

AS Citadele banka

Interim financial information

for the six months period
ended 30 June 2018

**More
opportunities**

**=
Citadele**

KEY FIGURES

EUR millions	Group				
	H1 2018	H2 2017	Change ⁽¹⁾	H1 2017	Change ⁽¹⁾
Net interest income	39.9	39.1	2%	36.2	10%
Net fee and commission income	17.0	17.4	(3%)	19.3	(12%)
Operating income ⁽²⁾	65.3	68.1	(4%)	64.4	1%
Net credit losses	(1.9)	(6.3)	(71%)	(7.3)	(75%)
Net profit	18.0	0.9	1812%	15.0	20%
Return on average assets ⁽³⁾	1.13%	0.06%	1.08pp	0.90%	0.23pp
Return on average equity ⁽⁴⁾	13.1%	0.7%	12.4pp	11.5%	1.7pp
Cost to income ratio ⁽⁵⁾	69.1	64.4	4.7pp	64.3	4.8pp
Cost of risk ratio ⁽⁶⁾	0.3%	0.9%	(0.6pp)	1.1%	(0.8pp)
<i>Adjusted for major one-time items⁽⁷⁾:</i>					
Net profit	18.0	16.5	9%	15.0	20%
Return on average assets ⁽³⁾	1.13%	1.00%	0.14pp	0.90%	0.23pp
Return on average equity ⁽⁴⁾	13.1%	12.2%	0.9pp	11.5%	1.7pp
EUR millions	Group				
	H1 2018	H2 2017	Change	H1 2017	Change
Total assets	3,043	3,312	(8%)	3,291	(8%)
Loans to public	1,360	1,331	2%	1,323	3%
Deposits and borrowings from customers	2,649	2,917	(9%)	2,910	(9%)
Shareholders' equity	279	269	4%	270	3%
Loan-to-deposit ratio ⁽⁸⁾	51%	46%	6pp	45%	6pp
Total capital adequacy ratio (CAR) ⁽⁹⁾	18.0%	18.4%	(0.4pp)	16.7%	1.3pp
Common equity Tier 1 capital ratio (CET1) ⁽⁹⁾	14.6%	15.0%	(0.4pp)	13.8%	0.8pp
Full time employees	1,544	1,540	0%	1,635	(6%)

- (1) Figures in the column "Change" represent change in the respective figure in comparison period versus the current period.
- (2) Operating income consists of the following income statement items: "Net interest income", "Net fee and commission income", "Net financial income", and "Net other income".
- (3) 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.
- (4) 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.
- (5) Cost to income ratio (CIR) is calculated as "Staff costs" plus "Other operating expenses" plus "Depreciation and amortisation" divided by "Operating income".
- (6) Cost of risk ratio (COR) is calculated as "Net credit losses" divided by the average of gross loans at the beginning and the end of the period.
- (7) H2 2017 adjusted for one-time EUR 23.2 million write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime and EUR 7.7 million reversal of impairment on property and equipment.
- (8) Loan-to-deposit ratio is calculated as the carrying value of "Loans to public" divided by "Deposits and borrowings from customers" at the end of the relevant period.
- (9) CAR and CET1 ratios calculated by applying transitional rules.

CONTENTS

Management Report	
Letter from the Management	4
Corporate Governance	6
Statement of the Management's Responsibility	7
Condensed Interim Financial Statements:	
Condensed Interim Income Statement	8
Condensed Interim Statement of Comprehensive Income	9
Condensed Interim Balance Sheet	10
Condensed Interim Statement of Changes in Equity	11
Condensed Interim Statement of Cash Flows	12
Notes to the Condensed Interim Financial Statements	13
Contact Details	52

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

During the first half of 2018, the Citadele Group (henceforth – the Group) continued to expand its core business segments in the Baltics with improved daily banking services and innovative solutions for our customers.

The Group's **net profit** in the period was EUR 18.0 million, a 20% increase versus the same period in 2017. The Group's **return on equity** grew to 13.1% from 11.5% in the first half year 2017, and **return on assets** improved to 1.1% from 0.9% in the same period last year.

The Group's **net interest income** increased by EUR 3.7 million compared to the first half of 2017, reaching EUR 39.9 million. The increase was primarily driven by loan portfolio growth, and some improvements in portfolio margins as well. The **loan portfolio** increase was mainly driven by business activities in the retail segment and leasing portfolios in Latvia and Lithuania, and was partially offset by seasonal slowdowns in corporate lending and credit line utilization. The total loan portfolio increased by EUR 29 million in the first half of 2018 over year end.

The Group's **net fee and commission income** in the first half of 2018 was EUR 17.0 million, which was EUR 2.3 million lower than the first half of 2017. This was driven by changes in the Group's non-resident business and the sale of SIA CBL Cash Logistics subsidiary in 2017. This decline was partially offset by an increase in income from the cards business during the period.

The Group's **operating income** increased by EUR 0.9 million compared to the first half of 2017, reaching EUR 65.3 million. The higher income from loan volume growth was partially offset by the decrease in net fee and commission income.

In-line with Citadele's strategy to become the leading banking services provider in the Baltics, Citadele continued to invest in its digital banking technologies and staff. As a result, the Group's **operating expense** increased.

ONGOING PRUDENT RISK AND LIQUIDITY MANAGEMENT

The Group strengthened its prudential diligence with a capital adequacy ratio of 18.0%, compared with 16.7% as at 30 June 2017. The Group's liquidity position also remains strong, with the Group's LCR at 279% and its loan-to-deposit ratio at 51% as at 30 June 2018.

NEW OPPORTUNITIES FOR CITADELE'S CLIENTS

During the first six months of 2018 the Group continued to launch and improve innovative digital solutions, products and services to meet customer expectations in multiple channels: improved online banking and mobile app, continued upgrades to contactless payment terminals and new touchscreen ATMs. Citadele became the first bank in Latvia with mobile app payment confirmation using facial recognition. Also, Face ID and Touch ID for mobile app log-in, payments and card security management were introduced for fast, convenient and secure client interaction. A new kind of debit card in Latvia – X smart – was introduced.

CBL Asset Management launched new pension plan – Millennials

Citadele Bank's subsidiary CBL Asset Management launched a new pension plan "CBL Millennials Life Cycle Plan". The plan has an investment strategy that over time dynamically adjusts to the clients' age, and comes with lower management fees. The new pension plan was specially developed for those born between 1980 and 1990.

The Bank updates microloan functionality

To support small business customers and to make banking easier, Citadele was the first Bank in the Baltics to introduce a new online tool to determine individual credit ratings for businesses – similar to the Bank's previously introduced individual credit rating functionality for private customers.

Citadele's new feature enables SME clients to focus more on their businesses by easily determining their eligibility and terms for a microloan online. The online tool enables any Latvian SME business to quickly discover its available lending amount as well as the offered interest rate, regardless of its primary bank.

More mortgage options

To support small business customers and to make banking easier, Citadele was the first Bank in the Baltics to introduce a new online tool to determine individual credit ratings for businesses – similar to the Bank's previously introduced individual credit rating functionality for private customers.

Citadele's new feature enables clients to focus more on their businesses by easily determining their eligibility and terms for a microloan online. The online tool enables any Latvian small businesses to quickly discover its available lending amount as well as the offered interest rate, regardless of its primary bank.

OTHER NOTABLE DEVELOPMENTS

Bank's operations were positively viewed by Moody's. International credit rating agency Moody's Investors Service on 26 February 2018 published a report stating that Citadele is well-positioned to withstand pressure that could arise from events affecting the Latvian banking sector. Moody's noted that Citadele has grown primarily in the Baltic countries in recent years by focusing on consumer and small business lending and has maintained its liquid assets over tangible banking assets above 52% (Moody's liquidity ratio).

Moody's Investors Service published an update to their credit analysis on 27 April 2018, maintaining its positive outlook and noting that the Bank has built a sustainable franchise that can support continued growth. Previously in 2017, Moody's Investors Service upgraded Citadele's long-term rating by two notches: from B2 to Ba2.


In 2018 Citadele has undertaken independent external AML audit. It was noted that **Citadele implemented leading practices, which demonstrate its position as a leader in AML compliance in the Baltic region.**


From 3 March 2018, Citadele was entrusted by Financial Capital Market Commission to facilitate payouts of state-guaranteed compensation to AS ABLV Bank depositors. Within four months, compensation was paid to around 8 thousand clients amounting to EUR 212.5 million, or 45% of the total amount payable. Citadele's strong reputation in AML and compliance with the Bank's zero-tolerance approach, as well as previous experience in collaboration with the Deposit Guarantee Fund, were the major reasons why the Bank was entrusted with this task.

Citadele Bank has been invited to the advisory group lead by Latvian Prime Minister Māris Kučinskis. The Bank has been providing its experience and expertise to support changes to help restore the reputation of the Latvian financial sector.

AS Citadele banka (Latvia) decided to change the legal status of AB Citadele bankas (Lithuania) from subsidiary to branch. Citadele received permission from the regulators in Lithuania and Latvia to transform AB Citadele bankas (Lithuania) into a branch. This decision will ensure operational efficiency across the Group and continue to allow Citadele to maximize its client offerings and service output across the Baltics in a single platform. During the reorganization, all assets, liabilities and other items of AB Citadele bankas (Lithuania) will be transferred to the branch, and the merger is expected to be completed at the beginning of 2019.

Sincerely,



Guntis Bejavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Rīga,
29 August 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.

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

There were no changes in the Supervisory Board of the Bank during the reporting period.

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
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
Kaspars Jansons	Member of the Management Board	Chief Operations Officer

On 29 January 2018 the Bank received Financial and Capital Market Commission’s 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. On 26 April 2018, the Supervisory Board of the Bank approved Kaspars Jansons as Member of the Management Board and Chief Operations Officer effective from 22 June 2018. Prior to this, Kaspars Cikmačs (former Member of the Management Board and Chief Operations Officer) had informed the Supervisory Board on his resignation. Kaspars Cikmačs was Member of the Management Board till 21 June 2018.

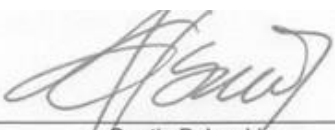
STATEMENT OF MANAGEMENT'S RESPONSIBILITY

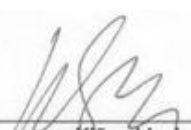
The Management of AS Citadele banka (hereinafter – the Bank) is responsible for the preparation of the condensed interim financial information of the Bank as well as for the preparation of the condensed interim consolidated financial information of the Bank and its subsidiaries (hereinafter – the Group).

The condensed interim financial information set out on pages 8 to 51 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 30 June 2018 and 2017 and the results of their operations, changes in shareholders' equity and cash flows for the six months period ended 30 June 2018 and 30 June 2017. 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 condensed interim financial information is prepared on a going concern basis in accordance with IAS 34 Interim Financial Reporting 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 Bejavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Rīga,
29 August 2018

INCOME STATEMENT

		EUR 000's				
		Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank	
Notes						
	Interest income	4	47,829	46,097	36,476	35,394
	Interest expense	4	(7,934)	(9,858)	(6,918)	(8,310)
	Net interest income		39,895	36,239	29,558	27,084
	Fee and commission income		28,132	28,664	20,870	20,744
	Fee and commission expense		(11,132)	(9,383)	(9,854)	(8,631)
	Net fee and commission income		17,000	19,281	11,016	12,113
	Net financial income	5	6,575	7,591	5,597	6,756
	Net other income		1,793	1,289	1,289	1,692
	Operating income		65,263	64,400	47,460	47,645
	Staff costs		(27,341)	(24,341)	(20,796)	(17,252)
	Other operating expenses		(14,798)	(14,495)	(12,274)	(11,108)
	Depreciation and amortisation		(2,961)	(2,548)	(1,503)	(1,269)
	Operating expense		(45,100)	(41,384)	(34,573)	(29,629)
	Profit before impairment		20,163	23,016	12,887	18,016
	Net credit losses	6	(1,847)	(7,305)	(102)	(6,603)
	Impairment of tangible and intangible assets	7	(214)	757	(96)	(182)
	Operating profit		18,102	16,468	12,689	11,231
	Income tax	8	(112)	(1,446)	(49)	(975)
	Net profit		17,990	15,022	12,640	10,256
	Basic earnings per share in EUR		0.11	0.10	0.08	0.07
	Weighted average number of shares outstanding during the period in thousands	15	156,556	156,556	156,556	156,556

The notes on pages 13 to 51 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Net profit	17,990	15,022	12,640	10,256
Other comprehensive income items that are or may be reclassified to profit or loss:				
<i>Fair value revaluation reserve</i>				
Fair value revaluation reserve charged to statement of income	(93)	(232)	(82)	(214)
Change in fair value (in 2018 only debt securities)	(2,097)	1,429	(1,437)	1,147
Deferred income tax charged / (credited) directly to equity	59	(97)	-	(56)
<i>Other reserves</i>				
Foreign exchange retranslation	224	(374)	-	-
Other comprehensive income items that may not be reclassified to profit or loss:				
<i>Fair value revaluation reserve</i>				
Change in fair value of equity and similar instruments	398	-	397	-
Other comprehensive income / (loss)	(1,509)	726	(1,122)	877
Total comprehensive income	16,481	15,748	11,518	11,133

Other comprehensive income / (loss) exclude day one impact from asset transfer to / from fair value when implementing new IFRSs. For details refer to "Statement of changes in equity" and Note 3.

The notes on pages 13 to 51 are an integral part of these financial statements.

BALANCE SHEET

	Notes	EUR 000's			
		30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Assets					
Cash and cash balances at central banks		395,720	715,468	352,150	494,848
Loans to credit institutions		177,854	151,276	122,638	205,292
Debt securities	9	971,092	979,513	607,787	619,938
Loans to public	10	1,360,406	1,330,595	1,134,794	1,117,190
Equity instruments	11	2,841	2,444	2,825	2,428
Other financial instruments	11	33,981	37,157	6,170	6,371
Derivatives		3,165	2,406	3,172	2,481
Investments in subsidiaries	12	-	-	64,686	64,725
Tangible and intangible assets		55,713	55,364	9,892	8,871
Tax assets	8	2,111	1,558	-	-
Other assets		40,545	35,987	28,017	23,285
Total assets		3,043,428	3,311,768	2,332,131	2,545,429
Liabilities					
Deposits from credit institutions and central banks		13,451	23,536	40,163	78,578
Deposits and borrowings from customers	13	2,649,438	2,917,148	1,959,600	2,144,468
Debt securities issued	14	59,983	59,981	59,983	59,981
Derivatives		1,727	3,166	1,727	3,168
Provisions	6	4,387	893	3,623	334
Tax liabilities	8	740	1,693	31	832
Other liabilities		34,798	36,456	20,193	18,173
Total liabilities		2,764,524	3,042,873	2,085,320	2,305,534
Equity					
Share capital	15	156,556	156,556	156,556	156,556
Reserves and other capital components		2,828	5,325	(1,465)	1,511
Retained earnings		119,520	107,014	91,720	81,828
Total equity		278,904	268,895	246,811	239,895
Total liabilities and equity		3,043,428	3,311,768	2,332,131	2,545,429
Off-balance sheet items					
Contingent liabilities	16	28,164	29,422	23,951	25,252
Financial commitments	16	340,068	236,157	399,871	287,455

The notes on pages 13 to 51 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity:

	EUR 000's					Total equity
	Issued Share capital	Securities fair value revaluation reserve	Foreign currency retranslation	Other reserves	Retained earnings	
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
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	17,990	17,990
Other comprehensive income / (loss) for the period	-	(1,733)	224	-	-	(1,509)
Transactions with shareholders						
Transfer to reserves *	-	-	-	406	(406)	-
Day one impact from implementation of new IFRSs (Note 3)	-	-	-	-	(5,078)	(5,078)
Day one impact from asset transfer to/from fair value when implementing new IFRSs (Note 3)	-	(1,394)	-	-	-	(1,394)
Balance as at 30/06/2018	156,556	(966)	2,481	1,313	119,520	278,904

* 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.

Changes in the Bank's equity:

	EUR 000's			Total equity
	Issued share capital	Securities fair value revaluation reserve	Retained earnings	
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
Total comprehensive income for the period				
Net profit for the period	-	-	12,640	12,640
Other comprehensive income / (loss) for the period	-	(1,122)	-	(1,122)
Transactions with shareholders				
Day one impact from implementation of new IFRSs (Note 3)	-	-	(2,748)	(2,748)
Day one impact from asset transfer to/from fair value when implementing new IFRSs (Note 3)	-	(1,854)	-	(1,854)
Balance as at 30/06/2018	156,556	(1,465)	91,720	246,811

The notes on pages 13 to 51 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		EUR 000's			
		Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
		Group	Group	Bank	Bank
	Notes				
Operating activities					
		18,102	16,468	12,689	11,231
		Operating profit before tax			
	4	(47,829)	(46,097)	(36,476)	(35,394)
		Interest income			
	4	7,934	9,858	6,918	8,310
		Interest expense			
		(16)	(21)	(16)	(21)
		Dividends income			
		2,961	2,548	1,503	1,269
		Depreciation and amortisation			
	6, 7	2,061	6,548	198	6,785
		Impairment allowances and provisions			
		(5,215)	47,268	(465)	37,245
		Currency translation and other non-cash items			
Cash flows from the income statement		(22,002)	36,572	(15,649)	29,425
		(33,561)	(89,843)	(18,778)	(68,726)
		(Increase) / decrease in loans to public			
		(285,837)	(48,127)	(203,232)	(7,175)
		(Increase) / decrease in deposits and borrowings from customers			
		(30,285)	(3,338)	(21,246)	(75)
		(Increase) / decrease in loans to credit institutions			
		23,016	(1,137)	(17,411)	(55,523)
		Increase / (decrease) in deposits from credit institutions			
		(2,198)	(14,030)	(2,132)	5,122
		(Increase) / decrease in other items at fair value through profit or loss			
		(4,701)	(14,569)	(4,391)	(16,734)
		(Increase) / decrease in other assets			
		(3,164)	(171)	1,219	(703)
		Increase / (decrease) in other liabilities			
Cash flows from operating activities before interest and corporate income tax		(358,732)	(134,643)	(281,620)	(114,389)
		48,127	45,791	36,974	35,068
		Interest received			
		(6,769)	(11,363)	(5,775)	(9,887)
		Interest paid			
		(251)	(396)	(34)	(14)
		Corporate income tax paid			
Cash flows from operating activities		(317,625)	(100,611)	(250,455)	(89,222)
Investing activities					
		(4,103)	(1,362)	(3,248)	(1,215)
		Acquisition of tangible and intangible assets			
		17	38	1	13
		Disposal of tangible and intangible assets			
		(314,742)	(267,526)	(172,677)	(229,971)
		Investments in debt securities and other financial instruments			
		329,743	283,724	184,160	234,133
		Proceeds from debt securities and other financial instruments			
		16	21	16	21
		Dividends received			
		-	-	24	162
		Sale or investments in subsidiaries			
Cash flows from investing activities		10,931	14,895	8,276	3,143
Financing activities					
		(18,400)	(34,728)	(18,400)	(34,728)
		Repayment of subordinated liabilities			
		(2,599)	(980)	(2,599)	(980)
		Interest paid on debt securities and other subordinated liabilities			
Cash flows from financing activities		(20,999)	(35,708)	(20,999)	(35,708)
Cash flows for the period		(327,693)	(121,424)	(263,178)	(121,787)
Cash and cash equivalents at the beginning of the period		858,773	935,434	694,808	784,180
Cash and cash equivalents at the end of the period		531,080	814,010	431,630	662,393

The notes on pages 13 to 51 are an integral part of these financial statements.

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 2017 or for the six months period ended 30 June 2017, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 24 August 2018 and the Supervisory Board on 29 August 2018 and comprise the financial information of AS Citadele banka (hereinafter – the Bank) and its subsidiaries (together – the Group).

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 30 June 2018, the Bank was operating a total of 31 (2017: 31) branches and client service centres in Riga and throughout Latvia. The Bank has 1 (2017: 1) foreign branch in Tallinn (Estonia). The Bank owns directly and indirectly 20 (2017: 21) 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 of 30 June 2018, the Group had 1,544 (2017: 1,540) and the Bank had 1,188 (2017: 1,173) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

This interim condensed financial information is prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by EU on a going concern basis. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in financial position and performance of the Group and Bank since the last annual consolidated and Bank financial statements for the year ended 31 December 2017. They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS as adopted by European Union. This interim condensed financial information should be read in conjunction with the 2017 annual financial statements for the Group and the Bank.

Certain new or revised standards become effective from 1 January 2018, thus certain accounting policies were updated and revised. Other accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRS as adopted by EU. The new accounting standard implementation impact and revised accounting policies are described below.

b) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2018. 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 2018 was implemented for these consolidated financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

IFRS 9 – Financial Instruments (replaces IAS 39). When implementing IFRS 9 the Group and the Bank elected not to restate prior periods. During the implementation process, the Group was working on the necessary processes, systems, models and capabilities upgrades. The Group had set up an internal IFRS 9 implementation project. The implementation team was 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 was Group wide. External competence was attracted where and when deemed necessary. Within the scope of the project, the Group reworked models, IT systems, processes and documentation which were followed by final testing and validation. 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 assessed assets for 'solely payment of principal and interest (SPPI)' principle for amortised cost classification under the new standard. Re-assessment of business models in the context of the new standard is basis for classification and measurement. Procedures were developed. On initial implementation the changes in classification for the Group mostly concerned securities exposures. Also as a result of reclassification the way and timing of recognition of revaluation gains was impacted.

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. Periodic 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 performed by comparing the actual historical performance of portfolio with 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 exposures from stage 1 to stage 2) augmented by other additional risk factors (e.g. internal credit rating grade, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to stage 2. The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikelihood to pay indicators. The 'default' is the criteria for transfer to stage 3. Prior to implementation, the Bank had a parallel run of expected credit loss model since mid-2017 to assist in calibration and model fine-tuning.

The major areas impacted are impairment and provision levels due to introduction of expected credit loss concept, reclassification of debt securities as a result of re-assessment of business models, and re-measurement of financial instruments at amortised cost due to changed classification. Impairment increase mostly relates to card products and off-balance sheet commitments. The total implementation effect led to a reduction in the shareholders equity on implementation date.

IFRS 9 implementation impact on financial assets by class of financial instruments:

EUR 000's											
Group											
	Cash, balances at central banks and credit institutions				Debt securities		Loans to public		Equity and other financial instruments	Derivatives	Off balance sheet less provisions
According to IAS 39 as at 31/12/2017:											
Measurement category ¹	LaR	FVTPL and HFT	HTM	AFS	LaR	FVTPL and HFT	AFS	HFT	-	-	
Carrying amount	866,744	129,468	-	850,045	1,330,595	30,785	8,816	2,406	265,345	-	
IFRS 9 day-one implementation impact:											
Reclassifications	-	(129,468)	539,198	(409,730)	-	-	-	-	-	-	
Expected credit losses	(13)	-	(288)	-	(1,319)	-	-	-	(4,118)	-	
Changes in measurement	-	-	(1,164)	-	471	-	-	-	-	-	

According to IFRS 9 as at 01/01/2018:

	AmC	FVTPL	AmC	FVTOCI	AmC	FVTPL	FVTOCI	FVTPL	-
Measurement category ²	AmC	FVTPL	AmC	FVTOCI	AmC	FVTPL	FVTOCI	FVTPL	-
Carrying amount	866,731	-	537,747	440,315	1,329,747	30,785	8,816	2,406	261,227

1) IAS 39 measurement category abbreviations: LaR – loans and receivables, FVTPL – at fair value through profit or loss, HTM – held to maturity, AFS – available for sale, HFT – held for trading.

2) IFRS 9 measurement category abbreviations: AmC – at amortised cost, FVTPL – at fair value through profit or loss, FVTOCI – at fair value through other comprehensive income.

EUR 000's										
Bank										
	Cash, balances at central banks and credit institutions			Debt securities		Loans to public		Equity and other financial instruments	Derivatives	Off balance sheet less provisions
According to IAS 39 as at 31/12/2017:										
Measurement category ¹	LaR	HTM	AFS	LaR	AFS	HFT	-	-	-	-
Carrying amount	700,140	-	619,938	1,117,190	8,799	2,481	312,473	-	-	-
IFRS 9 day-one implementation impact:										
Reclassifications	-	421,013	(421,013)	-	-	-	-	-	-	-
Expected credit losses	(1)	(231)	-	(636)	-	-	(3,687)	-	-	-
Changes in measurement	-	(517)	-	471	-	-	-	-	-	-
According to IFRS 9 as at 01/01/2018:										
Measurement category ²	AmC	AmC	FVTOCI	AmC	FVTOCI	FVTPL	-	-	-	-
Carrying amount	700,139	420,264	198,925	1,117,025	8,799	2,481	308,786	-	-	-

The Group and the Bank for loan commitments and financial guarantee contracts recognises expected loan loss allowance as a provision. When implementing IFRS 9 for the Group and the Bank EUR 1,387 thousand impairment allowances on investments in mutual investment funds previously recognised in profit and loss were transferred to securities fair value revaluation reserve in other comprehensive income.

IFRS 15 – Revenue from contracts with customers. The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Bank and the Group adopted 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. Majority of the 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 has no significant impact. Customer loyalty programs are accounted for differently under the new standard; the revenue deemed to be generated from customer loyalty programs now is recognised only when the performance objective is achieved i.e. when the loyalty points are converted to the services or products by the client. This has no material impact on the net income or total assets or total liabilities of the Bank and the Group as deemed mark-up on such transactions is negligible.

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 2018 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 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 from 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. Most of the contracts may be early terminated by the Group or lessor; some other 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. Most of the contracts may be early terminated by the Group, but this is mostly disregarded in the estimate as currently there is no such intention. However, early termination clauses by lessor may not be ignored as these are beyond the control of the Group and thus are considered for the estimate. For estimated impact of IFRS 16 for the Group as a lessee refer to the annual report for 2017.

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

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.

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.

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) 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. Revenue from customers, including other fee and commission income, are credited and charged to the statement of income over time or at a point in time, as applicable. Over time revenue recognition is proportional to progress towards satisfying a performance obligation by transferring control of promised services to a customer. Revenue which does not qualify for recognition over time is recognised at a point in time when the service is rendered or product sold.

Penalty income is recognised on cash-received basis.

e) Income tax

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. The Group's Latvian and Estonian companies pay income tax on profit distribution (e.g. dividends). Correspondingly, for these Group's companies, income tax on profit distribution is recognised as expense only 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, which in Latvia is 0%. 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 current circumstances.

f) Financial instruments classification and measurement

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 IFRS 9 are classified as either subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated 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 business model and contractual cash flow criteria. The business model is observable through the activities of the Group. It refers to how the Group typically manages its financial assets in order to generate cash flows; thus, the assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur. In a stress case, if cash flows are realised in a way that is different from the Group's expectations embedded in the business model, it does not give rise to a prior period error nor does it change the classification of the remaining financial assets held in that business model. However, for future acquisitions past cash flows are considered and may give rise for change in the business model.

At initial recognition, the financial assets or financial liabilities are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. 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 de-recognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. 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 effective interest rate. The effective interest rate is applied to the gross carrying amount of a financial asset except for credit-impaired financial assets. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition. For financial assets which subsequently become credit-impaired the effective interest rate is applied to the revised after impairment carrying amount and where the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired, the effective interest rate is applied to the gross carrying amount.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as off-balance sheet commitments.

Modification or renegotiation of contractual cash flows of a financial asset that does not result in de-recognition of that financial asset, requires the Group to recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows through the expected life of the asset that are discounted at the financial asset's original effective interest rate or credit-adjusted effective interest rate for credit-impaired financial assets. When estimating the expected cash flows, all contractual terms and payments are considered, except for the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset. Costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

When the financial asset cannot be recovered, it is written-off and charged against impairment for credit losses. The Group makes the decision on writing-off of financial assets. Recoveries of loans previously written-off are credited to the statement of income.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should both be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at fair value through other comprehensive income 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.

Financial assets measured at fair value through other comprehensive income are subsequently re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. 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 and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and do not reduce the carrying amount in the balance sheet. Impairment gains or losses are recognised in profit or loss.

For equity instruments, neither held for trading or acquirer in a business combinations, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

Financial assets and liabilities measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designate as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a

documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Excluding interest on interest rate swaps, interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in fair value of the financial assets or financial liabilities that are measured at fair value through profit or loss, as well as interest on interest rate swaps, are recognised directly in the statement of income's line "Net financial income". Such financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers.

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain life insurance contract 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.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer's margin, or a pattern of short-term profit taking exists.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and sometimes interest rate swap instruments and other derivative financial instruments. All derivatives are classified as measured at fair value through profit or loss.

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 "Derivatives".

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.

g) 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.

h) 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 contractual rights to receive cash flows from the financial 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.

Debt securities issued 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, in the case of a financial liability not at fair value through profit or loss, 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.

i) Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit

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 considers both exposure specific and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans to public is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans to public, and can be reliably estimated.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and for Stage 3 exposures which are credit impaired. 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 exposures from Stage 1 to Stage 2) augmented by other additional risk factors (e.g. internal credit rating grade, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to Stage 2. The "default" is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikelihood to pay indicators. The "default" is the criteria for transfer to Stage 3. Exposure is no longer considered to have significantly increased credit risk (transfer from Stage 2 to Stage 1) or default (transfer from Stage 3 to Stage 2) when specific time period has passed (in some instances up to 2 years) since all risk increase or default factors are no longer observed. Significant modifications and restructurings are also within risk factors for which extended monitoring period applies. The length of the monitoring period is proportionate to the significance of the risk factor observed and restructuring measures undertaken. The models are calibrated for transfer of exposures to lower stage to happen when a significant reduction in the risk of non-performance has been observed beforehand.

The Group first assesses whether objective evidence of impairment exists individually for loans to public that are individually significant, and individually or collectively for loans 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 with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, 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 collective 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. The major macroeconomic factors considered are real estate price, average salary, inflation rate and unemployment rate. PDs and LGDs are derived from historic performance of the loans to public. "Point in time" probabilities (probability of default in the current economic conditions, as opposed to economic cycle-neutral "through the cycle" probabilities of default as often used for regulatory purposes) are used for PDs. Correspondingly estimated PDs are expected to change through the economic cycle. For measurement of expected credit losses financial instruments are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry, product type, collateral type and for the Group also geographical location of the borrower.

A loan is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a loan is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;

- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

For a loan that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the expected credit losses are measured as the difference between the loan's gross carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Any adjustment is recognised as an impairment gain or loss. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For loans to public, 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, 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 contractual payment of interest or principal due, but the Group believes that impairment is not appropriate on the basis of the level of collateral available 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.

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Fully impaired loans to public, 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 recovered written-off assets within net losses on financial instruments caption.

j) Impairment of debt securities and loans to credit institutions and central banks

Similarly as for loans to public, the Group estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment provisioning requirements apply to financial assets at amortised cost, but do not apply to financial assets measured at fair value through profit or loss. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and do not reduce the carrying amount in the balance sheet.

Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. If unavailable for evaluation purposes, external credit ratings may be substituted by internally calculated credit quality levels. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

k) 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 shown within deposits and borrowings from customers. 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.

l) 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.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. For details on methodology of calculation, refer to section i) of the Note 3 (*Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit*). In addition to considerations applicable to on-balance exposures, for expected credit loss assessment of off-balance sheet commitments a conversion and expected future use patterns, the Group's reaction time in identifying deteriorating exposures and a realistic past performance on timely termination of these limits is considered.

m) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Group extends off-balance sheet financial commitments and contingent liabilities comprising commitments to issue loans to public, commitments for unutilised credit lines and credit card limits, as well as financial guarantees and commercial letters of credit.

Off-balance sheet commitments are recognised when the Group commits the limit to the client. Financial guarantees and letters of credit are recognised as contingent off-balance sheet liabilities when the related fee from the client is recognised. Off-balance sheet items are recognised on-balance sheet on drawdown of commitment or for guarantees and letters of credit, when these in rare cases become payable by the Group. Commitments generally have fixed expiration dates, or other termination clauses; in some cases the Group may terminate these unilaterally. Since commitments may expire without being drawn down, the total committed amounts do not necessarily represent certain future cash outflows.

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 l).

n) Customer loyalty programmes

To reward and promote customers to actively use Group's products, the Group has implemented several customer loyalty programs. Loyalty point and similar incentives represent discount that the customer can choose to use in the future to acquire additional goods or services. A portion of the transaction price is allocated to the material performance objective not yet fulfilled. All benefits awarded to customers are fully accrued at the moment the benefits are awarded. The amount allocated is based on the stand-alone price of the loyalty incentive. Revenue and related costs in the income statement are recognised when the entity has satisfied its performance obligations relating to the loyalty incentive or when the incentive expire or are cancelled.

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

In preparing this condensed interim financial information, significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were similar to those applicable to the financial statements as at and for the year ended 31 December 2017 (evaluation of impairment for financial and nonfinancial asset and determination of the control of investees for consolidation purposes). The Bank continued to monitor it's and the Group's loan portfolios and reassess impairment on a periodic basis in normal course of business. For details on changes in impairment please refer to Note 6 (*Net Credit Losses*).

NOTE 4. INTEREST INCOME AND EXPENSE

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Interest income on:				
- financial assets at amortised cost:				
- loans to public	41,816	39,531	32,655	30,994
- cash balances at and lending to central banks and credit institutions	728	493	610	458
- debt securities	1,968	-	1,551	-
- debt securities at fair value through other comprehensive income	3,317	-	1,660	-
- debt securities at fair value through profit or loss	-	747	-	-
- debt securities available for sale	-	5,227	-	3,942
- debt securities held for trading	-	99	-	-
Total interest income	47,829	46,097	36,476	35,394
Interest expense on:				
- financial liabilities at amortised cost:				
- deposits and borrowing from public	(4,228)	(5,369)	(3,187)	(3,842)
- debt securities issued	(1,808)	(1,257)	(1,808)	(1,257)
- deposits from credit institutions and central banks	(1,353)	(2,167)	(1,475)	(2,282)
- financial liabilities at fair value through profit or loss				
- deposits and borrowing from public	(95)	(136)	-	-
- other interest expense	(450)	(929)	(448)	(929)
Total interest expense	(7,934)	(9,858)	(6,918)	(8,310)
Net interest income	39,895	36,239	29,558	27,084

Deposits from credit institutions and central banks in the six months period ended 30 June 2018 include interest expense on subordinated borrowing in the amount of EUR 0.16 million (2017: EUR 0.79 million). Interest expense on subordinated funding classified as deposits from credit institutions and central banks decreased substantially as part of it was repaid at the beginning of 2017; the remainder was repaid at the beginning of 2018. On a contrary, a new tranche of subordinated debt securities were issued, thus increasing interest expense on these instruments.

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.

NOTE 5. NET FINANCIAL INCOME

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	93	232	82	214
- Disposal of assets at fair value through other comprehensive income	93	-	82	-
- Modifications in cash flows which do not result in de-recognition	-	-	-	-
- Disposal of assets available for sale	-	232	-	214
Net gain / (loss) on financial instruments at fair value through profit or loss	6,483	7,359	5,515	6,542
- Foreign exchange trading and revaluation of open positions, net	6,659	7,446	5,515	6,542
- Assets and liabilities at fair value through profit or loss	(176)	(230)	-	-
- Trading and revaluation of securities and derivatives held for trading, net	-	143	-	-
Total net financial income	6,575	7,591	5,597	6,756

NOTE 6. NET CREDIT LOSSES

Total net impairment allowance charged to statement of income:

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Loans to credit institutions	(60)	-	(61)	-
Debt securities	82	-	81	-
Loans to public	(4,578)	(7,592)	(2,232)	(6,764)
Guarantees and letters of credit	16	(111)	12	(111)
Loan commitments	515	-	387	-
Recovered written-off assets	2,178	398	1,711	272
Total net losses on financial instruments	(1,847)	(7,305)	(102)	(6,603)

During the ordinary course of business the recoverability of some loans deteriorates while for others it improves. Fully impaired assets, recovery of which may become economically unviable or impossible, may be written-off. When a loan is written-off, the claim against the borrower normally is not forgiven. Loan write-offs directly decrease specifically assessed accumulated impairment allowance. 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.

Classification of impairment stages

Stage 1 – Financial instruments without significant increase in credit risk since initial recognition

Stage 2 – Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired

Stage 3 – Credit-impaired financial instruments

Movements in the Group's allowances for credit losses and provisions for the six months period ended 30 June 2018

	EUR 000's						Closing balance as at 30/06/2018
	Opening balance as at 01/01/2018	Origination and acquisition	Derecog- nition and repayments	Change in credit risk, net	Write- offs	Other adjust- ments	
Allowances for credit losses and provisions for:							
Stage 1							
Loans to credit institutions	4	122	(58)	(2)	-	(2)	64
Debt securities	392	74	(124)	(2)	-	(25)	315
Loans to public	11,634	3,671	(2,910)	(1,218)	-	1	11,178
Loan commitments, guarantees and letters of credit	3,765	2,155	(2,676)	(132)	-	-	3,112
Total stage 1 credit losses and provisions	15,795	6,022	(5,768)	(1,354)	-	(26)	14,669
Stage 2							
Debt securities	28	-	-	-	-	-	28
Loans to public	10,137	930	(2,909)	1,804	(7)	-	9,955
Loan commitments, guarantees and letters of credit	231	255	(271)	190	-	-	405
Total stage 2 credit losses and provisions	10,396	1,185	(3,180)	1,994	(7)	-	10,388
Stage 3							
Loans to public	57,986	2,902	(2,961)	5,328	(3,155)	245	60,345
Loan commitments, guarantees and letters of credit	388	27	(47)	(30)	-	-	338
Total stage 3 credit losses and provisions	58,374	2,929	(3,008)	5,298	(3,155)	245	60,683
Total allowances for credit losses and provisions	84,565	10,136	(11,956)	5,938	(3,162)	219	85,740

Movements in the Bank's allowances for credit losses and provisions for the six months period ended 30 June 2018

	EUR 000's						
	Opening balance as at 01/01/2018	Origination and acquisition	Derecognition and repayments	Change in credit risk, net	Write-offs	Other adjustments	Closing balance as at 30/06/2018
Allowances for credit losses and provisions for:							
Stage 1							
Loans to credit institutions	1	121	(58)	-	-	(2)	62
Debt securities	254	32	(109)	-	-	(1)	176
Loans to public	9,316	3,208	(2,890)	(913)	-	-	8,721
Loan commitments, guarantees and letters of credit	3,452	2,166	(2,641)	(79)	-	-	2,898
Total stage 1 credit losses and provisions	13,023	5,527	(5,698)	(992)	-	(3)	11,857
Stage 2							
Debt securities	28	-	-	-	-	-	28
Loans to public	8,549	930	(2,884)	1,695	-	-	8,290
Loan commitments, guarantees and letters of credit	179	255	(261)	165	-	-	338
Total stage 2 credit losses and provisions	8,756	1,185	(3,145)	1,860	-	-	8,656
Stage 3							
Loans to public	51,992	2,925	(2,738)	2,958	(3,053)	245	52,329
Loan commitments, guarantees and letters of credit	290	26	(44)	15	-	-	287
Total stage 3 credit losses and provisions	52,282	2,951	(2,782)	2,973	(3,053)	245	52,616
Total allowances for credit losses and provisions	74,061	9,663	(11,625)	3,841	(3,053)	242	73,129

Change in allowances for impairment for the six months period ended 30 June 2017:

	EUR 000's					
	Jan-Jun 2017 Group			Jan-Jun 2017 Bank		
	Loans to public	Available for sale securities	Loans to credit institutions	Loans to public	Available for sale securities	Loans to credit institutions
Total impairment allowance at the beginning of the period:	82,529	1,640	981	70,672	1,640	981
- specifically assessed impairment	56,670	1,640	981	48,743	1,640	981
- collectively assessed impairment	25,859	-	-	21,929	-	-
Charge:	13,741	-	-	10,659	-	-
- specifically assessed impairment	7,795	-	-	5,958	-	-
- collectively assessed impairment	5,946	-	-	4,701	-	-
Release:	(6,149)	-	-	(3,895)	-	-
- specifically assessed impairment	(2,998)	-	-	(1,505)	-	-
- collectively assessed impairment	(3,151)	-	-	(2,390)	-	-
Allowance charged to the statement of income, net:	7,592	-	-	6,764	-	-
- specifically assessed impairment	4,797	-	-	4,453	-	-
- collectively assessed impairment	2,795	-	-	2,311	-	-
Change of allowance due to write-offs	(6,610)	-	(981)	(5,526)	-	(981)
Effect of changes in currency exchange rates:	(333)	(75)	-	(332)	(75)	-
- specifically assessed impairment	(333)	(75)	-	(332)	(75)	-
Total impairment allowance at the end of the period:	83,178	1,565	-	71,578	1,565	-
- specifically assessed impairment	54,524	1,565	-	47,338	1,565	-
- collectively assessed impairment	28,654	-	-	24,240	-	-

NOTE 7. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

Change in impairment of tangible and intangible assets:

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Impairment allowance at the beginning of the period	3,409	13,502	50,306	51,504
Allowance charged to the statement of income, net	214	(757)	96	182
Change of allowance due to write-offs and foreign exchange retranslation	(427)	(581)	(881)	(142)
Impairment allowance at the end of the period	3,196	12,164	49,521	51,544

Decrease in the Group's impairment allowance for tangible and intangible assets mostly is explained by reduction in impairment 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 in the second half of 2017. Most of the Bank's impairment allowance as at period end relates to investments in subsidiaries. EUR 834 thousand of the Bank's write-offs relate to liquidation of a wholly owned subsidiary SIA Citadele Express Kredīts which had no ongoing operations.

NOTE 8. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Current corporate income tax	365	815	33	613
Deferred income tax	(270)	616	-	348
Tax withheld abroad	17	15	16	14
Total corporate income tax expense	112	1,446	49	975

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. Before 2018 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 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.

The change in the tax regulation in Latvia has positively affected groups effective tax rate, as in 2018 predominantly all Bank's income is non-taxable. Undistributed profits are treated favorably under the new Latvian tax regime. This contributes to substantially lower effective tax rate for the Group and the Bank in 2018 vs. 2017. Also in the second half of 2017 due to changes in the tax regime, the Group and the Bank had to write-off most of the previously recognised deferred tax assets. As a result in the second half of 2017 a one-off expense of EUR 23.2 million was incurred. Deferred tax assets and tax expense in other Group's jurisdictions remain unaffected by the changes in the Latvian tax regime.

Income tax assets and liabilities:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Deferred income tax assets	1,862	1,514	-	-
Current income tax assets	249	44	-	-
Tax assets	2,111	1,558	-	-
Current income tax liabilities	610	1,582	31	832
Deferred income tax liabilities	130	111	-	-
Tax liabilities	740	1,693	31	832

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

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Dec 2017 Group	Jan-Jun 2018 Bank	Jan-Dec 2017 Bank
As at the beginning of the period	1,403	26,165	-	24,685
Charge to statement of income	270	(24,714)	-	(24,623)
Charge to statement of comprehensive income	59	(48)	-	(62)
Total deferred income tax asset at the end of the period, net	1,732	1,403	-	-

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 9. DEBT SECURITIES

The Group's debt securities by issuers profile and classification:

	EUR 000's 30/06/2018			
	General government	Credit institutions	Corporate and other bonds	Total
At fair value through other comprehensive income	139,277	157,726	109,108	406,111
At amortised cost	355,583	155,190	54,208	564,981
Total debt securities	494,860	312,916	163,316	971,092

	EUR 000's 31/12/2017			
	General government	Credit institutions	Corporate and other bonds	Total
Held for trading	4,324	-	3,638	7,962
At fair value through profit or loss	22,587	43,905	55,014	121,506
Available for sale	452,083	183,549	214,413	850,045
Total debt securities	478,994	227,454	273,065	979,513

The Bank's debt securities by issuers profile and classification:

	EUR 000's 30/06/2018			
	General government	Credit institutions	Corporate and other bonds	Total
At fair value through other comprehensive income	71,298	70,308	29,770	171,376
At amortised cost	273,640	138,227	24,544	436,411
Total debt securities	344,938	208,535	54,314	607,787

	EUR 000's 31/12/2017			
	General government	Credit institutions	Corporate and other bonds	Total
Available for sale	321,487	124,304	174,147	619,938
Total debt securities	321,487	124,304	174,147	619,938

The Group's debt securities by issuer's country, net:

	EUR 000's					
	30/06/2018			31/12/2017		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	233,065	3,509	236,574	265,055	1,792	266,847
Lithuania	143,027	1,027	144,054	144,879	520	145,399
United States	13,471	84,028	97,499	12,566	78,238	90,804
Netherlands	9,200	77,884	87,084	-	84,275	84,275
Japan	34,879	3,596	38,475	-	1,218	1,218
Canada	5,074	32,320	37,394	2,227	34,472	36,699
Germany	13,736	20,819	34,555	7,233	26,034	33,267
United Kingdom	2,561	28,065	30,626	-	32,675	32,675
Multilateral development banks	-	42,795	42,795	-	43,604	43,604
Other countries*	39,847	182,189	222,036	45,623	199,102	244,725
Total debt securities, net	494,860	476,232	971,092	477,583	501,930	979,513

Bank's debt securities by issuer's country, net:

	EUR 000's					
	30/06/2018			31/12/2017		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	217,462	2,537	219,999	249,477	1,297	250,774
United States	8,485	38,353	46,838	8,385	41,692	50,077
Netherlands	9,200	34,243	43,443	-	49,027	49,027
Lithuania	37,255	510	37,765	39,512	-	39,512
Japan	34,879	-	34,879	-	-	-
Multilateral development banks	-	32,087	32,087	-	24,901	24,901
Other countries*	37,657	155,119	192,776	24,113	181,534	205,647
Total debt securities, net	344,938	262,849	607,787	321,487	298,451	619,938

* Largest Group's and Bank's exposure to a single country within this group as at the end of the reporting period is EUR 27,936 thousand and EUR 25,902 thousand respectively.

All fixed income securities as at 30 June 2018 and 31 December 2017 are listed.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

NOTE 10. LOANS TO PUBLIC

Loan portfolio by overdue days:

	30/06/2018					
	EUR 000's					
	Group			Bank		
	Net carrying amount	Gross amount	Impairment allowance and provisions	Net carrying amount	Gross amount	Impairment allowance and provisions
Loans to public						
Not past due	1,286,638	1,327,455	(40,817)	1,089,673	1,125,234	(35,561)
Past due <= 30 days	49,404	59,855	(10,451)	29,793	39,133	(9,340)
Past due > 30 days ≤ 90 days	8,018	10,911	(2,893)	2,823	4,224	(1,401)
Past due > 90 days	16,346	43,663	(27,317)	12,505	35,543	(23,038)
Total loans to public	1,360,406	1,441,884	(81,478)	1,134,794	1,204,134	(69,340)
Guarantees and letters of credit	27,509	28,164	(655)	23,298	23,951	(653)
Financial commitments	322,905	326,105	(3,200)	383,458	386,328	(2,870)
Total credit exposure to public	1,710,820	1,796,153	(85,333)	1,541,550	1,614,413	(72,863)

	31/12/2017					
	EUR 000's					
	Group			Bank		
	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	1,062,156	-	1,062,156
Not past due – impaired	48,372	(18,948)	29,424	47,139	(16,916)	30,223
Total not past due loans	1,305,128	(18,948)	1,286,180	1,109,295	(16,916)	1,092,379
Past due loans - not impaired						
Delayed days:						
=< 29	26,151	-	26,151	12,401	-	12,401
30-59	7,825	-	7,825	3,488	-	3,488
60-89	1,953	-	1,953	1,298	-	1,298
90 and more	9,327	-	9,327	5,935	-	5,935
Total past due loans - not impaired	45,256	-	45,256	23,122	-	23,122
Past due loans – impaired						
Delayed days:						
=< 89	14,992	(7,152)	7,840	13,563	(6,412)	7,151
90 and more	43,701	(25,707)	17,994	40,451	(23,406)	17,045
Total past due loans – impaired	58,693	(32,859)	25,834	54,014	(29,818)	24,196
Total loans to public	1,409,077	(51,807)	1,357,270	1,186,431	(46,734)	1,139,697
Collective impairment allowance		(26,675)	(26,675)		(22,507)	(22,507)
Total net loans to public			1,330,595			1,117,190

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			
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	Group	Group	Bank	Bank
Non-performing loans, gross	126,153	116,392	114,865	107,088
Non-performing loans ratio ¹⁾	8.7%	8.3%	9.5%	9.0%
Non-performing loans coverage ratio ²⁾	64.6%	67.4%	60.4%	64.7%

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.

NOTE 11. EQUITY INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS

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

	30/06/2018				31/12/2017			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	-	-	-	-	5,812	5,812
Financial assets at fair value through profit or loss	-	-	27,811	27,811	-	-	24,973	24,973
Financial assets at fair value through other comprehensive income	2,717	124	6,170	9,011	-	-	-	-
Available for sale	-	-	-	-	2,320	124	6,372	8,816
Total non-fixed income securities, net	2,717	124	33,981	36,822	2,320	124	37,157	39,601

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 30 June 2018 EUR 27,811 thousand (2017: EUR 24,973 thousand) of financial assets designated at fair value through profit or loss relate to this.

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

	30/06/2018				31/12/2017			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Financial assets at fair value through other comprehensive income	2,701	124	6,170	8,995	-	-	-	-
Available for sale	-	-	-	-	2,304	124	6,371	8,799
Total non-fixed income securities, net	2,701	124	6,170	8,995	2,304	124	6,371	8,799

As at 30 June 2018 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.2 million (2017: EUR 6.4 million) and EUR 20.3 million (2017: EUR 20.9 million) which are managed by IPAS CBL Asset Management or its subsidiaries. EUR 14.1 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 (2017: EUR 12.7 million). These exposures have been acquired only with investment intentions.

NOTE 12. INVESTMENTS IN SUBSIDIARIES

Changes in the Bank's investments in subsidiaries:

	EUR 000's	
	Jan-Jun 2018	Jan-Jun 2017
Balance at the beginning of the period, net	64,725	61,884
Sale or disposal of subsidiary	(39)	(2)
Impairment, net	-	42
Balance at the end of the period, net	64,686	61,924

In line with the Managements intention to simplify the Group's structure, on 5 June 2018 a wholly owned subsidiary SIA Citadele Express Kredīts was liquidated. SIA Citadele Express Kredīts had no ongoing operations. On 22 March 2018 a decision to change AB Citadele bankas (Lithuania) legal status from subsidiary to branch was made. This decision was made to enable quicker introduction of new digital banking services in Lithuania and to improve the operational efficiency of the Group. A new branch of AS Citadele banka (Latvia) will be opened in Lithuania and all assets, liabilities and other items of AB Citadele bankas (Lithuania) will be transferred to the new branch. The process is expected to be completed in 2019.

As at 30 June 2018 total Bank's gross investment in subsidiaries is EUR 112,516 thousand (2017: EUR 113,388 thousand).

The Bank's direct and indirect investments which are consolidated:

Company	Country of registration	Business profile	30/06/2018				31/12/2017			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	30/06/2018	31/12/2017
AB Citadele bankas	Lithuania	Banking	43,112	100	100	Directly	43,112	100	100	36,563	36,563
AP Anlage & Privatbank AG	Switzerland	Banking	8,644	100	100	Directly	8,546	100	100	13,805	13,805
SIA Citadele Līzings un Faktoringas	Latvia	Leasing	19,351	100	100	Directly	19,351	100	100	4,060	4,061
OU Citadele Leasing & Factoring	Estonia	Leasing	500	100	100	Directly	500	100	100	445	445
UAB Citadele faktoringas ir līzings	Lithuania	Leasing	434	100	100	Directly	434	100	100	2,149	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	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100	100	Directly	2	100	100	-	-
OOO Mizush Asset Management Ukraina	Ukraine	Finance	852	100	100	Indirectly	643	100	100	-	-
SIA Citadele Express Kredīts **	Latvia	Leasing	-	-	-	-	45	100	100	-	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	1,112
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 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										64,686	64,725

* Misc. – the companies are providing various support services. ** Group's entity disposed or liquidated in the six months period ended 30 June 2018

NOTE 13. DEPOSITS AND BORROWINGS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Non-financial corporations	1,012,991	1,323,070	719,337	935,683
Households	1,446,426	1,341,341	1,066,012	969,446
Financial corporations	119,313	126,036	131,797	137,360
General government	47,954	45,571	22,701	23,599
Other	22,754	81,130	19,753	78,380
Total deposits from customers	2,649,438	2,917,148	1,959,600	2,144,468

Deposits from customers according to contractual maturity:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Demand deposits	1,992,876	2,163,339	1,555,888	1,675,090
Term deposits:				
due within 1 month	68,234	165,505	44,379	100,046
due within 2-3 months	80,185	145,840	48,144	94,283
due within 4-6 months	100,567	100,099	48,225	55,314
due within 7-12 months	211,400	182,113	127,587	109,944
due within 2-5 years	134,147	144,202	78,424	101,194
due in more than 5 years	62,029	16,050	56,953	8,597
Total term deposits	656,562	753,809	403,712	469,378
Total deposits from customers	2,649,438	2,917,148	1,959,600	2,144,468

Classification of deposits and borrowings from customers:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
At amortised cost	2,614,560	2,879,998	1,959,600	2,144,468
At fair value through profit or loss	34,878	37,150	-	-
Total deposits from customers	2,649,438	2,917,148	1,959,600	2,144,468

All of the Group deposits from customers classified at fair value through profit or loss relate to the Group's life insurance business. It is the deposit component of the insurance plans.

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

	EUR 000's			
	Jan-Jun 2018	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2017
	Unit-linked	Other	Unit-linked	Other
Balance as at the beginning of the period	25,046	12,104	23,064	16,614
Premiums received	1,094	1,298	1,879	1,300
Commissions and risk charges	(153)	(92)	(173)	(138)
Paid to policyholders	(3,026)	(1,125)	(1,301)	(5,495)
Trading	(516)	-	886	-
Other	3	107	6	44
Currency revaluation result	136	2	(532)	(8)
Balance as at the end of the period	22,584	12,294	23,829	12,317

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 the six months period ended 30 June 2018 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 -14 thousand in the statement of income (2017: EUR 94 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 14. DEBT SECURITIES ISSUED

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

Debt issuance programme	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)	
					30/06/2018	31/12/2017
Publicly listed unsecured subordinated bonds	EUR	5.50%	24/11/2027	20,000	20,053	20,057
Publicly listed unsecured subordinated bonds	EUR	6.25%	06/12/2026	40,000	39,930	39,924
					59,983	59,981

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.

NOTE 15. SHARE CAPITAL

As at 30 June 2018, the Bank's registered and paid-in share capital was EUR 156,555,796 (2017: EUR 156,555,796). All shares as at 30 June 2018 and 31 December 2017 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the six months period ended 30 June 2018 and year ended 31 December 2017.

Bank's shareholders:

	30/06/2018		31/12/2017	
	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 16. 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 and financial commitments outstanding (showing maximum credit exposure):

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Contingent liabilities:				
Outstanding guarantees	27,377	27,808	23,164	23,638
Outstanding letters of credit	787	1,614	787	1,614
Total contingent liabilities	28,164	29,422	23,951	25,252
Provisions for contingent liabilities	(655)	(234)	(653)	(234)
Maximum credit risk exposure for contingent liabilities	27,509	29,188	23,298	25,018
Financial commitments:				
Loans granted, not fully drawn down	173,669	77,516	162,506	65,085
Unutilised credit lines and overdraft facilities	40,795	54,144	131,103	140,889
Card commitments	102,120	91,810	92,719	81,481
Factoring commitments	9,521	12,687	-	-
Other commitments	13,963	-	13,543	-
Total financial commitments	340,068	236,157	399,871	287,455
Provisions for financial commitments	(3,200)	-	(2,870)	-
Maximum credit risk exposure for financial commitments	336,868	236,157	397,001	287,455

NOTE 17. CASH AND CASH EQUIVALENTS

A breakdown of cash and cash equivalents:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Cash and cash balances with central banks	395,720	715,468	352,150	494,848
Loans on demand to credit institutions	141,332	145,045	101,118	205,011
Demand deposits from central banks and credit institutions	(5,972)	(1,740)	(21,638)	(5,051)
Total cash and cash equivalents	531,080	858,773	431,630	694,808

NOTE 18. 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 balances at central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Loans to credit institutions and deposits from 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.

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.

Loans to public

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 13.8 million (2017: EUR 13.3 million).

Debt securities

Debt securities classified as at fair value through profit or loss and at fair value through other comprehensive income are accounted at unadjusted quoted prices in active markets which is their fair value. Debt securities classified at amortised cost are not accounted at fair value; the disclosed fair value for these is their unadjusted quoted prices in active markets.

Equity instruments and other financial instruments at fair value

Investments in mutual investment funds (presented as other financial instruments at fair value) are valued using unadjusted quoted prices in active markets. Equity instruments 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.

Deposits and borrowings from customers

Deposits and borrowing from customers includes part which is carried at amortised cost and part which is carried at fair value. The entire portfolio of deposits and borrowing from customers which are carried at fair value are deposit part of the life insurance contracts.

The fair value of deposits and borrowings from customers 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 non-subordinated non-life insurance deposit portfolio would change by EUR 0.17 million (2017: EUR 0.16 million).

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 life insurance deposits carried at fair value through profit or loss 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 +/-21 thousand (2017: EUR +/-20 thousand).

Debt securities issued

The fair value of publically listed unsecured subordinated bonds is estimated based on the quoted prices.

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 30 June 2018.

	Carrying value	Total fair value	Fair value hierarchy (where applicable)		
			Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	406,111	406,111	406,111	-	-
Equity instruments	2,841	2,841	-	-	2,841
Other financial instruments	33,981	33,981	33,981	-	-
Derivatives	3,165	3,165	-	3,165	-
<i>Financial assets not measured at fair value:</i>					
Cash and balances at central banks	395,720	395,720	-	-	-
Loans to credit institutions	177,854	177,854	-	-	-
Debt securities	564,981	564,206	564,206	-	-
Loans to public	1,360,406	1,362,988	-	-	1,362,988
Total assets	2,945,059	2,946,866	1,004,298	3,165	1,365,829
Derivatives	1,727	1,727	-	1,727	-
Deposits and borrowings from customers	34,878	34,878	22,584	-	12,294
<i>Financial liabilities not measured at fair value:</i>					
Deposits from credit institutions and central banks	13,451	13,451	-	-	-
Deposits and borrowings from customers	2,614,560	2,616,094	-	-	2,616,094
Debt securities issued	59,983	62,263	-	62,263	-
Total liabilities	2,724,599	2,728,413	22,584	63,990	2,628,388

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
Debt securities	979,513	979,513	979,513	-	-
Equity instruments	2,444	2,444	-	-	2,444
Other financial instruments	37,157	37,157	37,157	-	-
Derivatives	2,406	2,406	-	2,406	-
<i>Financial assets not measured at fair value:</i>					
Cash and balances at central banks	715,468	715,468	-	-	-
Loans to credit institutions	151,276	151,276	-	-	-
Loans to public	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	-
Deposits and borrowings from customers	37,150	37,150	25,046	-	12,104
<i>Financial liabilities not measured at fair value:</i>					
Deposits from credit institutions and central banks	23,536	23,536	-	19,019	-
Deposits and borrowings from customers	2,879,998	2,881,561	-	-	2,881,561
Debt securities issued	59,981	63,200	-	63,200	-
Total liabilities	3,003,831	3,008,613	25,046	85,385	2,893,665

Fair values of Bank's financial assets and liabilities as at 30 June 2018.

	Carrying value	Total fair value	Fair value hierarchy (where applicable)		
			Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	171,376	171,376	171,376	-	-
Equity instruments	2,825	2,825	-	-	2,825
Other financial instruments	6,170	6,170	6,170	-	-
Derivatives	3,172	3,172	-	3,172	-
<i>Financial assets not measured at fair value:</i>					
Cash and balances at central banks	352,150	352,150	-	-	-
Loans to credit institutions	122,638	122,638	-	-	-
Debt securities	436,411	435,491	435,491	-	-
Loans to public	1,134,794	1,130,190	-	-	1,130,190
Total assets	2,229,536	2,224,012	613,037	3,172	1,133,015
Derivatives	1,727	1,727	-	1,727	-
<i>Financial liabilities not measured at fair value:</i>					
Deposits from credit institutions and central banks	40,163	40,163	-	-	-
Deposits and borrowings from customers	1,959,600	1,961,433	-	-	1,961,433
Debt securities issued	59,983	62,263	-	62,263	-
Total liabilities	2,061,473	2,065,586	-	63,990	1,961,433

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
Debt securities	619,938	619,938	619,938	-	-
Equity instruments	2,428	2,428	-	-	2,428
Other financial instruments	6,371	6,371	6,371	-	-
Derivatives	2,481	2,481	-	2,481	-
<i>Financial assets not measured at fair value:</i>					
Cash and balances at central banks	494,848	494,848	-	-	-
Loans to credit institutions	205,292	205,292	-	-	-
Loans to public	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	-
<i>Financial liabilities not measured at fair value:</i>					
Deposits from credit institutions and central banks	78,578	78,578	-	19,019	-
Deposits and borrowings from customers	2,144,468	2,146,350	-	-	2,146,350
Debt securities issued	59,981	63,200	-	63,200	-
Total liabilities	2,286,195	2,291,296	-	85,387	2,146,350

Changes in fair value of securities at fair value through other comprehensive income categorised as Level 3

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
As at the beginning of the period, net	2,444	1,964	2,428	1,947
Other comprehensive income				
<i>Revaluation gain in other comprehensive income</i>	397	187	397	188
As at the end of the period, net	2,841	2,151	2,825	2,135

For equity instruments which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these financial instruments are not listed on an exchange and there are insufficient recent observable transactions on the market. In 2017 these instruments were classified as available for sale.

NOTE 19. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Bank is the chief operating decision maker.

All transactions between business segments are carried on an arm's length basis. The calculation of the net interest income of each business is performed by applying 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 transactions, 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 services. 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.

For the six months period year ended 30/06/2018 and as at 30/06/2018
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	17,461	6,425	2,573	2,591	507	6,511	1,531	(27)	2,916	(659)	66	39,895
Net commission and fee income	3,984	1,098	4,988	689	257	1,728	1,591	2,703	22	(1)	(59)	17,000
Net financial income	534	152	2,364	706	1,840	810	277	(167)	-	-	59	6,575
Net other income	184	15	55	2	1,034	401	-	308	69	3,420	(3,695)	1,793
Operating income	22,163	7,690	9,980	3,988	3,638	9,450	3,399	2,817	3,007	2,760	(3,629)	65,263
Staff costs and other expenses	(18,830)	(2,781)	(6,360)	(2,699)	(2,400)	(5,861)	(2,162)	(1,700)	(1,435)	(1,598)	3,687	(42,139)
Depreciation and amortisation	(253)	(3)	(12)	(73)	(1,162)	(21)	(16)	(17)	(119)	(1,285)	-	(2,961)
Net impairments	(410)	40	73	(219)	318	(1,856)	(6)	(159)	40	(56)	174	(2,061)
Segment result	2,670	4,946	3,681	997	394	1,712	1,215	941	1,493	(179)	232	18,102
<i>of which internal transactions</i>	426	(587)	2,208	118	(539)	298	286	(442)	(2,910)	1,142	-	-
Segment assets	444,310	280,887	38,590	113,814	1,454,571	463,209	276,494	58,568	177,481	51,703	(316,199)	3,043,428
Segment liabilities	773,870	409,425	578,064	154,457	169,505	411,294	256,498	42,162	165,266	52,106	(248,123)	2,764,524

For the six months period ended 30/06/2017 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	15,029	5,890	2,397	1,988	1,780	5,930	1,188	(11)	2,660	(675)	63	36,239
Net fee and commission income	4,580	1,454	5,436	782	(139)	1,229	1,682	2,757	33	1,520	(53)	19,281
Net financial income	528	212	2,309	346	3,361	546	304	114	28	-	(157)	7,591
Net other income	106	12	36	5	1,532	354	-	113	164	2,775	(3,808)	1,289
Operating income	20,243	7,568	10,178	3,121	6,534	8,059	3,174	2,973	2,885	3,620	(3,955)	64,400
Staff costs and other expenses	(16,016)	(2,316)	(4,913)	(2,428)	(2,685)	(5,733)	(2,301)	(1,768)	(1,554)	(2,851)	3,729	(38,836)
Depreciation and amortisation	(247)	(5)	(12)	(64)	(942)	(20)	(27)	(21)	(108)	(1,116)	14	(2,548)
Net impairments	(3,176)	(1,573)	13	(973)	(1,077)	(1,234)	-	(69)	448	1,055	38	(6,548)
Segment result	804	3,674	5,266	(344)	1,830	1,072	846	1,115	1,671	708	(174)	16,468
<i>of which internal transactions</i>	490	(739)	2,830	124	(1,986)	1,076	431	(717)	(2,757)	1,248	-	-
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

NOTE 20. 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 that time.

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

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
<u>Credit exposures to related parties, net</u>				
Loans to public and credit institutions				
- Management	95	92	51	44
- Consolidated subsidiaries	-	-	214,102	303,829
Investments in subsidiaries	-	-	64,686	64,725
Derivatives with subsidiaries	-	-	7	75
Other assets	-	-	186	312
Financial commitments and guarantees outstanding	117	128	98,980	100,744
Credit exposures to related parties, net	212	220	378,012	469,729
<u>Liabilities to related parties</u>				
Deposits and borrowings from customers and credit institutions				
- Management	1,024	960	570	543
- Consolidated subsidiaries	-	-	29,765	17,228
- Subordinated liabilities to the shareholder (EBRD)	-	19,019	-	19,019
Derivatives with subsidiaries	-	-	-	2
Other liabilities and provisions for expected credit losses	-	104	287	178
Liabilities to related parties	1,024	20,083	30,622	36,970

As at 30 June 2018 an impairment allowance of EUR 1,483 thousand (2017: EUR 1,403 thousand) is recognised on credit impaired loans from consolidated subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by the Group. The recognised expected credit losses on non-credit impaired loans from consolidated subsidiaries as at 30 June 2018 are EUR 680 thousand.

In the six months period ended 2018 EUR 80 thousand of impairment loss on credit impaired loans from consolidated subsidiaries (2017: EUR 271 thousand) and a release of EUR 51 thousand of expected credit losses on non-credit impaired loans 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 12 (*Investments in Subsidiaries*).

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

	EUR 000's			
	Jan-Jun 2018 Group	Jan-Jun 2017 Group	Jan-Jun 2018 Bank	Jan-Jun 2017 Bank
Interest income				
- Management	2	2	2	1
- Consolidated subsidiaries	-	-	2,323	1,728
Interest expense				
- Management	(1)	(1)	-	-
- Subordinated liabilities to the shareholder (EBRD)	(161)	(768)	(161)	(768)
- Consolidated subsidiaries	-	-	(184)	(184)
Fee and commission income	4	2	287	737
Fee and commission expense	(2)	(1)	(18)	(489)
Net financial income	-	-	(175)	242
Dividends received from consolidated subsidiaries	-	-	-	-
All other income	-	-	1,028	1,277

Group's management's remuneration for the six months period ended 30 June 2018 was EUR 2.73 million (2017: EUR 1.54 million). During the reporting period the Group's and the Bank's other administrative expense with related parties amounted to EUR 1.0 million and EUR 2.8 million, respectively (2017: EUR 1.2 million and EUR 2.9 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 2.0 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 21. RISK MANAGEMENT

Risk management policies

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.

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							
	30/06/2018				31/12/2017			
	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	790,568	1,680,361	193,724	86,129	785,329	1,697,265	199,472	107,697
Utilised credit lines and overdraft facilities	88,273	248,162	48,785	25,952	84,893	226,822	48,845	23,042
Finance leases	159,939	210,261	3,736	3,677	147,859	150,155	3,125	3,012
Debit balances on cards	254	583	61,073	-	222	1,062	51,514	1
Factoring	2,447	2,981	4,628	2,969	4,024	4,473	1,396	-
Other loans	-	-	6,979	-	529	950	3,387	-
Total net loans to public	1,041,481	2,142,348	318,925	118,727	1,022,856	2,080,727	307,739	133,752

The Bank:

	EUR 000's							
	30/06/2018				31/12/2017			
	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	614,080	1,220,753	146,312	69,397	604,122	1,230,868	157,203	91,734
Utilised credit lines and overdraft facilities	57,814	138,397	39,931	23,987	63,092	145,280	39,998	21,786
Debit balances on cards	251	572	56,685	-	216	1,044	47,094	1
Other loans	-	-	6,240	-	529	950	2,843	-
Loans to subsidiaries	-	-	213,481	43,511	-	-	202,093	43,511
Total net loans to public	672,145	1,359,722	462,649	136,895	667,959	1,378,142	449,231	157,032

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.

Quality of the Group's debt securities:

	EUR 000's						
	30/06/2018			31/12/2017			
	At fair value through other comprehensive income	At amortised cost	Total	Held for trading	At fair value through profit or loss	Available for sale	Total
Investment grade:							
AAA/Aaa	88,707	53,117	141,824	-	28,519	104,972	133,491
AA/Aa	102,068	59,683	161,751	-	40,652	144,776	185,428
A	176,691	403,131	579,822	4,399	36,982	537,487	578,868
BBB/Baa	38,645	47,211	85,856	3,563	15,353	60,494	79,410
Other lower ratings	-	1,839	1,839	-	-	2,316	2,316
Total debt securities	406,111	564,981	971,092	7,962	121,506	850,045	979,513

Quality of the Bank's debt securities:

	EUR 000's				
	30/06/2018			31/12/2017	
	At fair value through other comprehensive income	At amortised cost	Total	Available for sale	Total
Investment grade:					
AAA/Aaa	53,451	49,405	102,856	85,042	85,042
AA/Aa	31,575	41,991	73,566	94,675	94,675
A	77,192	312,172	389,364	396,120	396,120
BBB/Baa	9,158	31,004	40,162	42,265	42,265
Other lower ratings	-	1,839	1,839	1,836	1,836
Total debt securities	171,376	436,411	607,787	619,938	619,938

Credit quality of loans to credit institutions:

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Investment grade:				
AA/Aa	22,200	37,122	4,769	6,591
A	138,800	77,635	110,953	67,666
BBB/Baa	4,811	9,961	4,738	9,569
Other lower ratings	326	16,421	179	16,220
Not rated Baltic registered credit institutions	5,191	5,966	1,371	1,779
Citadele Group's banks	-	-	621	103,462
Other not rated credit institutions	6,526	4,171	7	5
Total loans to credit institutions, net	177,854	151,276	122,638	205,292

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively. As at 30 June 2018 and 31 December 2017, none of the loans to credit institutions was past due.

GEOGRAPHICAL PROFILE

The carrying amount of the Group's assets, liabilities and memorandum items by geographical profile. Based on the reported residence of the respective counterparties.

	Group as at 30/06/2018, EUR 000's					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and balances at central banks	323,004	31,305	29,146	-	12,265	395,720
Loans to credit institutions	4,327	821	44	57,786	114,876	177,854
Debt securities	236,574	144,054	9,076	279,660	301,728	971,092
Loans to public	817,373	371,102	133,688	9,725	28,518	1,360,406
Equity instruments	124	-	-	120	2,597	2,841
Other financial instruments	20,299	-	-	13,378	304	33,981
Derivatives	1,488	-	-	1,611	66	3,165
Other assets	74,769	7,758	2,573	12,662	607	98,369
Total assets	1,477,958	555,040	174,527	374,942	460,961	3,043,428
Liabilities						
Deposits from credit institutions and central banks	7,899	383	-	1,220	3,949	13,451
Deposits and borrowings from customers	1,515,177	374,422	108,931	204,128	446,780	2,649,438
Debt securities issued	59,983	-	-	-	-	59,983
Derivatives	1,530	-	-	150	47	1,727
Other liabilities	30,542	6,826	1,053	43	1,461	39,925
Total liabilities	1,615,131	381,631	109,984	205,541	452,237	2,764,524
Off-balance sheet items						
Contingent liabilities	20,567	2,731	1,261	886	2,719	28,164
Financial commitments	287,818	31,488	5,760	13,711	1,291	340,068

For additional information on geographical distribution of securities exposures please refer to Note 9 (*Debt Securities*). EUR 12.3 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2017: EUR 138.7 million). From Group's balances due from credit institutions presented as "Other countries" EUR 34.0 million are with Swiss credit institutions (2017: EUR 42.9 million) and EUR 21.4 million with United States registered credit institutions (2017: EUR 9.2 million).

Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

Group as at 31/12/2017, EUR 000's						
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and balances at central banks	466,716	81,873	28,133	-	138,746	715,468
Loans to credit institutions	4,985	952	29	44,617	100,693	151,276
Debt securities	266,972	145,399	8,989	269,939	288,214	979,513
Loans to public	808,620	352,056	133,018	12,900	24,001	1,330,595
Equity instruments	124	-	-	152	2,168	2,444
Other financial instruments	20,926	-	-	15,929	302	37,157
Derivatives	626	-	-	1,671	109	2,406
Other assets	71,898	5,764	2,777	11,815	655	92,909
Total assets	1,640,867	586,044	172,946	357,023	554,888	3,311,768
Liabilities						
Deposits from credit institutions and central banks	3,034	1,450	-	19,018	34	23,536
Deposits and borrowings from customers	1,415,473	365,989	85,305	319,044	731,337	2,917,148
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	677	-	-	2,043	446	3,166
Other liabilities	25,486	10,742	715	86	2,013	39,042
Total liabilities	1,504,651	378,181	86,020	340,191	733,830	3,042,873
Off-balance sheet items						
Contingent liabilities	20,966	3,647	367	917	3,525	29,422
Financial commitments	182,963	38,985	11,842	161	2,206	236,157

The carrying amount of the Bank's assets, liabilities and memorandum items by geographical profile. Based on the reported residence of the respective counterparties.

Bank as at 30/06/2018, EUR 000's						
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and balances at central banks	323,004	-	29,146	-	-	352,150
Loans to credit institutions	1,263	729	-	38,637	82,009	122,638
Debt securities	219,999	37,765	7,955	138,229	203,839	607,787
Loans to public	862,418	105,467	130,255	8,648	28,006	1,134,794
Equity instruments	124	-	-	103	2,598	2,825
Other financial instruments	6,170	-	-	-	-	6,170
Derivatives	1,488	7	-	1,611	66	3,172
Other assets	34,974	38,713	2,404	12,651	13,853	102,595
Total assets	1,449,440	182,681	169,760	199,879	330,371	2,332,131
Liabilities						
Deposits from credit institutions and central banks	7,899	1,564	-	1,220	29,480	40,163
Deposits and borrowings from customers	1,494,085	2,750	109,237	87,983	265,545	1,959,600
Debt securities issued	59,983	-	-	-	-	59,983
Derivatives	1,530	-	-	150	47	1,727
Other liabilities	22,922	16	864	16	29	23,847
Total liabilities	1,586,419	4,330	110,101	89,369	295,101	2,085,320
Off-balance sheet items						
Contingent liabilities	20,546	-	1,261	-	2,144	23,951
Financial commitments	340,380	16,831	28,079	13,711	870	399,871

For additional information on geographical distribution of securities exposures please refer to Note 9 (*Debt Securities*). From Bank's balances due from credit institutions presented as "Other countries" EUR 1.6 million are with Swiss credit institutions (2017: EUR 104.1 million) and EUR 21.4 million with United States registered credit institutions (2017: EUR 8.8 million).

	Bank as at 31/12/2017, EUR 000's					Total
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	
Assets						
Cash and balances at central banks	466,715	-	28,133	-	-	494,848
Loans to credit institutions	1,765	106	-	42,265	161,156	205,292
Debt securities	250,774	39,512	7,869	140,445	181,338	619,938
Loans to public	856,082	97,274	130,775	10,724	22,335	1,117,190
Equity instruments	125	-	-	135	2,168	2,428
Other financial instruments	6,371	-	-	-	-	6,371
Derivatives	625	36	-	1,671	149	2,481
Other assets	30,190	38,713	2,303	11,810	13,865	96,881
Total assets	1,612,647	175,641	169,080	207,050	381,011	2,545,429
Liabilities						
Deposits from credit institutions and central banks	3,034	24,172	-	19,018	32,354	78,578
Deposits and borrowings from customers	1,392,257	5,010	86,640	178,901	481,660	2,144,468
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	677	-	-	2,043	448	3,168
Other liabilities	18,776	23	380	84	76	19,339
Total liabilities	1,474,725	29,205	87,020	200,046	514,538	2,305,534
Off-balance sheet items						
Contingent liabilities	20,945	966	367	125	2,849	25,252
Financial commitments	217,503	36,853	31,148	160	1,791	287,455

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.

Currency risk

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

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

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

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

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

	Group as at 30/06/2018, EUR 000's					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and balances at central banks	376,020	4,033	12,548	940	2,179	395,720
Loans to credit institutions	25,752	65,186	6,884	15,701	64,331	177,854
Debt securities	550,439	367,993	7,201	2,928	42,531	971,092
Loans to public	1,330,410	28,569	-	1,074	353	1,360,406
Equity instruments	243	2,598	-	-	-	2,841
Other financial instruments	27,098	6,564	-	319	-	33,981
Derivatives	3,102	5	-	10	48	3,165
Other assets	84,964	11,162	547	653	1,043	98,369
Total assets	2,398,028	486,110	27,180	21,625	110,485	3,043,428
Liabilities						
Deposits from credit institutions and central banks	3,464	631	-	-	9,356	13,451
Deposits and borrowings from customers	2,090,674	491,014	10,952	23,613	33,185	2,649,438
Debt securities issued	59,983	-	-	-	-	59,983
Derivatives	1,685	27	-	5	10	1,727
Other liabilities	36,434	1,765	1,425	69	232	39,925
Total liabilities	2,192,240	493,437	12,377	23,687	42,783	2,764,524
Equity	281,185	(767)	20	(5)	(1,529)	278,904
Total liabilities and equity	2,473,425	492,670	12,397	23,682	41,254	3,043,428
Net long/ (short) position for balance sheet items	(75,397)	(6,560)	14,783	(2,057)	69,231	-
<i>Net long/ (short) positions on off-balance sheet foreign exchange contracts</i>						
	68,597	6,876	(8,945)	2,508	(67,461)	1,575
Net long/ (short) total position	(6,800)	316	5,838	451	1,770	1,575

	Group as at 31/12/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances at central banks	570,546	2,718	138,926	121	3,157	715,468
Loans to credit institutions	16,399	56,024	6,161	15,245	57,447	151,276
Debt securities	529,591	434,353	4,160	-	11,409	979,513
Loans to public	1,305,656	24,634	-	163	142	1,330,595
Equity instruments	276	2,168	-	-	-	2,444
Other financial instruments	28,106	6,644	-	-	2,407	37,157
Derivatives	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						
Deposits from credit institutions and central banks	22,208	1,328	-	-	-	23,536
Deposits and borrowings from customers	2,073,913	746,236	12,087	22,879	62,033	2,917,148
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	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	-
<i>Net long/ (short) positions on off-balance sheet foreign exchange contracts</i>						
	(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)

	Bank as at 30/06/2018, EUR 000's					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and balances at central banks	345,609	3,665	253	648	1,975	352,150
Loans to credit institutions	3,616	42,580	532	14,824	61,086	122,638
Debt securities	342,772	221,192	-	1,292	42,531	607,787
Loans to public	1,106,846	26,521	-	1,074	353	1,134,794
Equity instruments	227	2,598	-	-	-	2,825
Other financial instruments	6,073	97	-	-	-	6,170
Derivatives	3,109	5	-	10	48	3,172
Other assets	75,998	11,076	13,846	653	1,022	102,595
Total assets	1,884,250	307,734	14,631	18,501	107,015	2,332,131
Liabilities						
Deposits from credit institutions and central banks	9,335	15,990	2,557	1,200	11,081	40,163
Deposits and borrowings from customers	1,599,775	309,317	3,073	19,689	27,746	1,959,600
Debt securities issued	59,983	-	-	-	-	59,983
Derivatives	1,685	27	-	5	10	1,727
Other liabilities	21,939	1,613	5	69	221	23,847
Total liabilities	1,692,717	326,947	5,635	20,963	39,058	2,085,320
Equity	248,924	(580)	-	(4)	(1,529)	246,811
Total liabilities and equity	1,941,641	326,367	5,635	20,959	37,529	2,332,131
Net long/ (short) position for balance sheet items	(57,391)	(18,633)	8,996	(2,458)	69,486	-
<i>Net long/ (short) positions on off-balance sheet foreign exchange contracts</i>	<i>57,168</i>	<i>18,672</i>	<i>(8,945)</i>	<i>2,575</i>	<i>(67,892)</i>	<i>1,578</i>
Net long/ (short) total position	(223)	39	51	117	1,594	1,578

	Bank as at 31/12/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances at central banks	490,347	2,437	149	121	1,794	494,848
Loans to credit institutions	3,845	27,491	103,527	15,232	55,197	205,292
Debt securities	344,870	265,066	-	-	10,002	619,938
Loans to public	1,094,918	21,967	-	163	142	1,117,190
Equity instruments	260	2,168	-	-	-	2,428
Other financial instruments	6,275	96	-	-	-	6,371
Derivatives	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						
Deposits from credit institutions and central banks	25,471	47,084	377	454	5,192	78,578
Deposits and borrowings from customers	1,598,717	474,777	3,745	15,651	51,578	2,144,468
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	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	-
<i>Net long/ (short) positions on off-balance sheet foreign exchange contracts</i>	<i>(69,132)</i>	<i>192,270</i>	<i>(113,385)</i>	<i>675</i>	<i>(10,877)</i>	<i>(449)</i>
Net long/ (short) total position	1,778	(1,804)	(24)	(124)	(275)	(449)

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.

Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61. The Bank and the Group is compliant with LCR requirements. European Union's regulations on NSFR are not yet finalised.

	EUR 000's			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Liquidity coverage ratio	279%	318%	221%	347%

Group's assets, liabilities and off-balance sheet items by contractual maturity

	Group as at 30/06/2018, EUR 000's						Total
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	
Assets							
Cash and balances at central banks	395,720	-	-	-	-	-	395,720
Loans to credit institutions	148,177	29,271	-	-	-	406	177,854
Debt securities	6,209	63,295	94,786	170,365	573,096	63,341	971,092
Loans to public	64,336	66,708	86,683	172,107	625,641	344,931	1,360,406
Equity instruments	-	-	-	-	-	2,841	2,841
Other financial instruments	-	-	-	-	-	33,981	33,981
Derivatives	2,183	834	148	-	-	-	3,165
Other assets	28,056	559	461	609	317	68,367	98,369
Total assets	644,681	160,667	182,078	343,081	1,199,054	513,867	3,043,428
Liabilities							
Deposits from credit institutions and central banks	12,951	400	-	100	-	-	13,451
Deposits and borrowings from customers	2,061,111	80,185	100,567	211,400	134,147	62,028	2,649,438
Debt securities issued	-	-	-	-	-	59,983	59,983
Derivatives	1,455	272	-	-	-	-	1,727
Other liabilities	15,188	175	582	947	523	22,510	39,925
Total liabilities	2,090,705	81,032	101,149	212,447	134,670	144,521	2,764,524
Equity	-	-	-	-	-	278,904	278,904
Total liabilities and equity	2,090,705	81,032	101,149	212,447	134,670	423,425	3,043,428
Net balance sheet position – long/ (short)	(1,446,024)	79,635	80,929	130,634	1,064,384	90,442	-
Off-balance sheet items							
Contingent liabilities	28,164	-	-	-	-	-	28,164
Financial commitments	340,068	-	-	-	-	-	340,068

Group's assets, liabilities and off-balance sheet items by contractual maturity

	Group as at 31/12/2017, EUR 000's						Total
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	
Assets							
Cash and balances at central banks	715,468	-	-	-	-	-	715,468
Loans to credit institutions	145,300	4,602	-	534	-	840	151,276
Debt securities	51,855	53,407	92,909	112,807	620,197	48,338	979,513
Loans to public	63,949	62,853	96,429	155,950	636,240	315,174	1,330,595
Equity instruments	-	-	-	-	-	2,444	2,444
Other financial instruments	-	-	-	-	-	37,157	37,157
Derivatives	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							
Deposits from credit institutions and central banks	4,001	19,435	100	-	-	-	23,536
Deposits and borrowings from customers	2,328,844	145,840	100,099	182,113	144,202	16,050	2,917,148
Debt securities issued	-	-	294	-	-	59,687	59,981
Derivatives	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

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. Subordinated liabilities to EBRD (due within 2-3 months) are shown as per terms effective as at 31 December 2017 i.e. taking into consideration at that time agreed early repayment of EBRD subordinated liabilities.

Banks's assets, liabilities and off-balance sheet items by contractual maturity

	Bank as at 30/06/2018, EUR 000's						Total
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	
Assets							
Cash and balances at central banks	352,150	-	-	-	-	-	352,150
Loans to credit institutions	101,254	21,384	-	-	-	-	122,638
Debt securities	3,805	58,236	58,559	107,016	350,219	29,952	607,787
Loans to public	39,222	116,285	58,926	212,263	390,051	318,047	1,134,794
Equity instruments	-	-	-	-	-	2,825	2,825
Other financial instruments	-	-	-	-	-	6,170	6,170
Derivatives	2,190	834	148	-	-	-	3,172
Other assets	24,322	4	3	3	5	78,258	102,595
Total assets	522,943	196,743	117,636	319,282	740,275	435,252	2,332,131
Liabilities							
Deposits from credit institutions and central banks	31,539	4,781	2,588	-	1,255	-	40,163
Deposits and borrowings from customers	1,600,267	48,144	48,225	127,587	78,424	56,953	1,959,600
Debt securities issued	-	-	-	-	-	59,983	59,983
Derivatives	1,455	272	-	-	-	-	1,727
Other liabilities	7,956	-	-	-	-	15,891	23,847
Total liabilities	1,641,217	53,197	50,813	127,587	79,679	132,827	2,085,320
Equity	-	-	-	-	-	246,811	246,811
Total liabilities and equity	1,641,217	53,197	50,813	127,587	79,679	379,638	2,332,131
Net balance sheet position – long/ (short)	(1,118,274)	143,546	66,823	191,695	660,596	55,614	-
Off-balance sheet items							
Contingent liabilities	23,951	-	-	-	-	-	23,951
Financial commitments	399,871	-	-	-	-	-	399,871

Bank's assets, liabilities and off-balance sheet items by contractual maturity

	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 at central banks	494,848	-	-	-	-	-	494,848
Loans to credit institutions	205,292	-	-	-	-	-	205,292
Debt securities	43,453	35,302	58,902	77,528	385,436	19,317	619,938
Loans to public	41,657	127,210	65,495	172,138	423,456	287,234	1,117,190
Equity instruments	-	-	-	-	-	2,428	2,428
Other financial instruments	-	-	-	-	-	6,371	6,371
Derivatives	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							
Deposits from credit institutions and central banks	31,677	35,701	7,466	2,514	1,220	-	78,578
Deposits and borrowings from customers	1,775,136	94,283	55,314	109,944	101,194	8,597	2,144,468
Debt securities issued	-	-	294	-	-	59,687	59,981
Derivatives	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

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). TSCR requires capital 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 30 June 2018 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% and was introduced in two steps – 0.75% capital buffer requirement become effective as at 30 June 2017 with the full buffer requirements becoming effective on 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 30 June 2018, 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 30 June 2018:

	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	1.50%	1.50%	1.50%
Countercyclical capital buffer	-	-	-
Capital requirement	9.90%	11.88%	14.50%

* 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.

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			
	30/06/2018 Group*	31/12/2017 Group*	30/06/2018 Bank	31/12/2017 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	101,317	106,429	79,080	81,827
Deductible other intangible assets	(5,088)	(4,139)	(4,883)	(3,877)
Other capital components, deductions and transitional adjustments, net	6,137	2,670	2,683	296
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	60,000	60,000	60,000
Total own funds	318,922	321,516	293,436	294,802
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,522,505	1,496,213	1,305,868	1,283,761
Total exposure amounts for position, foreign currency open position and commodities risk	10,093	7,887	3,072	3,858
Total exposure amounts for operational risk	236,078	236,078	184,054	184,054
Total exposure amounts for credit valuation adjustment	824	1,138	823	1,138
Total risk exposure amount	1,769,500	1,741,316	1,493,817	1,472,811
Total capital adequacy ratio	18.0%	18.4%	19.6%	20.0%
Common equity Tier 1 capital ratio	14.6%	15.0%	15.6%	15.9%

* 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. The Group's and the Bank's long term regulatory capital position is planned and managed in line with these and other 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			
	30/06/2018 Group	31/12/2017 Group	30/06/2018 Bank	31/12/2017 Bank
Common equity Tier 1 capital, fully loaded	253,060	261,671	229,060	235,383
Tier 2 capital	60,000	60,000	60,000	60,000
Total own funds, fully loaded	313,060	321,671	289,060	295,383
Total risk exposure amount, fully loaded	1,764,193	1,741,316	1,489,355	1,472,811
Total capital adequacy ratio, fully loaded	17.8%	18.5%	19.4%	20.1%
Common equity Tier 1 capital ratio, fully loaded	14.3%	15.0%	15.4%	16.0%

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. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements. The MREL requirement for each institution is comprised of a number of elements, including the required loss absorbing capacity of the institution (which, as a minimum, equals 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 include 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.

On 28 February 2018 the Single Resolution Board (SRB) determined the consolidated MREL for Citadele Group at the level of 12.37% of total liabilities and own funds (TLOF). The ratio was calculated based on the Group's financial position as at 31 December 2016. The MREL target has to be reached by 14 April 2022 after a transition period of 4 years. Intermediate targets, updates to existing target and additional MREL requirements may be set by SRB in the future.

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.

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