**4,710**	**1,003,392**
Derivatives	1,923	1,923	-	1,923	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	129,930	129,930	-	-	-
Customer deposits	2,149,223	2,152,315	-	-	2,152,315
Subordinated liabilities	94,608	95,869	-	95,869	-
Total liabilities	**2,375,684**	**2,380,037**	**-**	**97,792**	**2,152,315**

Changes in fair value of available for sale securities and derivatives categorised as Level 3

	EUR 000's **2017 Group**	**2016 Group**	**2017 Bank**	**2016 Bank**
As at the beginning of the period, net	**1,964**	**10,446**	**1,947**	**10,429**
Other comprehensive income				
Revaluation gain in other comprehensive income	*480*	*2,887*	*481*	*2,887*
Transfer to income statement on derecognition	-	*(11,330)*	-	*(11,330)*
Impairment charges, net	-	109	-	109
Gain in income statement on derivatives	-	11,330	-	11,330
Settlement on non-fixed income securities	-	(12,349)	-	(12,349)
Additions	-	1,622	-	1,622
As at the end of the period, net	**2,444**	**1,964**	**2,428**	**1,947**

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.

NOTE 31. 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.

The internal reporting of operating segments is continually evolving with changing business objectives and developments in markets in which the Group operates. Recently the Management has revisited allocation of some costs among the segments. These updates are fully implemented in this segment disclosure; comparatives for prior period have been recalculated by applying the up to date principles, thus these reflect the current segment measurement approach.

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 internal transfer rates to both the asset and the liability entries. 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 users of the services and credited to the segments 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.

Main business segments of the Group are:

Retail

Retail segment services private individuals and small and medium-sized companies in Latvia. It provides full banking and advisory services through branches, internet bank and mobile bank.

Corporate

Corporate segment services customers with either yearly turnover above EUR 7 million, total assets above EUR 15 million or total risk exposure with Citadele Group above EUR 2 million and those with needs of complex financing solutions.

Private Capital Management (PCM)

PCM provides private banking, advisory and transaction services to local and foreign high net-worth individuals and foreign companies.

Estonia

Estonia segment provides banking services to companies and individuals in Estonia.

Lithuania

Lithuania segment provides banking services to companies and individuals in Lithuania. It approximates to operations of AB Citadele bankas (Lithuania).

Switzerland

Switzerland segment provides private banking services to high-net worth individuals outside Latvia, Lithuania and Estonia. This segment comprises operations of AP Anlage & Privatbank AG.

Asset Management

Asset Management segment provides investment, wealth management, life insurance and advisory services to companies and individuals.

Leasing

Leasing segment provides finance lease, operating lease and factoring services to companies and individuals in Latvia, Lithuania and Estonia.

Other

Other segment includes operations which support business units within specific areas of expertise and results of other subsidiaries who offer non-banking services. The major function in the banking group contributing to this segment is treasury. In the second half of 2016 cash collection operations were transferred from the Bank into a separate subsidiary and sold in second half of 2017; as a result of this net commission and fee income and other expenditure related to these operations in the segment reporting in 2017 are presented within other business lines until sale of these operations.

For the year ended 31/12/2017 and as at 31/12/2017
EUR '000

	Banking							Other business lines			Eliminations, consolidation adjustments	Group, consolidated
	Retail	Corporate	PCM	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	31,057	12,457	4,898	4,318	3,722	12,213	2,480	25	5,434	(1,352)	122	75,374
Net commission and fee income	8,939	2,714	9,568	1,333	(4)	2,798	3,219	6,462	42	1,775	(119)	36,727
Gain on transactions with financial instruments, net	1,039	349	4,511	786	6,951	1,234	1,083	246	28	-	(131)	16,096
Other income	178	30	82	7	7,881	758	-	366	221	5,787	(11,021)	4,289
Operating income	**41,213**	**15,550**	**19,059**	**6,444**	**18,550**	**17,003**	**6,782**	**7,099**	**5,725**	**6,210**	**(11,149)**	**132,486**
Administrative and other expense	(34,282)	(4,837)	(9,618)	(4,770)	(5,768)	(11,932)	(4,625)	(3,810)	(2,682)	(5,002)	7,237	(80,089)
Amortisation and depreciation charge	(489)	(10)	(26)	(135)	(2,032)	(39)	(48)	(38)	(222)	(2,243)	15	(5,267)
Impairment charges and reversals, net	(4,181)	(539)	136	(2,409)	(5,117)	(2,197)	-	(61)	939	9,741	(734)	(4,422)
Segment result	**2,261**	**10,164**	**9,551**	**(870)**	**5,633**	**2,835**	**2,109**	**3,190**	**3,760**	**8,706**	**(4,631)**	**42,708**
of which internal transactions	908	(1,384)	5,710	162	1,800	1,713	651	(1,605)	(5,576)	2,252	(4,631)	-
Segment assets	461,546	320,557	39,029	114,355	1,609,942	541,388	345,370	58,667	163,356	52,879	(395,321)	3,311,768
Segment liabilities	712,321	371,307	820,464	178,458	222,984	489,198	325,790	43,235	152,371	53,105	(326,360)	3,042,873

For the year ended 31/12/2016 and as at 31/12/2016
EUR '000

	Banking							Other business lines			Eliminations, consolidation adjustments	Group, consolidated
	Retail	Corporate	PCM	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	25,989	12,267	5,829	3,697	2,365	10,020	2,144	(12)	5,234	(1,387)	49	66,195
Net commission and fee income	7,023	3,040	11,390	1,551	4,141	2,274	3,280	6,686	31	781	(52)	40,145
Gain on transactions with financial instruments, net	1,033	371	4,344	918	3,844	1,502	1,315	524	(41)	-	184	13,994
Other income	134	39	74	6	7,759	594	-	197	517	5,915	(12,584)	2,651
Operating income	**34,179**	**15,717**	**21,637**	**6,172**	**18,109**	**14,390**	**6,739**	**7,395**	**5,741**	**5,309**	**(12,403)**	**122,985**
Administrative and other expense	(29,678)	(5,115)	(10,432)	(4,304)	(7,512)	(10,780)	(4,603)	(4,094)	(3,600)	(3,658)	7,364	(76,412)
Amortisation and depreciation charge	(469)	(6)	(20)	(35)	(1,648)	(77)	(82)	(40)	(164)	(2,117)	4	(4,654)
Impairment charges and reversals, net	(4,353)	(2,857)	(131)	(718)	(2,103)	(995)	-	(145)	(1,032)	2,181	32	(10,121)
Segment result (excl. Visa*)	**(321)**	**7,739**	**11,054**	**1,115**	**6,846**	**2,538**	**2,054**	**3,116**	**945**	**1,715**	**(5,003)**	**31,798**
Gain on transactions with financial instruments, net	-	-	-	-	11,330	-	-	-	-	-	-	11,330
Segment result (incl. Visa*)	**(321)**	**7,739**	**11,054**	**1,115**	**18,176**	**2,538**	**2,054**	**3,116**	**945**	**1,715**	**(5,003)**	**43,128**
of which internal transactions	1,515	(1,898)	6,868	804	31	1,510	1,319	(1,648)	(5,718)	2,220	(5,003)	-
Segment assets	407,514	301,491	40,472	96,726	1,783,407	503,072	315,445	58,237	157,044	47,677	(361,570)	3,349,515
Segment liabilities	661,805	281,339	921,786	226,899	299,644	453,624	294,152	43,093	149,731	56,295	(293,086)	3,095,282

* Result for the year ended 31 December 2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

NOTE 32. LITIGATIONS AND CLAIMS

In the ordinary course of business, the Bank and the Group either as claimant, defendant or a third party are involved in a number of legal proceedings against customers and other counterparties, in Latvia and abroad, including among other matters proceedings to seek to recover collateral or outstanding balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The management of the Bank believes that any legal proceedings pending as at 31 December 2017 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 33. 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. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which were related parties at respective dates.

The Group's and the Bank's assets and liabilities from transactions with related parties:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Credit exposures to other related parties, net				
Loans and receivables from customers and balances due from credit institutions, net				
- Management	92	66	44	39
- Consolidated subsidiaries	-	-	305,900	205,493
Investments in subsidiaries, net	-	-	63,613	61,884
Derivatives with subsidiaries	-	-	75	127
Other assets	-	-	312	655
Financial commitments and guarantees outstanding	128	103	100,744	73,459
Credit exposures to related parties, net	**220**	**169**	**470,688**	**341,657**
Liabilities to other related parties				
Deposits from customers and balances due to credit institutions				
- Management	960	813	543	532
- Consolidated subsidiaries	-	-	17,228	33,706
Subordinated liabilities (EBRD)	19,019	19,019	19,019	19,019
Derivatives with subsidiaries	-	-	2	105
Other liabilities	104	97	178	107
Liabilities to related parties	**20,083**	**19,929**	**36,970**	**53,469**

As at 31 December 2017 a specific impairment allowance of EUR 622 thousand (2016: EUR 781 thousand) was recognised on loans and receivables from consolidated subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by the Group. Predominantly as a result of disposal of subsidiaries, in 2017 a release of EUR 49 thousand of impairment allowance on loans and receivables from consolidated subsidiaries was recognised. The ultimate recoverability of the loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio. For information on investments in subsidiaries refer to Note 18 (*Investments in Subsidiaries*).

The Group's and the Bank's operating income and expenses from transactions with related parties:

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Interest income				
- Management	4	7	3	5
- Consolidated subsidiaries	-	-	3,893	3,641
Interest expense				
- Management	(2)	(3)	-	(1)
- Subordinated liabilities (EBRD)	(1,548)	(1,573)	(1,548)	(1,573)
- Consolidated subsidiaries	-	-	(341)	(1,063)
Commission and fee income	4	13	1,652	1,633
Commission and fee expense	(3)	(3)	(583)	(257)
Gains/(losses) on transactions with financial instruments, net	-	-	1,173	(132)
Dividends received from consolidated subsidiaries *	-	-	3,913	5,127
Other income *	-	-	2,108	2,466

* In the income statement presented within other income caption.

For information on management's remuneration refer to Note 8 (*Personnel Expense*). During the reporting period the Group's and the Bank's other administrative expense with related parties amounted to EUR 2.3 million and EUR 5.7 million, respectively (2016: EUR 2.3 million and EUR 5.7 million). This mostly relates to rent and utility fees paid to the Group's companies and Advisory Services Agreement fee. The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2 million per annum for the services provided to the Bank. These advisory services include business plan development, strategic analysis, capital allocation, risk advisory, operating efficiency, human resource management, and other services.

NOTE 34. RISK MANAGEMENT

Risk management polices

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

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

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

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

Credit risk

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

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by independent units of the Risk Sector. The credit risk analysis consists of an assessment of customer's creditworthiness and collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates, as well as an analysis of its credit history and current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income and debt-to-income ratio analysis, as well as an analysis of applicable social and demographic factors. In cases of material risks, lending decisions are taken by the Credit Committee and approved by the Bank's Management Board.

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

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

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

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

Group's loan portfolio delinquencies:

EUR 000's 31/12/2017	Regular loans	Utilised credit lines and overdraft facilities	Finance leases	Debit balances on cards	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	926,250	129,416	141,015	51,890	4,261	3,924	1,256,756
Not delayed - impaired	42,327	2,198	3,738	-	-	109	48,372
Total not delayed loans	**968,577**	**131,614**	**144,753**	**51,890**	**4,261**	**4,033**	**1,305,128**
Past due loans - not impaired							
Delayed days:							
=< 29	16,493	110	6,641	1,691	1,216	-	26,151
30-59	4,210	688	2,292	599	36	-	7,825
60-89	1,566	58	60	269	-	-	1,953
90 and more	6,987	2,168	172	-	-	-	9,327
Total past due loans - not impaired	**29,256**	**3,024**	**9,165**	**2,559**	**1,252**	**-**	**45,256**
Total past due loans - impaired	**47,458**	**6,642**	**1,081**	**3,511**	**1**	**-**	**58,693**
Total gross loans and receivables from customers	**1,045,291**	**141,280**	**154,999**	**57,960**	**5,514**	**4,033**	**1,409,077**
Impairment allowance	(60,490)	(7,542)	(4,015)	(6,224)	(94)	(117)	(78,482)
Total net loans and receivables from customers	**984,801**	**133,738**	**150,984**	**51,736**	**5,420**	**3,916**	**1,330,595**

EUR 000's 31/12/2016	Regular loans	Utilised credit lines and overdraft facilities	Finance leases	Debit balances on cards	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	835,732	122,064	129,133	46,282	6,248	3,904	1,143,363
Not delayed - impaired	63,203	3,762	4,397	-	-	1,285	72,647
Total not delayed loans	**898,935**	**125,826**	**133,530**	**46,282**	**6,248**	**5,189**	**1,216,010**
Past due loans - not impaired							
Delayed days:							
=< 29	24,115	399	9,026	1,776	1,145	-	36,461
30-59	4,759	363	2,963	368	-	-	8,453
60-89	2,924	232	175	213	-	-	3,544
90 and more	8,344	1,630	103	-	45	-	10,122
Total past due loans - not impaired	**40,142**	**2,624**	**12,267**	**2,357**	**1,190**	**-**	**58,580**
Total past due loans - impaired	**39,378**	**1,417**	**2,746**	**4,914**	**-**	**-**	**48,455**
Total gross loans and receivables from customers	**978,455**	**129,867**	**148,543**	**53,553**	**7,438**	**5,189**	**1,323,045**
Impairment allowance	(61,896)	(5,958)	(6,279)	(6,976)	(143)	(1,277)	(82,529)
Total net loans and receivables from customers	**916,559**	**123,909**	**142,264**	**46,577**	**7,295**	**3,912**	**1,240,516**

Bank's loan portfolio delinquencies:

	EUR 000's 31/12/2017				
	Regular loans	**Utilised credit lines and overdraft facilities**	**Debit balances on cards**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	759,641	251,010	48,125	3,380	1,062,156
Not delayed - impaired	38,622	8,408	-	109	47,139
Total not delayed loans	**798,263**	**259,418**	**48,125**	**3,489**	**1,109,295**
Past due loans - not impaired					
Delayed days:					
=< 29	11,225	78	1,098	-	12,401
30-59	2,595	347	546	-	3,488
60-89	1,001	58	239	-	1,298
90 and more	4,471	1,464	-	-	5,935
Total past due loans - not impaired	**19,292**	**1,947**	**1,883**	**-**	**23,122**
Total past due loans - impaired	**44,375**	**6,296**	**3,343**	**-**	**54,014**
Total gross loans and receivables from customers	**861,930**	**267,661**	**53,351**	**3,489**	**1,186,431**
Impairment allowance	(56,026)	(7,057)	(6,041)	(117)	(69,241)
Total net loans and receivables from customers	**805,904**	**260,604**	**47,310**	**3,372**	**1,117,190**

	EUR 000's 31/12/2016				
	Regular loans	**Utilised credit lines and overdraft facilities**	**Debit balances on cards**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	700,667	194,481	42,337	3,283	940,768
Not delayed - impaired	62,195	10,450	-	1,285	73,930
Total not delayed loans	**762,862**	**204,931**	**42,337**	**4,568**	**1,014,698**
Past due loans - not impaired					
Delayed days:					
=< 29	13,257	239	1,132	-	14,628
30-59	2,788	101	327	-	3,216
60-89	1,712	81	177	-	1,970
90 and more	5,307	467	-	-	5,774
Total past due loans - not impaired	**23,064**	**888**	**1,636**	**-**	**25,588**
Total past due loans - impaired	**33,588**	**458**	**4,846**	**-**	**38,892**
Total gross loans and receivables from customers	**819,514**	**206,277**	**48,819**	**4,568**	**1,079,178**
Impairment allowance	(57,545)	(4,943)	(6,907)	(1,277)	(70,672)
Total net loans and receivables from customers	**761,969**	**201,334**	**41,912**	**3,291**	**1,008,506**

Changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines and overdraft facilities	Finance leases	Debit balances on cards	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2015	**43,844**	**9,885**	**7,187**	**5,164**	**410**	**1,261**	**67,751**
Impairment charge for the reported period - specific	9,096	1,983	2,307	649	-	11	14,046
Release of previously established impairment allowance - specific	(3,332)	(81)	(1,126)	(101)	(10)	(35)	(4,685)
Impairment charged to the statement of income, net	**5,764**	**1,902**	**1,181**	**548**	**(10)**	**(24)**	**9,361**
Change of impairment allowance due to write-offs, net	(5,733)	(8,999)	(4,070)	(1,316)	(400)	(30)	(20,548)
Change of impairment allowance due to currency fluctuations	37	(17)	-	18	-	68	106
Outstanding specific impairment as at 31/12/2016	**43,912**	**2,771**	**4,298**	**4,414**	**-**	**1,275**	**56,670**
Impairment charge for the reported period - specific	15,408	3,338	706	1,345	2	15	20,814
Release of previously established impairment allowance - specific	(3,741)	(625)	(1,129)	(15)	-	-	(5,510)
Impairment charged to the statement of income, net	**11,667**	**2,713**	**(423)**	**1,330**	**2**	**15**	**15,304**
Change of impairment allowance due to write-offs, net	(13,597)	(789)	(1,587)	(2,407)	-	(1,234)	(19,614)
Change of impairment allowance due to currency fluctuations	(623)	135		(117)	-	52	(553)
Outstanding specific impairment as at 31/12/2017	**41,359**	**4,830**	**2,288**	**3,220**	**2**	**108**	**51,807**

Changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines and overdraft facilities	Debit balances on cards	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2015	**39,293**	**9,519**	**5,063**	**1,260**	**55,135**
Impairment charge for the reported period - specific	8,523	1,397	611	12	10,543
Release of previously established impairment allowance - specific	(2,717)	(173)	(104)	(35)	(3,029)
Impairment charged to the statement of income, net	**5,806**	**1,224**	**507**	**(23)**	**7,514**
Change of impairment allowance due to write-offs, net	(4,206)	(8,551)	(1,225)	(30)	(14,012)
Change of impairment allowance due to currency fluctuations	37	(15)	16	68	106
Outstanding specific impairment as at 31/12/2016	**40,930**	**2,177**	**4,361**	**1,275**	**48,743**
Impairment charge for the reported period - specific	13,657	2,913	1,224	16	17,810
Release of previously established impairment allowance - specific	(3,082)	(292)	-	-	(3,374)
Impairment charged to the statement of income, net	**10,575**	**2,621**	**1,224**	**16**	**14,436**
Change of impairment allowance due to write-offs, net	(12,220)	(46)	(2,392)	(1,234)	(15,892)
Change of impairment allowance due to currency fluctuations	(623)	135	(117)	52	(553)
Outstanding specific impairment as at 31/12/2017	**38,662**	**4,887**	**3,076**	**109**	**46,734**

In the tables 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%).

The Group:

	EUR 000's							
	31/12/2017				31/12/2016			
	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	785,329	1,697,265	199,472	107,697	720,833	1,549,788	195,726	112,849
Utilised credit lines and overdraft facilities	84,893	226,822	48,845	23,042	104,716	240,174	19,193	4,143
Finance leases	147,859	150,155	3,125	3,012	141,860	145,217	402	402
Debit balances on cards	222	1,062	51,514	1	218	1,396	46,359	1
Factoring	4,024	4,473	1,396	-	5,863	6,379	1,434	-
Due from investment counterparties	529	950	3,387	-	644	1,368	3,268	-
Total net loans	**1,022,856**	**2,080,727**	**307,739**	**133,752**	**974,134**	**1,944,322**	**266,382**	**117,395**

The Bank:

	EUR 000's							
	31/12/2017				31/12/2016			
	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	604,122	1,230,868	157,203	91,734	556,857	1,139,971	158,612	97,781
Utilised credit lines and overdraft facilities	63,092	145,280	39,998	21,786	87,012	178,596	9,743	2,621
Debit balances on cards	216	1,044	47,094	1	191	1,332	41,721	-
Due from investment counterparties	529	950	2,843	-	644	1,368	2,647	-
Loans to subsidiaries	-	-	202,093	43,511	-	-	151,079	43,218
Total net loans	**667,959**	**1,378,142**	**449,231**	**157,032**	**644,704**	**1,321,267**	**363,802**	**143,620**

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Group's fixed income securities portfolio quality:

	EUR 000's			
	31/12/2017			
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Total
Investment grade:				
AAA/Aaa	-	28,519	104,972	133,491
AA/Aa	-	40,652	144,776	185,428
A	4,399	36,982	537,487	578,868
BBB/Baa	3,563	15,353	60,494	79,410
Other lower ratings	-	-	2,316	2,316
Total fixed income securities	**7,962**	**121,506**	**850,045**	**979,513**

	EUR 000's			
	31/12/2016			
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Total
Investment grade:				
AAA/Aaa	-	22,982	156,122	179,104
AA/Aa	-	42,533	216,856	259,389
A	4,736	30,343	436,997	472,076
BBB/Baa	2,963	13,470	75,379	91,812
Other lower ratings	-	1,009	4,831	5,840
Total fixed income securities	**7,699**	**110,337**	**890,185**	**1,008,221**

Bank's available for sales fixed income securities portfolio quality:

	EUR 000's	
	31/12/2017 Bank	31/12/2016 Bank
Investment grade:		
AAA/Aaa	85,042	132,114
AA/Aa	94,675	135,990
A	396,120	355,112
BBB/Baa	42,265	55,374
Other lower ratings	1,836	3,356
Total net fixed income securities	**619,938**	**681,946**

Credit quality of due from credit institutions balances:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Investment grade:				
AA/Aa	37,122	29,006	6,591	5,463
A	77,635	82,841	67,666	78,768
BBB/Baa	9,961	14,637	9,569	8,322
Other lower ratings	16,421	7,042	16,220	6,854
Not rated Baltic registered credit institutions	5,966	3,437	1,779	572
Citadele Group's banks	-	-	103,462	54,414
Other not rated credit institutions	4,171	4,728	5	26
Total balances due from credit institutions, net	**151,276**	**141,691**	**205,292**	**154,419**

GEOGRAPHICAL PROFILE

The carrying amount of the Group's assets, liabilities and memorandum items by geographical profile. The grouping is performed based on information about the reported residence of the respective counterparties:

	31/12/2017, EUR 000's						
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	Total
Assets							
Cash and balances with central banks	466,716	81,873	28,133	-	-	138,746	715,468
Balances due from credit institutions	4,985	952	29	44,617	16,219	84,474	151,276
Securities held for trading	6,268	-	1,120	6,171	-	215	13,774
Financial assets designated at fair value through profit or loss	12,729	-	-	89,475	-	44,275	146,479
Available for sale securities	269,025	145,399	7,869	190,374	-	246,194	858,861
Loans and receivables from customers	808,620	352,056	133,018	12,900	12,037	11,964	1,330,595
Derivative financial instruments	626	-	-	1,671	22	87	2,406
Other assets	71,898	5,764	2,777	11,815	111	544	92,909
Total assets	**1,640,867**	**586,044**	**172,946**	**357,023**	**28,389**	**526,499**	**3,311,768**
Liabilities							
Financial liabilities designated at fair value through profit or loss	28,513	201	-	130	8,306	-	37,150
Balances due to credit institutions and central banks	3,034	1,450	-	-	5	29	4,518
Deposits from customers	1,386,960	365,788	85,305	318,913	217,907	505,124	2,879,997
Subordinated liabilities	59,981	-	-	19,019	-	-	79,000
Derivative financial instruments	677	-	-	2,043	70	376	3,166
Other liabilities	25,486	10,742	715	86	159	1,854	39,042
Total liabilities	**1,504,651**	**378,181**	**86,020**	**340,191**	**226,447**	**507,383**	**3,042,873**
Off-balance sheet items							
Contingent liabilities	20,966	3,647	367	917	752	2,773	29,422
Financial commitments	182,963	38,985	11,842	161	434	1,772	236,157

For additional information on geographical distribution of securities exposures please refer to Note 13 (*Fixed and Non-fixed Income Securities*). EUR 138.7 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2016: EUR 111.7 million). From Group's balances due from credit institutions presented as "Other countries" EUR 42.9 million are with Swiss credit institutions (2016: EUR 32.5 million) and EUR 9.2 million with United States registered credit institutions (2016: EUR 58.5 million).

	31/12/2016, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	619,913	39,912	27,694	-	-	111,679	799,198
Balances due from credit institutions	2,839	760	14	24,490	7,961	105,627	141,691
Securities held for trading	6,430	-	1,128	5,374	-	553	13,485
Financial assets designated at fair value through profit or loss	12,496	-	-	73,939	-	46,891	133,326
Available for sale securities	263,239	72,665	4,165	274,458	-	288,662	903,189
Loans and receivables from customers	764,050	294,417	135,033	13,753	17,570	15,693	1,240,516
Derivative financial instruments	2,434	-	-	1,603	8	538	4,583
Other assets	90,656	5,561	2,202	13,152	105	1,851	113,527
Total assets	**1,762,057**	**413,315**	**170,236**	**406,769**	**25,644**	**571,494**	**3,349,515**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32,374	-	-	364	6,940	-	39,678
Balances due to credit institutions and central banks	11,147	2,150	36	-	7	6	13,346
Deposits from customers	1,271,334	319,966	100,877	391,069	234,744	600,902	2,918,892
Subordinated liabilities	75,589	-	-	19,019	-	-	94,608
Derivative financial instruments	674	-	-	536	52	555	1,817
Other liabilities	20,545	3,572	873	183	59	1,709	26,941
Total liabilities	**1,411,663**	**325,688**	**101,786**	**411,171**	**241,802**	**603,172**	**3,095,282**
Off-balance sheet items							
Contingent liabilities	17,594	6,184	307	894	850	2,375	28,204
Financial commitments	151,379	49,626	11,925	1,046	930	1,119	216,025

The carrying amount of the Bank's assets, liabilities and memorandum items by geographical profile. The grouping is done based on information about the reported residence of the respective counterparties:

	31/12/2017, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	466,715	-	28,133	-	-	-	494,848
Balances due from credit institutions	1,765	106	-	42,265	15,998	145,158	205,292
Available for sale securities	257,270	39,512	7,869	140,580	-	183,506	628,737
Loans and receivables from customers	856,082	97,274	130,775	10,724	11,603	10,732	1,117,190
Derivative financial instruments	625	36	-	1,671	22	127	2,481
Other assets	30,190	38,713	2,303	11,810	37	13,828	96,881
Total assets	**1,612,647**	**175,641**	**169,080**	**207,050**	**27,660**	**353,351**	**2,545,429**
Liabilities							
Balances due to credit institutions and central banks	3,034	24,172	-	-	5	32,349	59,560
Deposits from customers	1,392,257	5,010	86,640	178,900	135,519	346,141	2,144,467
Subordinated liabilities	59,981	-	-	19,019	-	-	79,000
Derivative financial instruments	677	-	-	2,043	70	378	3,168
Other liabilities	18,776	23	380	84	14	62	19,339
Total liabilities	**1,474,725**	**29,205**	**87,020**	**200,046**	**135,608**	**378,930**	**2,305,534**
Off-balance sheet items							
Contingent liabilities	20,945	966	367	125	389	2,460	25,252
Financial commitments	217,503	36,853	31,148	160	434	1,357	287,455

For additional information on geographical distribution of securities exposures please refer to Note 13 (*Fixed and Non-fixed Income Securities*). From Bank's balances due from credit institutions presented as "Other countries" EUR 104.1million are with Swiss credit institutions (2016: EUR 55.8 million) and EUR 8.8 million with United States registered credit institutions (2016: EUR 58.0 million).

	31/12/2016, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	619,913	-	27,693	-	-	-	647,606
Balances due from credit institutions	558	65	-	17,490	7,767	128,539	154,419
Available for sale securities	250,026	25,948	4,165	207,485	-	207,310	694,934
Loans and receivables from customers	815,605	23,322	131,339	9,763	16,806	11,671	1,008,506
Derivative financial instruments	2,434	29	-	1,603	8	636	4,710
Other assets	51,077	40,031	1,312	13,143	27	13,845	119,435
Total assets	**1,739,613**	**89,395**	**164,509**	**249,484**	**24,608**	**362,001**	**2,629,610**
Liabilities							
Balances due to credit institutions and central banks	11,147	15,836	36	-	6	102,905	129,930
Deposits from customers	1,280,461	4,987	103,615	238,815	149,935	371,410	2,149,223
Subordinated liabilities	75,589	-	-	19,019	-	-	94,608
Derivative financial instruments	674	4	-	536	52	657	1,923
Other liabilities	15,315	3	272	111	10	78	15,789
Total liabilities	**1,383,186**	**20,830**	**103,923**	**258,481**	**150,003**	**475,050**	**2,391,473**
Off-balance sheet items							
Contingent liabilities	17,573	2,677	307	315	443	1,682	22,997
Financial commitments	181,823	16,665	43,122	279	930	633	243,452

Market risk

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

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

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

Interest rate risk

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

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

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

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% on the Group's and the Bank's profit before taxation (over 12-month period) and the available for sale securities' fair value revaluation reserve in equity. Scenarios incorporate interest rate 'floors' at 0% if such a condition exists in customer loan agreement. Customer deposit rates are assumed to be constrained by a zero lower bound. Group's figures are estimated from companies that bear significant interest rate risk: AS Citadele banka, AB Citadele (bankas), and AP Anlage & Privatbank AG.

	EUR 000's			
Scenario: +1%	**31/12/2017 Group**	**31/12/2016 Group**	**31/12/2017 Bank**	**31/12/2016 Bank**
Total for all currencies				
Profit / (loss) before taxation	16,187	15,312	13,311	12,685
Securities fair value revaluation reserve	(13,900)	(12,999)	(8,968)	(8,528)
EUR only				
Profit / (loss) before taxation	12,385	11,238	10,777	9,783
Securities fair value revaluation reserve	(7,557)	(6,073)	(3,921)	(3,790)
USD only				
Profit / (loss) before taxation	2,577	3,040	1,988	2,535
Securities fair value revaluation reserve	(6,134)	(3,775)	(4,987)	(4,585)
Scenario: -1%				
Total for all currencies				
Profit / (loss) before taxation	(8,839)	(9,361)	(7,185)	(8,299)
Securities fair value revaluation reserve	14,285	13,355	9,353	8,884
EUR only				
Profit / (loss) before taxation	(5,375)	(5,403)	(4,995)	(5,498)
Securities fair value revaluation reserve	7,693	6,239	4,057	3,956
USD only				
Profit / (loss) before taxation	(2,308)	(2,933)	(1,709)	(2,415)
Securities fair value revaluation reserve	6,380	6,547	5,233	4,770

Currency risk

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

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

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

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

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 total equity (ignoring any tax effect) would amount approximately to the following:

	Group EUR 000's					
	31/12/2017			**31/12/2016**		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	69	98	53	30	127	68
5% adverse change	174	246	133	76	317	169

	Bank EUR 000's					
	31/12/2017			**31/12/2016**		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	36	1	8	24	1	18
5% adverse change	90	1	20	61	2	44

During 2017 and 2016 the Bank was in compliance with the currency position limits.

The carrying amount of assets, liabilities and memorandum items by currency profile:

	Group as at 31/12/2017, EUR 000's					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	570,546	2,718	138,926	121	3,157	715,468
Balances due from credit institutions	16,399	56,024	6,161	15,245	57,447	151,276
Securities held for trading	13,710	64	-	-	-	13,774
Financial assets designated at fair value through profit or loss	69,402	69,405	3,859	-	3,813	146,479
Available for sale securities	474,861	373,696	301	-	10,003	858,861
Loans and receivables from customers	1,305,656	24,634	-	163	142	1,330,595
Derivative financial instruments	2,406	-	-	-	-	2,406
Other assets	81,211	10,761	510	54	373	92,909
Total assets	**2,534,191**	**537,302**	**149,757**	**15,583**	**74,935**	**3,311,768**
Liabilities						
Financial liabilities designated at fair value through profit or loss	28,634	8,516	-	-	-	37,150
Balances due to credit institutions and central banks	3,190	1,328	-	-	-	4,518
Deposits from customers	2,045,278	737,720	12,087	22,879	62,033	2,879,997
Subordinated liabilities	79,000	-	-	-	-	79,000
Derivative financial instruments	3,166	-	-	-	-	3,166
Other liabilities	34,472	2,463	1,764	224	119	39,042
Total liabilities	**2,193,740**	**750,027**	**13,851**	**23,103**	**62,152**	**3,042,873**
Equity	268,545	(83)	424	-	9	268,895
Total liabilities and equity	**2,462,285**	**749,944**	**14,275**	**23,103**	**62,161**	**3,311,768**
Net long/ (short) position for balance sheet items	71,906	(212,642)	135,482	(7,520)	12,774	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	9,217	(8,745)	1,582	43	(2,058)	39
Forward foreign exchange contracts	196	(196)	-	-	-	-
Swap exchange contracts	(85,456)	218,112	(132,153)	7,402	(8,461)	(556)
Net long/ (short) positions on foreign exchange	*(76,043)*	*209,171*	*(130,571)*	*7,445*	*(10,519)*	*(517)*
Net long/ (short) total position	**(4,137)**	**(3,471)**	**4,911**	**(75)**	**2,255**	**(517)**

	Group as at 31/12/2016, EUR 000's					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	679,086	3,482	111,946	236	4,448	799,198
Balances due from credit institutions	20,292	78,664	7,420	7,000	28,315	141,691
Securities held for trading	13,016	469	-	-	-	13,485
Financial assets designated at fair value through profit or loss	54,278	61,272	13,626	-	4,150	133,326
Available for sale securities	317,924	566,254	-	-	19,011	903,189
Loans and receivables from customers	1,199,101	40,964	-	297	154	1,240,516
Derivative financial instruments	4,583	-	-	-	-	4,583
Other assets	100,035	12,854	364	50	224	113,527
Total assets	**2,388,315**	**763,959**	**133,356**	**7,583**	**56,302**	**3,349,515**
Liabilities						
Financial liabilities designated at fair value through profit or loss	32,361	7,317	-	-	-	39,678
Balances due to credit institutions and central banks	3,495	8,690	-	6	1,155	13,346
Deposits from customers	1,914,413	907,458	19,573	16,620	60,828	2,918,892
Subordinated liabilities	94,608	-	-	-	-	94,608
Derivative financial instruments	1,817	-	-	-	-	1,817
Other liabilities	22,947	1,898	1,591	242	263	26,941
Total liabilities	**2,069,641**	**925,363**	**21,164**	**16,868**	**62,246**	**3,095,282**
Equity	255,614	(1,364)	-	-	(17)	254,233
Total liabilities and equity	**2,325,255**	**923,999**	**21,164**	**16,868**	**62,229**	**3,349,515**
Net long/ (short) position for balance sheet items	63,060	(160,040)	112,192	(9,285)	(5,927)	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	2,292	1,460	362	(39)	(4,081)	(6)
Forward foreign exchange contracts	(526)	553	-	-	-	27
Swap exchange contracts	(69,321)	156,506	(106,224)	9,338	12,563	2,862
Net long/ (short) positions on foreign exchange	*(67,555)*	*158,519*	*(105,862)*	*9,299*	*8,482*	*2,883*
Net long/ (short) total position	**(4,495)**	**(1,521)**	**6,330**	**14**	**2,555**	**2,883**

	Bank as at 31/12/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	490,347	2,437	149	121	1,794	494,848
Balances due from credit institutions	3,845	27,491	103,527	15,232	55,197	205,292
Available for sale securities	351,405	267,330	-	-	10,002	628,737
Loans and receivables from customers	1,094,918	21,967	-	163	142	1,117,190
Derivative financial instruments	2,481	-	-	-	-	2,481
Other assets	72,023	10,690	13,812	3	353	96,881
Total assets	**2,015,019**	**329,915**	**117,488**	**15,519**	**67,488**	**2,545,429**
Liabilities						
Balances due to credit institutions and central banks	6,453	47,084	377	454	5,192	59,560
Deposits from customers	1,598,716	474,777	3,745	15,651	51,578	2,144,467
Subordinated liabilities	79,000	-	-	-	-	79,000
Derivative financial instruments	3,168	-	-	-	-	3,168
Other liabilities	16,755	2,259	5	213	107	19,339
Total liabilities	**1,704,092**	**524,120**	**4,127**	**16,318**	**56,877**	**2,305,534**
Equity	240,017	(131)	-	-	9	239,895
Total liabilities and equity	**1,944,109**	**523,989**	**4,127**	**16,318**	**56,886**	**2,545,429**
Net long/ (short) position for balance sheet items	**70,910**	**(194,074)**	**113,361**	**(799)**	**10,602**	**-**
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	7,150	(6,551)	1,582	43	(2,190)	34
Forward foreign exchange contracts	196	(196)	-	-	-	-
Swap exchange contracts	(76,478)	199,017	(114,967)	632	(8,687)	(483)
Net long/ (short) positions on foreign exchange	*(69,132)*	*192,270*	*(113,385)*	*675*	*(10,877)*	*(449)*
Net long/ (short) total position	**1,778**	**(1,804)**	**(24)**	**(124)**	**(275)**	**(449)**

	Bank as at 31/12/2016, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	640,495	3,030	240	236	3,605	647,606
Balances due from credit institutions	5,620	60,891	55,063	6,816	26,029	154,419
Available for sale securities	255,171	420,752	-	-	19,011	694,934
Loans and receivables from customers	973,264	34,676	-	297	269	1,008,506
Derivative financial instruments	4,710	-	-	-	-	4,710
Other assets	94,052	11,374	13,807	5	197	119,435
Total assets	**1,973,312**	**530,723**	**69,110**	**7,354**	**49,111**	**2,629,610**
Liabilities						
Balances due to credit institutions and central banks	13,818	106,009	765	688	8,650	129,930
Deposits from customers	1,489,816	589,621	6,477	15,230	48,079	2,149,223
Subordinated liabilities	94,608	-	-	-	-	94,608
Derivative financial instruments	1,923	-	-	-	-	1,923
Other liabilities	13,725	1,734	5	78	247	15,789
Total liabilities	**1,613,890**	**697,364**	**7,247**	**15,996**	**56,976**	**2,391,473**
Equity	239,506	(1,352)	-	-	(17)	238,137
Total liabilities and equity	**1,853,396**	**696,012**	**7,247**	**15,996**	**56,959**	**2,629,610**
Net long/ (short) position for balance sheet items	**119,916**	**(165,289)**	**61,863**	**(8,642)**	**(7,848)**	**-**
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	2,700	938	362	100	(4,103)	(3)
Forward foreign exchange contracts	(526)	553	-	-	-	27
Swap exchange contracts	(117,821)	162,585	(62,265)	8,520	11,863	2,882
Net long/ (short) positions on foreign exchange	*(115,647)*	*164,076*	*(61,903)*	*8,620*	*7,760*	*2,906*
Net long/ (short) total position	**4,269**	**(1,213)**	**(40)**	**(22)**	**(88)**	**2,906**

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance. As a result during the reporting period a revaluation result from changes in CHF exchange rate were recognised in Group's other comprehensive income.

Liquidity risk

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

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

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

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

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

The Financial and Capital Market Commission (FCMC) requires banks in Latvia to estimate and maintain a liquidity ratio of at least 30% and also sets individual liquidity ratio requirements. The Bank's individual liquidity ratio requirement is 40%. The Bank was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR) with a phase-in period ending in 2018. The corresponding minimum levels to be maintained in 2016, 2017 and 2018 are 70%, 80% and 100%, respectively.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	Highest	Lowest	Average	Year-end
2017	67%	61%	63%	61%
2016	70%	57%	61%	70%

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.

Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61. European Union's regulations on NSFR are not yet finalised. Therefore, the Group when calculating NSFR has applied non-final legislation and guidelines published by Basel's Committee on Banking Supervision.

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Liquidity coverage ratio	318%	253%	347%	318%
Net stable funding ratio	146%	152%	137%	147%

Group's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2017

	Group as at 31/12/2017, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	715,468	-	-	-	-	-	715,468
Balances due from credit institutions	145,300	4,602	-	534	-	840	151,276
Securities held for trading	-	312	-	1,217	2,762	9,483	13,774
Financial assets designated at fair value through profit or loss	5,466	14,503	22,257	13,515	53,854	36,884	146,479
Available for sale securities	46,389	38,592	70,652	98,075	563,581	41,572	858,861
Loans and receivables from customers	63,949	62,853	96,429	155,950	636,240	315,174	1,330,595
Derivative financial instruments	2,276	130	-	-	-	-	2,406
Other assets	12,982	205	495	2,102	427	76,698	92,909
Total assets	**991,830**	**121,197**	**189,833**	**271,393**	**1,256,864**	**480,651**	**3,311,768**
Liabilities							
Financial liabilities designated at fair value through profit or loss	418	631	3,268	4,574	22,950	5,309	37,150
Balances due to credit institutions and central banks	4,001	417	100	-	-	-	4,518
Deposits from customers	2,328,426	145,208	96,831	177,539	121,252	10,741	2,879,997
Subordinated liabilities	-	19,019	294	-	-	59,687	79,000
Derivative financial instruments	2,524	642	-	-	-	-	3,166
Other liabilities	29,865	1,849	608	1,113	3,196	2,411	39,042
Total liabilities	**2,365,234**	**167,766**	**101,101**	**183,226**	**147,398**	**78,148**	**3,042,873**
Equity	-	-	-	-	-	268,895	268,895
Total liabilities and equity	**2,365,234**	**167,766**	**101,101**	**183,226**	**147,398**	**347,043**	**3,311,768**
Net balance sheet position – long/ (short)	(1,373,404)	(46,569)	88,732	88,167	1,109,466	133,608	-
Off-balance sheet items							
Contingent liabilities	29,422	-	-	-	-	-	29,422
Financial commitments	236,157	-	-	-	-	-	236,157

All Bank's and Group's subordinated liabilities payable are shown as per terms effective as at the period end i.e. taking into consideration an expected early repayment of EBRD subordinated liabilities as at 31 December 2017 and subordinated liabilities due to Privatisation Agency (repaid in the beginning of 2017) as at 31 December 2016. For more details refer to Note 24 (*Subordinated Liabilities)* and Note 35 (*Events after the Balance Sheet Date*).

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2017

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

** Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.*

Group's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2016

	Group as at 31/12/2016, 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	799,198	-	-	-	-	-	799,198
Balances due from credit institutions	140,416	390	-	366	519	-	141,691
Securities held for trading	806	208	-	462	3,563	8,446	13,485
Financial assets designated at fair value through profit or loss	499	4,156	8,309	14,387	76,351	29,624	133,326
Available for sale securities	30,003	151,019	42,252	112,782	528,008	39,125	903,189
Loans and receivables from customers	52,780	60,297	87,260	193,236	557,331	289,612	1,240,516
Derivative financial instruments	1,766	2,705	112	-	-	-	4,583
Other assets	10,831	278	2,138	1,346	436	98,498	113,527
Total assets	**1,036,299**	**219,053**	**140,071**	**322,579**	**1,166,208**	**465,305**	**3,349,515**
Liabilities							
Financial liabilities designated at fair value through profit or loss	306	5,457	1,540	4,481	22,365	5,529	39,678
Balances due to credit institutions and central banks	12,516	690	140	-	-	-	13,346
Deposits from customers	2,221,741	174,183	138,396	229,387	146,262	8,923	2,918,892
Subordinated liabilities	35,688	619	179	-	18,400	39,722	94,608
Derivative financial instruments	1,614	122	81	-	-	-	1,817
Other liabilities	21,404	466	1,237	588	521	2,725	26,941
Total liabilities	**2,293,269**	**181,537**	**141,573**	**234,456**	**187,548**	**56,899**	**3,095,282**
Equity	-	-	-	-	-	254,233	254,233
Total liabilities and equity	**2,293,269**	**181,537**	**141,573**	**234,456**	**187,548**	**311,132**	**3,349,515**
Net balance sheet position – long/ (short)	(1,256,970)	37,516	(1,502)	88,123	978,660	154,173	-
Off-balance sheet items							
Contingent liabilities	28,204	-	-	-	-	-	28,204
Financial commitments	216,025	-	-	-	-	-	216,025

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**Over 1 year**	**Total**	**Carrying amount**
Financial liabilities designated at fair value through profit or loss	306	5,457	1,540	4,481	28,041	39,825	39,678
Financial liabilities measured at amortised cost*	2,270,058	176,062	140,408	233,154	251,401	3,071,083	3,026,846
Off-balance sheet items							
Contingent liabilities	28,204	-	-	-	-	28,204	28,204
Financial commitments	216,025	-	-	-	-	216,025	216,025

** Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.*

Banks's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2017

	Bank as at 31/12/2017, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	494,848	-	-	-	-	-	494,848
Balances due from credit institutions	205,292	-	-	-	-	-	205,292
Available for sale securities	43,453	35,302	58,902	77,528	385,436	28,116	628,737
Loans and receivables from customers	41,657	127,210	65,495	172,138	423,456	287,234	1,117,190
Derivative financial instruments	2,351	130	-	-	-	-	2,481
Other assets	9,380	-	-	-	-	87,501	96,881
Total assets	**796,981**	**162,642**	**124,397**	**249,666**	**808,892**	**402,851**	**2,545,429**
Liabilities							
Balances due to credit institutions and central banks	31,677	16,683	7,466	2,514	1,220	-	59,560
Deposits from customers	1,775,136	94,282	55,314	109,944	101,194	8,597	2,144,467
Subordinated liabilities	-	19,019	294	-	-	59,687	79,000
Derivative financial instruments	2,526	642	-	-	-	-	3,168
Other liabilities	17,899	832	-	-	-	608	19,339
Total liabilities	**1,827,238**	**131,458**	**63,074**	**112,458**	**102,414**	**68,892**	**2,305,534**
Equity	-	-	-	-	-	239,895	239,895
Total liabilities and equity	**1,827,238**	**131,458**	**63,074**	**112,458**	**102,414**	**308,787**	**2,545,429**
Net balance sheet position – long/ (short)	(1,030,257)	31,184	61,323	137,208	706,478	94,064	-
Off-balance sheet items							
Contingent liabilities	25,252	-	-	-	-	-	25,252
Financial commitments	287,455	-	-	-	-	-	287,455

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2017

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

** Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.*

Bank's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2016

	Bank as at 31/12/2016, 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	647,606	-	-	-	-	-	647,606
Balances due from credit institutions	154,419	-	-	-	-	-	154,419
Available for sale securities	29,497	141,108	20,965	92,826	377,949	32,589	694,934
Loans and receivables from customers	27,994	133,544	59,989	149,567	379,533	257,879	1,008,506
Derivative financial instruments	1,892	2,706	112	-	-	-	4,710
Other assets	7,894	-	-	-	-	111,541	119,435
Total assets	**869,302**	**277,358**	**81,066**	**242,393**	**757,482**	**402,009**	**2,629,610**
Liabilities							
Balances due to credit institutions and central banks	44,666	60,282	17,068	4,477	3,437	-	129,930
Deposits from customers	1,709,041	86,599	84,028	148,746	115,420	5,389	2,149,223
Subordinated liabilities	35,688	619	179	-	18,400	39,722	94,608
Derivative financial instruments	1,720	122	81	-	-	-	1,923
Other liabilities	14,966	-	-	-	-	823	15,789
Total liabilities	**1,806,081**	**147,622**	**101,356**	**153,223**	**137,257**	**45,934**	**2,391,473**
Equity	-	-	-	-	-	238,137	238,137
Total liabilities and equity	**1,806,081**	**147,622**	**101,356**	**153,223**	**137,257**	**284,071**	**2,629,610**
Net balance sheet position – long/ (short)	(936,779)	129,736	(20,290)	89,170	620,225	117,938	-
Off-balance sheet items							
Contingent liabilities	22,997	-	-	-	-	-	22,997
Financial commitments	243,452	-	-	-	-	-	243,452

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

	EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities measured at amortised cost*	1,789,410	147,833	102,752	156,307	214,440	2,410,742	2,373,761
Off-balance sheet items							
Contingent liabilities	22,997	-	-	-	-	22,997	22,997
Financial commitments	243,452	-	-	-	-	243,452	243,452

** Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.*

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

	Group, 31/12/2017 EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(296)	(513)	-	-	-	-	(809)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	17,232	-	-	-	-	-	17,232
inflow	(17,147)	-	-	-	-	-	(17,147)

	Group, 31/12/2016 EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(27)	1,045	-	-	-	-	1,018
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(11,573)	(31,528)	(12,731)	-	-	-	(55,832)
inflow	11,747	33,104	12,793	-	-	-	57,644

	Bank, 31/12/2017 EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(193)	(513)	-	-	-	-	(706)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(16,084)	-	-	-	-	-	(16,084)
inflow	16,136	-	-	-	-	-	16,136

	Bank, 31/12/2016 EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(19)	1,045	-	-	-	-	1,026
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(72,157)	(31,528)	(12,731)	-	-	-	(116,416)
inflow	72,343	33,104	12,793	-	-	-	118,240

Comparison of contractual undiscounted cash flows and carrying values of derivatives

	EUR 000's			
	2017 Group	2016 Group	2017 Bank	2016 Bank
Contractual undiscounted cash flows of derivatives	(724)	2,830	(654)	2,850
Carrying value of derivatives	(760)	2,766	(687)	2,787

Capital management

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

Capital adequacy refers to the sufficiency of the Group's capital resources to cover credit risks, market risks and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The Financial and Capital Markets Commission's (FCMC's) regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also require 4.5% minimum common equity tier 1 capital ratio and 6.0% minimum tier 1 capital ratio. The FCMC has also issued a regulation which introduces "total SREP capital requirement" (TSCR) concept. TSCR concept implies increase in capital requirements to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the national supervisory authority. The national supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations, and other relevant inputs. As at 31 December 2017 based on the FCMC's assessment an additional 2.50% capital requirement for the Group and an additional 2.20% capital requirement for the Bank is determined to cover pillar 2 risks. The additional pillar 2 capital requirement is applicable till 31 December 2018 after which a re-assessed requirement will be announced by the FCMC. The Bank and the Group is required to cover 56% of the additional pillar 2 capital requirements with common equity tier 1 capital, 75% with tier 1 capital and 100% with total capital.

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

The Bank has subsidiaries, which are financial institutions, and needs to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As at 31 December 2017, both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements.

The Group's regulatory capital requirements as at 31 December 2017:

	Common equity Tier 1 capital ratio	**Tier 1 capital ratio**	**Total capital adequacy ratio**
Common equity tier 1 ratio	4.50%	4.50%	4.50%
Additional tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Individual TSCR, as determined by the FCMC *	1.40%	1.88%	2.50%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer **	0.75%	0.75%	0.75%
Countercyclical capital buffer	-	-	-
Capital requirement	**9.15%**	**11.13%**	**13.75%**

* The Bank's TSCR, as determined by the FCMC is 2.20% from which 1.23% is required to be covered with common equity tier 1 capital (56% from total TSCR), 1.65% with tier 1 capital (75% from total TSCR) and 2.20% with total capital (100% from total TSCR). Other capital requirements and buffers for the Bank are the same as for the Group.
** O-SII capital buffer of 1.50% applicable from 30 June 2018 instead of the current 0.75% (for the Bank and the Group).

The capital adequacy calculation of the Bank and the Group in accordance with FCMC regulations (Basel III framework, Pillar I as implemented by EU and FCMC):

	EUR 000's			
	31/12/2017 Group*	31/12/2016 Group*	31/12/2017 Bank	31/12/2016 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	106,429	95,568	81,827	80,571
Deductible other intangible assets	(4,139)	(3,052)	(3,877)	(2,762)
Other capital components, deductions and transitional adjustments, net	2,670	(7,069)	296	(5,221)
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	53,254	60,000	53,254
Total own funds	**321,516**	**295,257**	**294,802**	**282,398**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,496,213	1,556,442	1,283,761	1,302,112
Total exposure amounts for position, foreign currency open position and commodities risk	7,887	9,894	3,858	4,598
Total exposure amounts for operational risk	236,078	223,140	184,054	177,374
Total exposure amounts for credit valuation adjustment	1,138	1,109	1,138	1,109
Total risk exposure amount	**1,741,316**	**1,790,585**	**1,472,811**	**1,485,193**
Total capital adequacy ratio	**18.4%**	**16.5%**	**20.0%**	**19.0%**
Common equity Tier 1 capital ratio	**15.0%**	**13.5%**	**15.9%**	**15.4%**

* The consolidation Group for regulatory purposes is different from the consolidation Group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidation group for capital adequacy purposes. Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Capital adequacy calculation of the Bank and the Group in accordance with the FCMC regulations comprises several transitional adjustments as implemented by the EU and the FCMC. Some of the transitional adjustments are expected to have a diminishing favourable impact on the Bank's and the Group's capital adequacy ratio for several years in the future. For 2018 and later periods additional transitional provisions apply. The regulation (EU) 2017/2395 for Capital adequacy calculation purposes permits specific proportion of IFRS 9 implementation impact to be amortised in five years period. IFRS 9 if it was effective as at 31 December 2017 and no transitional provisions were applied would have a 0.2pp negative impact on the Group's capital adequacy ratio. The guideline (EU) 2017/697 of the European Central Bank to national competent authorities starting from 1 January 2018 require exclusion of 80% of the deferred tax assets that rely on future profitability and 100% exclusion starting from 1 January 2019. As at 31 December 2017, according to the regulation's (EU) 575/2013 transitional rules and in line with national discretions, 30% of the deferred tax assets that rely on future profitability are excluded from the regulatory capital. If guideline (EU) 2017/697 were applicable to the Group as at 31 December 2017 additional 50% part of EUR 1,514 thousand deferred tax asset would be excluded from the regulatory capital. The Group's and the Bank's long term regulatory capital position is planned and managed in line with the expected upcoming regulatory requirements.

The Bank's and the Group's fully loaded (i.e. excluding any transitional adjustments) capital adequacy ratio:

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Bank	31/12/2016 Bank
Common equity Tier 1 capital, fully loaded	261,671	227,027	235,383	213,418
Tier 2 capital	60,000	53,254	60,000	53,254
Total own funds, fully loaded	**321,671**	**280,281**	**295,383**	**266,672**
Total risk exposure amount, fully loaded	**1,741,316**	**1,790,585**	**1,472,811**	**1,485,193**
Total capital adequacy ratio, fully loaded	**18.5%**	**15.7%**	**20.1%**	**18.0%**
Common equity Tier 1 capital ratio, fully loaded	**15.0%**	**12.7%**	**16.0%**	**14.4%**

Minimum requirement for own funds and eligible liabilities (MREL) under BRRD

On 23 May 2016 the European Commission adopted the regulatory technical standards ("RTS") on the criteria for determining the minimum requirement for own funds and eligible liabilities ("MREL") under BRRD. In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD, BRRD requires that all institutions must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, with effect from 1 January 2016. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements. The MREL requirement for each institution will be comprised of a number of elements, including the required loss absorbing capacity of the institution (which will, as a minimum, equate to the institution's capital requirements under CRD IV, including applicable buffers), and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process. Items eligible for inclusion in MREL will include an institution's own funds (within the meaning of CRD IV), along with "eligible liabilities", meaning liabilities which inter alia, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives. As at 31 December 2017 SRB has not yet announced Citadele's individual MREL requirements.

Operational risk

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

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

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

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

The Group aims to avoid operational risks with a potential impact which exceeds 10% of its net annual revenue and has a higher probability of occurrence than once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

The Group applies following approaches for operational risk management:

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

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

NOTE 35. EVENTS AFTER THE BALANCE SHEET DATE

Early repayment of subordinated liabilities to EBRD

On 8 February 2018, AS Citadele banka made an early repayment of the EUR 18.4 million subordinated liabilities outstanding and the accrued interest to the EBRD. This was made possible by previously issued subordinated bonds in the amount of EUR 20 million. The aim of the subordinated bond issuance, among others, was early repayment of the outstanding amount of subordinated debt to EBRD. The remaining proceeds from the issuance are planned to be used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics.

Recent developments in the Latvian banking market

On 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ('FinCEN') issued a finding and notice of proposed rulemaking ('NPRM'), pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia's largest banks. On 19 February 2018, following an outflow of funds from this institution, the European Central Bank ('ECB') instructed the local banking regulator to impose a moratorium on outgoing payments from that bank. On 17 February 2018, a high government official was detained by Latvia's anti-corruption authorities ('KNAB') in a bribery-linked allegation case. Both events have an impact on the banking sector in Latvia, and its international reputation.

The management of the Bank and the Group is continuously monitoring and assessing the market situation, and potential impact of the above market developments on the Bank and the Group, if any. Based on information available to the management at the date of this report, the management is confident that the measures in place at the Bank are sufficient, appropriate, and operations of the Bank and the Group are not affected significantly. The management is extending its support to stabilize the market situation and believes that the Bank will come out stronger after the situation has stabilized.

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" ("the Bank") and the accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 11 to 73 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2017,
- the separate and consolidated income statement for the year then ended,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2017, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

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

Impairment of loans (consolidated and separate financial statements)

Key audit matter	***Our response***
The gross amount of loans in the consolidated financial statements as at 31 December 2017: EUR 1 409.1 million; impairment losses on loans recognised in 2017: EUR 16.1 million; total impairment loss as at 31 December 2017: EUR 78.5 million. The gross amount of loans in the separate financial statements at 31 December 2017: EUR 1 186.4 million; impairment losses on loans recognised in 2017: EUR 15.0 million; total impairment loss as at 31 December 2017: EUR 69.2 million. *We refer to the financial statements: Note 3 (n) and (ff) (accounting policy), Notes 9, 14 and 34 (financial disclosures).* We identified this area as a key audit matter during our audit because recognition of allowances for loan impairment is associated with significant estimation uncertainty as it requires the management to exercise judgment and develop assumptions about both the timing of recognition and the amounts of any such impairment. As required by the relevant financial reporting standards, the Bank and the Group perform the assessment both at the level of individual loan exposures and on a collective basis. Individual impairment allowances recognized by the Bank and other entities within the Group mostly relate to large, individually monitored, corporate exposures. The assessment is therefore based on the knowledge about each individual borrower and often on estimation of the fair value of the related collateral. Collective allowances are predominantly related to smaller loan exposures and reflect both already identified credit losses and also losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is	Our audit procedures included, among others: • testing of controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment allowances. For loans assessed on an individual basis: • For a sample of loans with higher risk characteristics, such as individually significant exposures to borrower groups, watchlist exposures, restructured loans or exposures with delinquencies, critically assessing, by reference to the underlying loan files, and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers; • where impairment triggers had been identified, challenging key assumptions applied, such as discount rates, collateral values (by involving our own valuation specialists), forecasted business performance as well as, where applicable, collateral sales costs and sales periods used in the forecasts of future cash flows provided as a basis for the assessment of loan impairment. For loans to individuals and other exposures assessed for collective impairment: • testing the underlying collective impairment models, including back testing performed and the completeness and accuracy of underlying data for calculation, and assessing the key collective impairment model parameters, such as the probability of default and loss given default.

determined by modelling techniques and estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators such as the probability of default and loss given default.

- critically assessing the reasonableness of the collective impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage.

Impairment of investments in subsidiaries (separate financial statements)

Key audit matter

The gross amount of investments in subsidiaries in the separate financial statements as at 31 December 2017: EUR 113.4 million; impairment loss reversal recognised in 2017: EUR 1.1 million; total impairment loss as at 31 December 2017: EUR 48.7 million.

We refer to the financial statements: Note 3 (x) and (ff) (accounting policy), Note 9 and 18 (financial disclosures).

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

The determination of the recoverable amounts of investments in subsidiaries is a process that requires management to make subjective judgements, including those in respect of future operating cash flows, growth rates and discount rates. The above estimation uncertainty was particularly high in respect of the Bank's subsidiary in Lithuania, AB Citadele bankas. The investment's gross balance in the Bank's accounts is EUR 43.8 million, partly offset by a recognised impairment allowance of EUR 7.2 million.

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

Our response

Our procedures included, among others:

- checking the mathematical accuracy of the models used;
- evaluating the reasonableness of management's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiaries' performance with the Bank's finance function officers, and assessing their strategies and historical profitability against past forecasts;
- for investments with identified impairment indicators, with the involvement of our own valuation specialists, assessing the Bank's assumptions and estimates, applied to determine the investments' recoverable amounts. Our assessment covered, among other things:
  - evaluating the appropriateness of the impairment models used for the assets in question against the requirements of the relevant financial reporting standards;
  - challenging the reasonableness of the assumptions applied, such as growth rates, discount rates,;
  - evaluating the historic reliability of the Bank's forecasts by comparing actual performance against previous forecasts.
- also with the involvement of our own valuation specialists, performing an independent sensitivity analysis of impairment tests' results to changes in key assumptions, such as, primarily, growth and discount rates.

- considering the adequacy of the Bank's disclosures related to the assumptions and significant judgements used at estimating recoverable amounts of investments in subsidiaries.

Reporting on Other Information

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

- Key figures as set out on page 2 of the accompanying Annual Report ("Annual Report"),
- the Management Report, as set out on pages 4 to 9 of the Annual Report,
- the Statement of the Management's Responsibility, as set out on page 10 of the Annual Report,
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv,
- Sustainability Report, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv

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

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

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

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

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

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

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

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.2, third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section $56.^2$ third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the annual shareholders' meeting on 10 March 2017 to audit the separate and consolidated financial statements of AS "Citadele banka" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2013 to 31 December 2017.

We confirm that:

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

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

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
21 February 2018

Rainers Vilāns
Latvian Certified Auditor
Certificate No. 200

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