AS Citadele banka

# Audited Interim Report

For the six months ended
30 June 2021

# Key figures and events of the Group

Strong financial performance with net profit reaching EUR 32.6 million in H1 2021, which translated into 18.1% annualised return on equity.

The number of active customers reached 351 thousand clients as of 30 June 2021, 12% growth y-o-y.

EUR 551 million issued in new financing to Baltic private, SME, corporate and leasing customers in H1 2021, 198% growth y-o-y.

Baltic deposits continued to increase by EUR 269 million in H1 2021, or 8% growth vs. year-end 2020.

The Bank continues to operate with adequate capital and liquidity ratios. Group's CAR (including period's result) was 19.4% and LCR of 187% as of 30 June 2021.

The first phase of the agreement between Citadele and ABLV for the purchase of the majority of ABLV's mortgage portfolio has been completed as of beginning of July, increasing Citadele's mortgage portfolio by almost 20%. The second phase of the transaction is expected to be completed by the end of the year.

| *EUR millions* | **H1 2021** | **H2 2020** | **H1 2020** |
|---|---|---|---|
| Net interest income | 53.2 | 33.7 | 33.9 |
| Net fee and commission income | 16.9 | 16.1 | 14.0 |
| Net financial and other income | 6.6 | 19.3 | (22.3) |
| **Operating income** | **76.8** | **69.1** | **25.6** |
| Operating expense | (46.7) | (39.5) | (40.4) |
| Net credit losses and impairments | 3.7 | 3.6 | (14.0) |
| **Net profit** | **32.6** | **32.6** | **(29.0)** |
| Return on average assets (ROA) | 1.39% | 1.43% | (1.40%) |
| Return on average equity (ROE) | 18.1% | 19.9% | (17.8%) |
| Cost to income ratio (CIR) | 60.8% | 57.3% | 157.9% |
| Cost of risk ratio (COR) | (0.4%) | (0.5%) | 1.6% |
| *Adjusted for one-time item *:* | | | |
| Operating income | 76.8 | 55.8 | 50.2 |
| Net profit | 32.6 | 19.4 | (4.4) |
| Return on average assets (ROA) | 1.39% | 0.85% | (0.21%) |
| Return on average equity (ROE) | 18.1% | 11.8% | (2.7%) |
| Cost to income ratio (CIR) | 60.8% | 70.9% | 80.5% |

| *EUR millions* | **30 Jun 2021** | **31 Dec 2020** | **30 Jun 2020** |
|---|---|---|---|
| Total assets | 4,806 | 4,597 | 4,533 |
| Loans to public | 2,457 | 1,541 | 1,495 |
| Deposits from customers | 3,798 | 3,671 | 3,652 |
| Shareholders' equity | 375 | 344 | 312 |
| Loan-to-deposit ratio | 65% | 42% | 41% |
| Total capital adequacy ratio (CAR), transitional (including period's result) | 19.4% | 26.0% | 21.0% |
| Common equity Tier 1 (CET1) capital ratio, transitional (including period's result) | 16.7% | 22.1% | 17.6% |
| Full time employees | 1,349 | 1,230 | 1,248 |

** 2020 is adjusted for one-time losses related to the tail risk defensive measures in the amount of EUR (24.6) million for H1 and an additional EUR (4.2) million for H2, both included in "Net financial and other income", and one-time gain of EUR 17.5 million in H2 from leaseback sale of headquarters buildings in Latvia and Lithuania.*

# CONTENTS



***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.*

**We have had a strong first half of the year, continuing to support our customers with financing as economy opened up.**

**Johan Åkerblom**
CEO and Chairman of the Management Board

## Situation in the global economy continues to improve

The global economy continues to recover from the recession caused by the Covid-19 pandemic supported by accommodative monetary and fiscal policies in the advanced economies, global Covid-19 vaccine rollout and strong demand for goods across the world economy. The favourable external economic environment, together with partial lifting of domestic Covid-19 related restrictions and substantial government stimulus spending is creating new business and export opportunities for Baltic entrepreneurs and has supported economic recovery in the Baltic region. In Q2 2021 GDP in Latvia grew by 10.3% compared to the previous year, returning to pre-Covid-19 highs despite falling behind Lithuania and Estonia in Q1 2021. At the same time, some service sectors still remain affected by restrictions and vaccinations rates in the Baltics are below the EU average. Vaccines seems to effectively reduce hospitalizations and death rate, which hopefully should allow us to gradually return to normality and release of the remaining restrictions in the service sectors. Significant excess savings accumulated by Baltic households during the Covid-19 pandemic and expected inflow of investments from the EU recovery fund will further stimulate Baltic growth potential in the next few years.

## Stable client base

Citadele has had a strong first half of the year. Active customers reached 351 thousand clients as of 30 June 2021, or 12% growth y-o-y. The number of active Mobile App users reached 176 thousand, a 28% increase y-o-y.

## Innovations and development

In H1 2021, Citadele continued to develop services and products to meet customer expectations across multiple channels and changing market conditions. Thinking about SME customers' convenience, Citadele launched remote account opening for businesses, allowing the clients to begin their digital journey in fast and efficient way. The Bank has introduced a new tool for SME and corporate clients - Merchant Portal. Merchants can easily monitor their customers' behaviour in physical and e-shops, account balances in different banks, incoming & outgoing transactions in real time, as well as create and send invoices to third parties. Citadele also continued to strengthen its position in the mobile payments area - FitBit Pay and Garmin Pay were launched in June 2021.

Sharing the view that climate change is becoming a key priority for a wide range of industries, including financial institutions, the Bank has started a solar panels consumer lending pilot in Lithuania, helping the economy to access sustainable assets for a more attractive price. Citadele will continue to develop new offers supporting the green transition.

## EUR 551 million issued in new financing to Baltic private, SME, corporate and leasing customers

New lending to our customers reached a record high of EUR 551 million in H1 2021, almost twice higher than H2 2020. EUR 243 million were issued in Q2 2021.

The total loan book as of 30 June 2021 was EUR 2,457 million, 59% higher vs. year end 2020. Portfolio growth was impacted by acquisition of the SIA UniCredit Leasing (rebranded to SIA Citadele Leasing) at the beginning of year.

Portfolio quality continued to improve and the NPL ratio stood at 3.4% as of 30 June 2021, vs. 3.9% at the end of Q1 2021.

## Strong financial results

Strong financial performance with net profit reaching EUR 32.6 million in H1 2021, which translated into 18.1% return on equity. Net profit in Q2 was EUR 22.1 million with Q2 ROE of 24.3%.

Citadele continues to operate with adequate capital and liquidity ratios: CAR (including period's result) of 19.4% and LCR of 187% as of 30 June 2021.

Customer deposits reached EUR 3,798 million as of 30 June 2021, a slight increase of 3% compared to the end of 2020.

## Citadele acquires mortgage portfolio from ABLV Bank, AS in liquidation and completes SIA UniCredit Leasing acquisition

The transaction between AS Citadele banka and UniCredit S.p.A. has been completed. Citadele has become the 100% owner of SIA UniCredit Leasing (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). The acquired entity is part of the Citadele

Group as of beginning of 2021. After completion of the acquisition transaction, the acquired entity was renamed to SIA Citadele Leasing.

The first phase of the agreement between Citadele and ABLV for the purchase of the majority of ABLV's mortgage portfolio has been completed as of 2 July 2021. Citadele's mortgage portfolio has now been increased by almost 20% (EUR 114 million net increase). The acquisition will give additional positive financial impact from Q3 2021 onwards. The second phase of the transaction is expected to be finalised by the end of the year and will involve additional mortgage agreements in the amount of around EUR 50 million.

**Management Board strengthened by new Chief Risk Officer Jūlija Lebedinska-Ļitvinova**

As previously announced, Jūlija Lebedinska-Ļitvinova has been appointed as Chief Risk Officer for Citadele banka and elected as a member of the management board. On 16 June 2021, the appointment was approved by the regulator.

# Financial review of the Group

## Results and profitability H1 2021

**Net interest income** reached EUR 53.2 million in H1 2021, a 57% increase as compared to the respective period last year, primarily driven by higher interest income from SIA Citadele Leasing book and lower interest expenses resulting from optimised cash balances. Net interest income in Q2 2021 reached EUR 27.2 million, a 4% increase q-o-q.

The Group's **net fee and commission income** in H1 2021 reached EUR 16.9 million, which translates into a 20% increase vs. H1 2020, mainly due to recovered customer consumption and interest in savings products. Q2 2021 net fee and commission income was EUR 8.8 million (+8% q-o-q).

**Operating income** in H1 2021 reached EUR 76.8 million, of which EUR 40.1 million was related to the second quarter (+9% q-o-q).

**Operating expenses** in H1 2021 was EUR 46.7 million, a 15% increase compared to H1 2020. Staff costs increased by 18% to EUR 30.8 million. The number of full-time employees was 1,349 vs. 1,230 as of 31 December 2020, reflecting the recent SIA UniCredit Leasing acquisition. Other costs were EUR 10.8 million (3% increase y-o-y). Depreciation and amortization expenses stood at EUR 5.2 million.

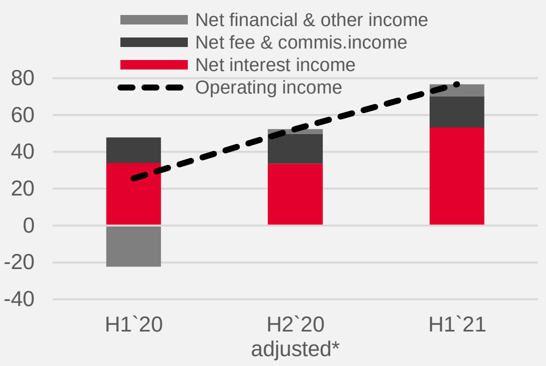
Citadele's **cost to income ratio** in H1 2021 improved to 60.8% versus 65% in 2020.

**Net credit gains** of EUR 3.7 million were booked in H1 2021, driven by a changing macroeconomic outlook. The overall credit quality of the loan book continued to improve, with no major individual impairments during the period.

**Stage 3 loans to public,** gross ratio has decreased to 3.4% as of 30 June 2021, compared to 3.9% at the end of Q1 2021, benefiting from improvement of asset quality within the leasing portfolio and recoveries from several legacy cases.

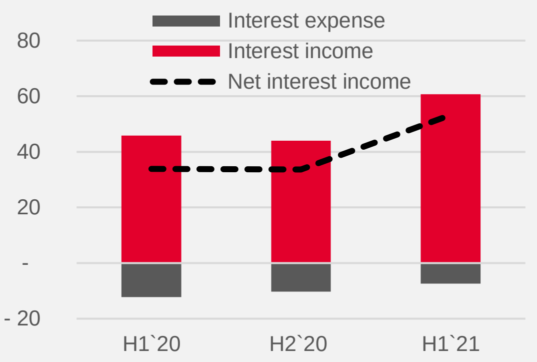
The Group's securities portfolio had stable performance over the first half of the year. The main factor driving returns of the portfolio remained the low yield environment in EUR currency that limits the overall profitability of securities investments. While rising yields in major currencies had a temporary impact on the portfolio performance during the first half of the year, the effect was not pronounced due to the low average duration of the portfolio and amortized cost treatment being applied to 86% of bond holdings.

**Operating income, EURm**

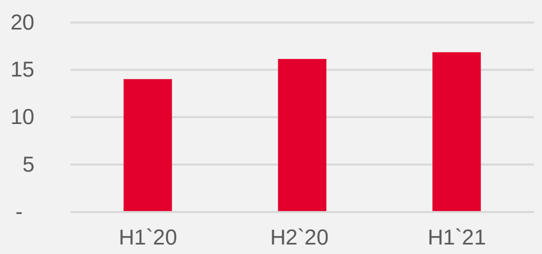



**excluding one-off profit related to Group's headquarters building sale in Riga*

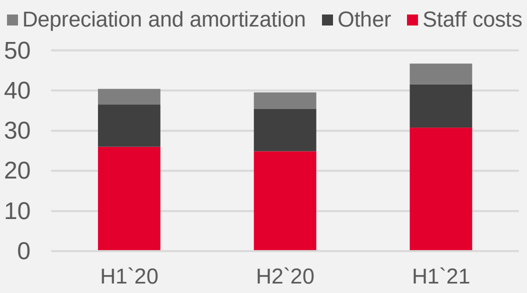
**Net interest income, EURm**




**Net fee and commission income, EURm**




**Operating expense, EURm**



## Balance sheet overview

The **Group's assets** stood at EUR 4,806 million as of 30 June 2021 representing a 5% increase from year end 2020 (EUR 4,597 million).

The **net loan portfoli**o stood at EUR 2,457 million as of 30 June 2021, increasing by EUR 916 million (59%) from year end 2020, mainly impacted by SIA UniCredit Leasing portfolio acquired at the beginning of year.

Strong growth also seen in **new lending** in H1 2021 reached EUR 551 million, almost twice higher than in H2 2020. EUR 149 million were issued to retail customers, EUR 211 million to corporate customers and EUR 191 million to SIA Citadele Leasing clients.

In terms of segments, leasing represents 34% of the portfolio, followed by corporate (26%), private customers (27%), SMEs (11%) and wealth management (2%).

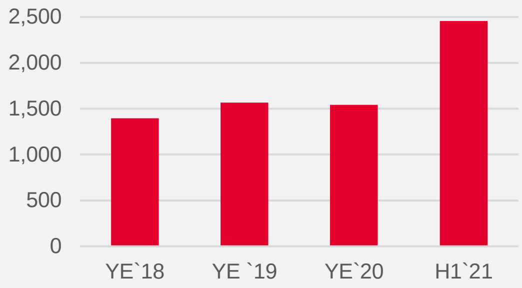
As a result of the SIA UniCredit Leasing portfolio acquisition, changes have also been seen in the loan portfolio's geographical profile and **industry concentrations.** As of 30 June 2021, Latvia accounted for 46% of the portfolio, with EUR 1,136 million (vs. 57% as of year end 2020), followed by Lithuania at 39% with EUR 951 million (vs. 32% as of year end 2020) and Estonia at 14% with EUR 353 million (vs. 10% as of year end 2020).

Loans to Households represented 40% of the portfolio (vs. 46% as of year end 2020). Finance leases have increased six times after the UniCredit Leasing loan book acquisition. An increase is also seen in mortgages (9% since year end 2020). Consumer and card lending has slightly decreased by 3% and 5%, respectively, since year end 2020 impacted by increased savings by customers. Overall, the main industry concentrations were Real estate purchase and management (17% of gross loans), Transport and Communications (15%), Manufacturing (16%) and Trade (13%).

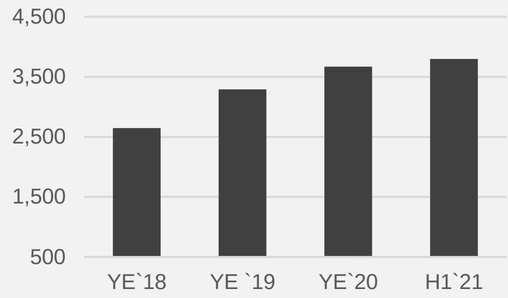
The Bank has optimised cash balances that allowed keeping the securities portfolio at a relatively stable level throughout the first half of the year. Portfolio size declined by 2% over the first six months as funds from maturing securities were accumulated for ABLV portfolio acquisition.

The main source of funding, **customer deposits, grew** by 3% v.s. year end 2020. Baltic domestic customer deposits increased by EUR 269 million (+8%). As of 30 June 2021, total Group customer deposits were EUR 3,798 million.

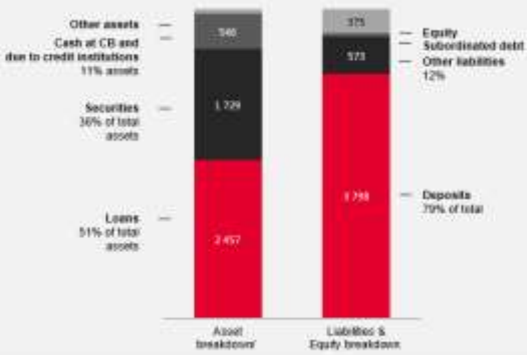
### Loans, EURm




### Deposits, EURm




### Balance sheet structure, EURm




## Ratings

International credit rating agency Moody's Investors Service has assigned Baa3 rating with positive outlook (17 February 2021).

The main credit strengths are:

- Strong capitalization
- Improved governance, with selective growth in its home markets, and reduction of the non-resident segment

| Moody's | |
|---|---|
| Long term deposit | Baa3 |
| Long term counterparty risk rating | Baa2 |
| Short term deposit | P-3 |
| Short term counterparty risk rating | P-2 |
| Outlook: | Positive |

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

# Segment highlights

## Retail segment

Private individuals and SMEs continued solid contribution to H1 2021 results, supported by economic recovery and increase of customer activity.

The number of active retail customers reached a new all-time high level for Citadele, and primary customers continued to grow reaching 166 thousand clients as of 30 June 2021, a 16% increase y-o-y.

New lending to retail customers reached EUR 149 million in H1 2021, of which EUR 79 million were issued in Q2 2021, 12% increase q-o-q. Private individuals were major contributors in retail segment, with an issued amount of EUR 55 million in Q2 2021.

Total loans to private individuals and SME customers reached EUR 936 million, a 24% increase since year end 2020 with continuously improving loan quality. Consumption recovery gave stimulus to credit card portfolio growth in Q2 2021.

Following on-site sales reopening during Q2 2021, demand was seen from companies for both Citadele's e-commerce solutions and POS terminals.

Deposits from private individuals and SMEs reached EUR 1,988 million, a 12% increase since year end 2020.

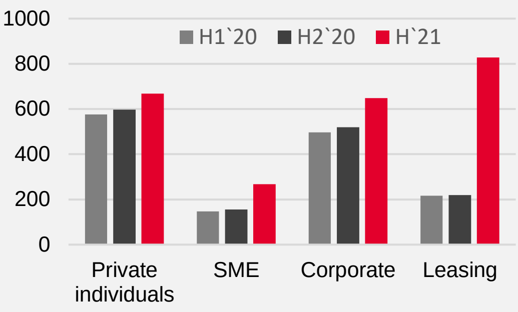
## Corporate segment

In H1 2021, Baltic economy continued strong recovery, as many Covid-19 restrictions were removed or reduced significantly. Positive signs of recovery highly correlated with Citadele clients' activities. Corporate lending in H1 2021 was at a record high - EUR 211 million disbursed to corporate banking clients and EUR 191 million issued to leasing clients. EUR 31 million invested in local corporates bonds. Most active clients were in the real estate business, trade, manufacture and transportation. The corporate loan portfolio grew by 25% compared to year end 2020. Credit portfolio quality stayed stabile.

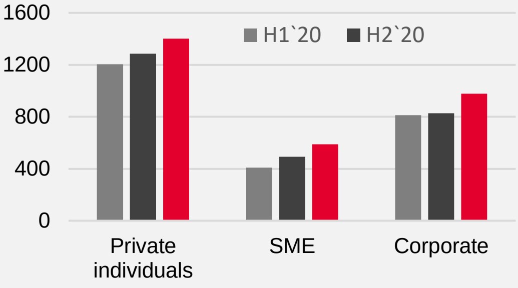
The deposit portfolio grew 18% vs. year-end 2020 and reached EUR 979 million as of 30 June 2021.

Work was continued on operational excellence and digitization of the Bank's lending process – 47% of nCino project was completed by the end of June and implementation of new factoring system started in the first half of the year.

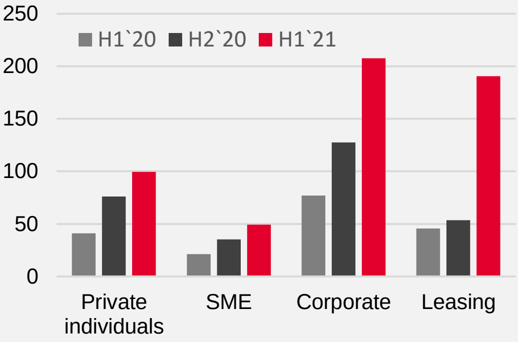
### Loans, EURm



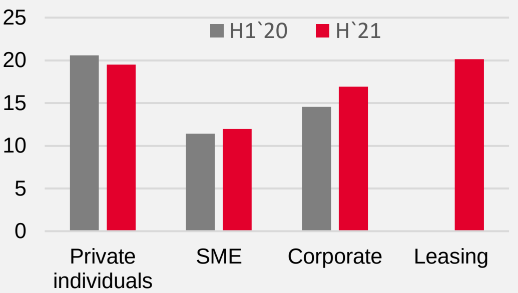

### Deposits, EURm




### New lending, EURm




### Operating income, EURm



# Business Environment

### Global economy continues to recover from Covid-19

The world economy continues to recover from the recession caused by the Covid-19 pandemic, as gradual release of restrictions in advanced economies is leading to recovery in service sectors. Global demand for goods remains strong even as supply chains continue to struggle with high demand, leading to supply chain delays and rising prices.

Despite the recent surge of Covid-19 infections in some world regions, countries with high vaccination rates have seen significantly lower hospitalizations and death levels than in previous Covid-19 waves. According to the International Monetary Fund July 2021 forecasts, the world economy is expected to grow 6.0% in 2021 and 4.9% in 2022.

### GDP in Baltic region is already above pre Covid-19 level

Strong external manufacturing demand and growing global trade, partial release of Covid-19 related restrictions and substantial government stimulus spending has supported the economic recovery in the Baltic region. Business sentiment in the Baltics is strong and GDP in the Baltic region is already above pre Covid-19 level.

In Q2 2021 Latvian GDP grew by 10.3% compared to the previous year. As a result, the Latvian economy has returned to pre Covid-19 highs despite falling behind Lithuania and Estonia in Q1 2021. However, some service sectors still remain affected by some restrictions, and vaccinations rates in the Baltic are below EU average.

### Strong global demand drives growth in industry

Manufacturers in the Baltic region continue to benefit from strong demand in global industry as demand in some segments exceeds supply. As a result, inventory levels have fallen, deliveries of goods have been delayed, and commodity and transport costs are rising. Strong demand has led to a surge in new industrial orders in the Baltic region in the first half of the year.

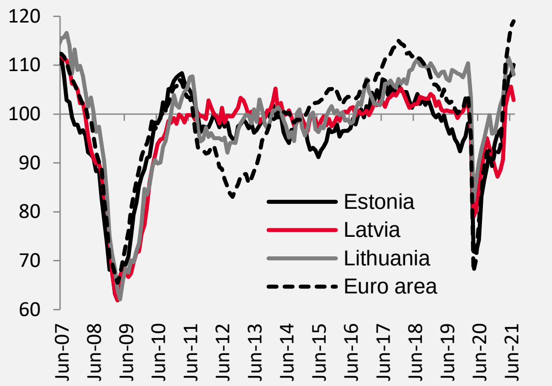
In June 2021 manufacturing output in Latvia grew by 10.9% y-o-y, while in Lithuania manufacturing growth reached 21.2% and in Estonia by 10.0% as industrial output in most manufacturing industries has exceeded pre Covid-19 levels.

### Consumer price inflation has increased

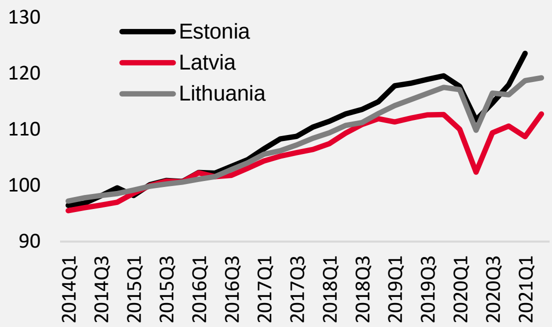
Economic recovery has led to higher inflation; however, inflation remains moderate and mostly driven by external factors such as energy and food prices. In June, consumer prices in Latvia rose by 2.7% y-o-y, while prices in Estonia and Lithuania grew by 3.7% and 3.5%, respectively.

At the same time domestic inflation remains subdued due as unemployment in the Baltics remains above pre Covid-19 levels. According to official statistics, unemployment in Q2 2021 reached 7.9% in Latvia, 6.9% in Estonia and 7.4% in Lithuania, compared to an EU average of 7.7%. However, signs of labour shortages have re-emerged as overall, the situation in the labour market is uncertain as the economy remains affected by Covid-19 related restrictions.

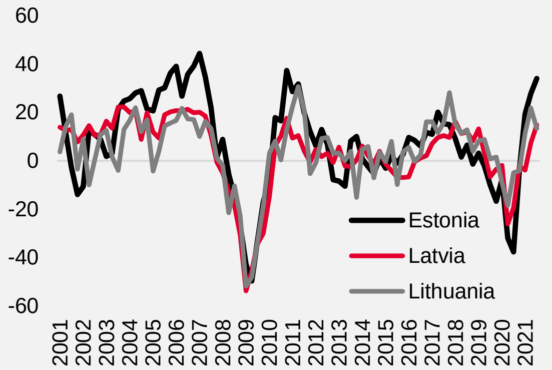
**Economic Sentiment Indicator**



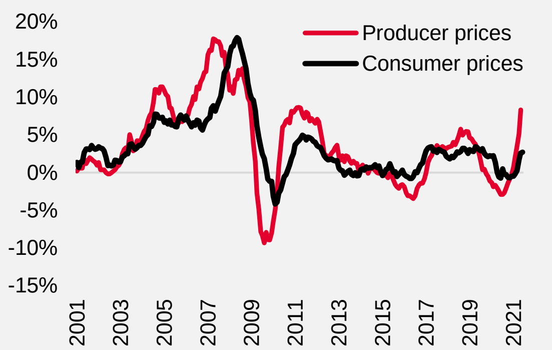

**GDP in constant prices, (2015=100)**




**New industrial orders**




**Inflation in Latvia, % YoY**



# CORPORATE GOVERNANCE

AS Citadele banka is the parent company of Citadele Group. AS Citadele banka is a joint stock company. 75% plus one share in AS Citadele banka 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 for 2020 is published on the Bank's website www.cblgroup.com.

***Supervisory Board of the Bank as of 30/06/2021:***

| 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 |
| Sylvia Yumi Gansser Potts | Member of the Supervisory Board | 29 October 2018 |

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

***Management Board of the Bank as of 30/06/2021:***

| Name | Current position | Responsibility |
|---|---|---|
| Johan Åkerblom | Chairman of the Management Board | Chief Executive Officer |
| Valters Ābele | Member of the Management Board | Chief Financial Officer |
| Vladislavs Mironovs | Member of the Management Board | Chief Strategy Officer |
| Uldis Upenieks | Member of the Management Board | Chief Compliance Officer |
| Slavomir Mizak | Member of the Management Board | Chief Technology and Operations Officer |
| Vaidas Žagūnis | Member of the Management Board | Chief Corporate Commercial Officer |
| Rūta Ežerskienė | Member of the Management Board | Chief Retail Commercial Officer |
| Jūlija Lebedinska-Ļitvinova | Member of the Management Board | Chief Risk Officer |

On 1 January 2021 Vladislavs Mironovs refocused on Strategy execution, Digital evolution and Business development, Valters Ābele took Chief Financial Officer role and Slavomir Mizak started running the merged IT and Operations organization. Former Chief Operations Officer Kaspars Jansons resigned on 1 January 2021. Effective from 1 February 2021 Rūta Ežerskienė joined the Management Board as Chief Retail Commercial Officer. Effective from 16 June 2021 Jūlija Lebedinska-Ļitvinova joined the Management Board and commenced duties of Chief Risk Officer of Citadele banka.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The condensed interim financial statements set out on pages 12 to 40 are prepared in accordance with the source documents and present the financial position of the Bank and the Group as of 30 June 2021 and 31 December 2020 and the results of their operations, changes in shareholders' equity and cash flows for the six months periods ended 30 June 2021 and 30 June 2020 in accordance with IAS 34 Interim Reporting as adopted by the European Union. The management report set out on pages 4 to 10 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The condensed interim financial statements are 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.

| | |
|---|---|
| Johan Åkerblom<br>Chairman of the Management Board | Klāvs Vasks<br>Member of the Supervisory Board |

THE DOCUMENT IS SIGNED USING A QUALIFIED ELECTRONIC SIGNATURE AND CONTAINS A TIMESTAMP

## STATEMENT OF INCOME

| | Note | 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
|---|---|---|---|---|---|
| | | EUR thousands | | | |
| Interest income | 5 | 60,662 | 46,142 | 43,773 | 41,683 |
| Interest expense | 5 | (7,424) | (12,258) | (7,128) | (12,252) |
| **Net interest income** | | **53,238** | **33,884** | **36,645** | **29,431** |
| Fee and commission income | 6 | 28,161 | 24,608 | 23,003 | 20,556 |
| Fee and commission expense | 6 | (11,258) | (10,571) | (10,818) | (10,161) |
| **Net fee and commission income** | | **16,903** | **14,037** | **12,185** | **10,395** |
| Net financial income | 7 | 4,678 | (20,988) | 4,390 | (20,523) |
| Net other income / (expense) | | 1,970 | (1,323) | 1,463 | 96 |
| **Operating income** | | **76,789** | **25,610** | **54,683** | **19,399** |
| Staff costs | | (30,763) | (26,003) | (22,962) | (23,231) |
| Other operating expenses | 8 | (10,767) | (10,494) | (8,158) | (9,445) |
| Depreciation and amortisation | | (5,153) | (3,948) | (3,786) | (3,713) |
| **Operating expense** | | **(46,683)** | **(40,445)** | **(34,906)** | **(36,389)** |
| **Profit before impairment** | | **30,106** | **(14,835)** | **19,777** | **(16,990)** |
| Net credit losses | 9 | 3,770 | (13,144) | (4,156) | (12,211) |
| Other impairment losses and other provisions | | (107) | (882) | 665 | (1,025) |
| **Operating profit / (loss) before non-current assets held for sale** | | **33,769** | **(28,861)** | **16,286** | **(30,226)** |
| Result from non-current assets held for sale | | (102) | (81) | (102) | (81) |
| **Operating profit / (loss)** | | **33,667** | **(28,942)** | **16,184** | **(30,307)** |
| Income tax | 10 | (1,079) | (83) | (301) | (14) |
| **Net profit / (loss)** | | **32,588** | **(29,025)** | **15,883** | **(30,321)** |
| Basic earnings per share in EUR | 18 | 0.21 | (0.19) | 0.10 | (0.19) |
| Diluted earnings per share in EUR | 18 | 0.21 | (0.18) | 0.10 | (0.19) |

The notes on pages 17 to 40 are an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

| | EUR thousands | | | |
|---|---|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited | **6m 2021 Bank** | **6m 2020 Bank** unaudited |
| **Net profit / (loss)** | **32,588** | **(29,025)** | **15,883** | **(30,321)** |
| Other comprehensive income items that are or may be reclassified to profit or loss: | | | | |
| *Fair value revaluation reserve* | | | | |
| Fair value revaluation reserve charged to statement of income (Note 7) | 314 | (60) | (220) | (530) |
| Change in fair value of debt securities and similar | (2,210) | (198) | (950) | 822 |
| Deferred income tax charged / (credited) directly to equity | 138 | 48 | - | - |
| *Other reserves* | | | | |
| Foreign exchange retranslation | (345) | 473 | - | - |
| Other comprehensive income items that may not be reclassified to profit or loss: | | | | |
| *Fair value revaluation reserve* | | | | |
| Change in fair value of equity and similar instruments | (44) | (598) | (44) | (598) |
| **Other comprehensive income / (loss)** | **(2,147)** | **(335)** | **(1,214)** | **(306)** |
| **Total comprehensive income / (loss)** | **30,441** | **(29,360)** | **14,669** | **(30,627)** |

The notes on pages 17 to 40 are an integral part of these financial statements.

## BALANCE SHEET

| | | EUR thousands | | | |
|---|---|---|---|---|---|
| | Note | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| **Assets** | | | | | |
| Cash and cash balances at central banks | | 486,072 | 1,146,606 | 474,292 | 1,131,008 |
| Loans to credit institutions | | 60,020 | 51,287 | 41,288 | 40,289 |
| Debt securities | 11 | 1,684,213 | 1,760,190 | 1,535,650 | 1,563,675 |
| Loans to public | 12 | 2,456,803 | 1,541,223 | 2,347,898 | 1,518,313 |
| Equity instruments | 13 | 1,311 | 4,764 | 1,311 | 4,764 |
| Other financial instruments | 13 | 39,633 | 43,343 | 7,574 | 13,834 |
| Derivatives | | 3,889 | 1,474 | 3,889 | 1,474 |
| Investments in related entities | 14 | 274 | 274 | 76,731 | 46,756 |
| Tangible assets | | 23,770 | 12,930 | 13,406 | 14,143 |
| Intangible assets | | 8,212 | 5,981 | 6,005 | 5,832 |
| Current income tax assets | | 2,359 | 885 | 879 | 878 |
| Deferred income tax assets | | 2,981 | 2,387 | 2,179 | 2,179 |
| Non-current assets held for sale | | 946 | 946 | 946 | 946 |
| Other assets | | 35,447 | 25,028 | 21,538 | 16,355 |
| **Total assets** | | **4,805,930** | **4,597,318** | **4,533,586** | **4,360,446** |
| **Liabilities** | | | | | |
| Deposits from credit institutions and central banks | 15 | 478,047 | 449,991 | 492,499 | 470,959 |
| Deposits and borrowings from customers | 16 | 3,797,982 | 3,671,390 | 3,619,026 | 3,478,096 |
| Debt securities issued | 17 | 60,088 | 60,080 | 60,088 | 60,080 |
| Derivatives | | 1,120 | 4,461 | 1,120 | 4,461 |
| Provisions | | 1,757 | 2,211 | 1,961 | 2,133 |
| Current income tax liabilities | | 299 | 213 | 275 | 115 |
| Deferred income tax liabilities | | 507 | 464 | - | - |
| Other liabilities | | 90,860 | 64,198 | 25,831 | 27,003 |
| **Total liabilities** | | **4,430,660** | **4,253,008** | **4,200,800** | **4,042,847** |
| **Equity** | | | | | |
| Share capital | 18 | 156,556 | 156,556 | 156,556 | 156,556 |
| Reserves and other capital components | | 8,354 | 10,265 | 3,491 | 4,469 |
| Retained earnings | | 210,360 | 177,489 | 172,739 | 156,574 |
| **Total equity** | | **375,270** | **344,310** | **332,786** | **317,599** |
| **Total liabilities and equity** | | **4,805,930** | **4,597,318** | **4,533,586** | **4,360,446** |
| **Off-balance sheet items** | | | | | |
| Guarantees and letters of credit | 19 | 46,144 | 23,903 | 45,597 | 23,246 |
| Financial commitments | 19 | 267,409 | 261,050 | 446,728 | 276,089 |

The notes on pages 17 to 40 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

| | Group, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | Issued Share capital | Securities fair value revaluation reserve *(Note 11)* | Foreign currency retrans-lation | Share based payments | Retained earnings | Total equity |
| **Balance as of 31/12/2019** | **156,556** | **6,083** | **3,994** | **1,199** | **172,893** | **340,725** |
| ***Total comprehensive income for the period (unaudited)*** | | | | | | |
| Net (loss) for the period | - | - | - | - | (29,025) | (29,025) |
| Share based payments to employees | - | - | - | 407 | - | 407 |
| Other comprehensive income / (loss) for the period | - | (808) | 473 | - | - | (335) |
| **Balance as of 30/06/2020 (unaudited)** | **156,556** | **5,275** | **4,467** | **1,606** | **143,868** | **311,772** |
| **Balance as of 31/12/2020** | **156,556** | **4,247** | **4,138** | **1,880** | **177,489** | **344,310** |
| ***Total comprehensive income for the period*** | | | | | | |
| Net profit for the period | - | - | - | - | 32,588 | 32,588 |
| Share based payments to employees | - | - | - | 236 | 283 | 519 |
| Other comprehensive income / (loss) for the period | - | (1,802) | (345) | - | - | (2,147) |
| **Balance as of 30/06/2021** | **156,556** | **2,445** | **3,793** | **2,116** | **210,360** | **375,270** |

| | Bank, EUR thousands | | | | |
|---|---|---|---|---|---|
| | Issued Share capital | Securities fair value revaluation reserve *(Note 11)* | Share based payments | Retained earnings | Total equity |
| **Balance as of 31/12/2019** | **156,556** | **4,213** | **1,199** | **160,346** | **322,314** |
| ***Total comprehensive income for the period (unaudited)*** | | | | | |
| Net (loss) for the period | - | - | - | (30,321) | (30,321) |
| Share based payments to employees | - | - | 407 | - | 407 |
| Other comprehensive income / (loss) for the period | - | (306) | - | - | (306) |
| **Balance as of 30/06/2020 (unaudited)** | **156,556** | **3,907** | **1,606** | **130,025** | **292,094** |
| **Balance as of 31/12/2020** | **156,556** | **2,589** | **1,880** | **156,574** | **317,599** |
| ***Total comprehensive income for the period*** | | | | | |
| Net profit for the period | - | - | - | 15,883 | 15,883 |
| Share based payments to employees | - | - | 236 | 282 | 518 |
| Other comprehensive income / (loss) for the period | - | (1,214) | - | - | (1,214) |
| **Balance as of 30/06/2021** | **156,556** | **1,375** | **2,116** | **172,739** | **332,786** |

The notes on pages 17 to 40 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

| | Note | EUR thousands 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Operating profit before tax | | 33,667 | (28,942) | 16,184 | (30,307) |
| Interest income | 5 | (60,662) | (46,142) | (43,773) | (41,683) |
| Interest expense | 5 | 7,424 | 12,258 | 7,128 | 12,252 |
| Dividends income | | (24) | (24) | (24) | (24) |
| Depreciation and amortisation | | 5,153 | 3,948 | 3,786 | 3,713 |
| Impairment allowances and provisions | | (3,663) | 14,026 | 3,491 | 13,236 |
| Currency translation and other non-cash items | | 7,415 | (2,716) | 4,624 | (1,973) |
| **Cash flows from the income statement** | | **(10,690)** | **(47,592)** | **(8,584)** | **(44,786)** |
| (Increase) / decrease in loans to public | | (118,894) | 56,488 | (831,576) | 56,192 |
| Increase / (decrease) in deposits and borrowings from customers | | 128,350 | 360,751 | 142,508 | 382,517 |
| (Increase) / decrease in loans to credit institutions | | (553) | 28,656 | (512) | 27,756 |
| Increase / (decrease) in deposits from central banks and credit institutions | | 29,921 | 448,873 | 23,838 | 433,710 |
| (Increase) / decrease in other items at fair value through profit or loss | | (5,756) | (3,732) | (5,756) | (3,732) |
| (Increase) / decrease in other assets | | 3,833 | 3,412 | (1,999) | 2,754 |
| Increase / (decrease) in other liabilities | | 8,099 | 1,941 | (395) | (3,060) |
| **Cash flows from operating activities before interest and corporate income tax** | | **34,310** | **848,797** | **(682,476)** | **851,351** |
| Interest received | | 58,176 | 46,639 | 42,076 | 42,155 |
| Interest paid | | (7,577) | (9,301) | (7,097) | (9,244) |
| Corporate income tax paid | | (1,036) | (648) | (142) | (171) |
| **Cash flows from operating activities** | | **83,873** | **885,487** | **(647,639)** | **884,091** |
| **Investing activities** | | | | | |
| Acquisition of tangible and intangible assets | | (5,242) | (2,638) | (2,318) | (2,584) |
| Disposal of tangible and intangible assets | | 70 | 1,962 | 49 | 1,962 |
| Investments in debt securities and other financial instruments | | (179,815) | (741,596) | (174,984) | (649,226) |
| Proceeds from debt securities and other financial instruments | | 250,962 | 587,363 | 201,888 | 480,888 |
| Dividends received | | 24 | 24 | 24 | 24 |
| Decrease in cash and cash equivalents as a result of acquisition of SIA UniCredit Leasing | 14 | (798,550) | - | - | - |
| Sale or investments in subsidiaries | | - | - | (29,203) | 649 |
| **Cash flows from investing activities** | | **(732,551)** | **(154,885)** | **(4,544)** | **(168,287)** |
| **Financing activities** | | | | | |
| Interest paid on debt securities and other subordinated liabilities | | (1,817) | (1,817) | (1,817) | (1,817) |
| Repayment of lease liabilities | | (1,767) | (748) | (1,702) | (1,913) |
| **Cash flows from financing activities** | | **(3,584)** | **(2,565)** | **(3,519)** | **(3,730)** |
| **Cash flows for the period** | | **(652,262)** | **728,037** | **(655,702)** | **712,074** |
| **Cash and cash equivalents at the beginning of the period** | | **1,176,550** | **799,058** | **1,148,197** | **754,370** |
| **Cash and cash equivalents at the end of the period** | 21 | **524,288** | **1,527,095** | **492,495** | **1,466,444** |

The notes on pages 17 to 40 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 2020 or for the six months period ended 30 June 2020.*

## NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

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

## NOTE 2. GENERAL INFORMATION

Citadele is a Latvian-based bank offering retail, private banking, asset management, lending, leasing and other commercial banking services. As of period end the Bank operates branches in Latvia, Lithuania and Estonia. AS Citadele banka is the parent company of the Group, which has a subsidiary bank in Switzerland and several financial services subsidiaries. The Group's main market is the Baltics (Latvia, Lithuania and Estonia). Citadele was registered as a joint stock company on 30 June 2010. Citadele commenced its operations on 1 August 2010.

As of 30 June 2021, the Group had 1,349 (2020: 1,230) and the Bank had 1,107 (2020: 1,152) full time equivalent active employees. Increase in the Group's full time equivalent active employees is a result of the acquisition of SIA Citadele Leasing (previously SIA UniCredit Leasing) in the beginning of 2021.

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *a) Basis of preparation*

These interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by European Union (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 the Bank since the last annual consolidated and Bank financial statements for the year ended 31 December 2020. They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS as adopted by the European Union. This interim financial information should be read in conjunction with the 2020 annual financial statements for the Group and the Bank.

### *b) New standards and amendments*

New standards, interpretations and amendments which were not applicable to the previous annual financial statements have been issued. Some of the standards become effective in 2021, others become effective for later reporting periods. In this section those relevant for the Group are summarised. Where the implementation impact was or is expected to be reasonably material it is disclosed.

**New requirements effective for 2021 which did not have a significant effect to the Group**

*Amendments to IFRS 16 – COVID-19-Related Rent Concessions*
*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2*

**Upcoming requirements not in force from 1 January 2021**

Certain new standards, amendments to standards and interpretations have been endorsed by EU for the accounting periods beginning after 1 January 2021 or are not yet effective in the EU. These standards have not been applied in preparing these financial statements. The Group does not plan to adopt any of these standards early. The Group is in the process of evaluating the potential effect if any of changes arise from these new standards and interpretations.

*IFRS 17 - Insurance Contracts.* Expected to be effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied. The upcoming standard combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract. Groups of insurance contracts have to be measured at a risk-adjusted present value of the future cash flows adjusted for unearned profits or losses. Profit from a group of insurance contracts is recognised over the period the insurance cover is provided, and as the risk is released; loss from a group of contracts is recognised immediately. The standard requires presenting insurance service results separately from insurance finance income or expenses and requires making an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

*Amendments to IAS 1 – Classification of liabilities as current or non-current*
*Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policy*
*Amendments to IAS 8 – Definition of Accounting Estimate*
*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

### *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 Baltic subsidiaries, and the Group's presentation currency, is Euro ("EUR"). The functional currency of majority of the Group's foreign subsidiaries is also Euro. The accompanying financial statements are presented in thousands of Euros.

### *d) Use of estimates and judgements in the preparation of financial statements*

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. Significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for assets, determination of the control of investees for consolidation purposes, evaluation of recognisable amounts of deferred tax assets and liabilities.

*Impairment of loans to public*

The Group regularly reviews its loans to public for assessment of impairment. The estimation of impairment losses is inherently uncertain and dependent upon many factors. Two distinct approaches are applied for expected credit loss estimation – individual evaluation, mostly applied to large exposures, and collectively estimated expected credit losses for homogeneous groups of smaller exposures.

On an on-going basis expected credit losses are identified promptly as a result of large loan exposures being individually monitored. For these loan exposures expected credit losses are calculated on an individual basis with reference to expected future cash flows including those arising from the sale of collateral. The Group uses its experienced judgement to estimate the amount of any expected credit loses considering future economic conditions of the borrower and the value of collateral. As a result, the individually assessed expected credit losses can be subject to variation as time progresses and the circumstances change or new information becomes available. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between expected credit loss estimates and actual credit loss experience.

Changes in net present value of estimated future cash flows by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.1 million change in impairment allowance for the Bank (2020: EUR +/-0.1 million) and EUR +/-0.9 million for the Group (2020: EUR +/-0.8 million). Change in estimated value of collateral by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.3 million change in impairment allowance for the Bank (2020: EUR +/-0.4 million) and EUR +/-1.2 million for the Group (2020: EUR +/-0.4 million).

For majority of the loans to public the Group collectively estimates impairment allowance to cover expected losses inherent in the loan portfolio. The collective impairment assessment is based on observable data derived from historic and applied to current loans to clients with similar credit risk characteristics. For this assessment loans to clients are segmented into homogeneous groups based on product type (mortgage, consumer loan etc.) and customer type (private individual, legal entity, public entity etc.). Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The major parameters of the collectively estimated expected credit loss calculation methodology are PD, LGD, EAD and staging outcome. The model also incorporates forward-looking macroeconomic information to arrive to point in time instead of over the cycle expected credit loss estimates. The future credit quality of the loan portfolio for which the expected credit losses are estimated collective is subject to uncertainties that could cause actual credit losses to differ from expected credit losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors.

The management has recognised a significant uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group. To account for that, a prudent impairment overlay for Stage 1 customer loan exposures has been recognised. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. It addresses increased uncertainty regarding the forward-looking economic conditions in the current Covid-19 situation. Such future uncertainties which point in time ECL models calibrated on historical data, despite being adjusted with forward-looking information, might not be fully captured in the current unusual environment. As of 30 June 2021, impairment overlay of EUR 5.0 million for the Bank (2020: EUR 3.2 million) and EUR 8.9 million for the Group (2020: EUR 4.1 million) has been recognised to address these modelling uncertainties.

The Group has implemented forward-looking information in the measurement of the expected credit losses. The forward-looking adjustment incorporates two economic scenarios with distinct economic consequences: a base case scenario which comprises most likely future economic development and a less likely adverse scenario. The weighting of the two current scenarios and the underlying macroeconomic forecasts are consistent with these described in the latest annual report. In the reporting period the scenarios signal improvement in the economic conditions and thus positive development in forward-looking adjustment to the ECL models. As of period end, positive impacts on expected credit losses from the forecasted macroeconomic developments and the modelled reductions in ECL were not incorporated in the final impairment allowances on the basis of remaining uncertainty in the wider economy.

If the weighting of the base case scenario was to increase to 100%, the expected credit loss allowance of the Bank would decrease by EUR 5.6 million (2020: EUR 5.4 million) and for the Group by EUR 10.6 million (2020: EUR 5.9 million) as of 30 June 2021. If the weighting of the adverse scenario was to increase to 100%, the expected credit loss allowance for the Bank would increase by EUR 6.8 million and EUR 11.2 million for the Group as of 30 June 2021.

## NOTE 4. OPERATING SEGMENTS

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 the group that allocates resources to and assesses the performance of the operating segments of the Group. The Management Board of the Bank is the chief operating decision maker.

All transactions between operating segments are on an arm's length basis. Funds Transfer Pricing (FTP) adjusted net interest income of each operating segment is calculated by applying internal transfer rates to the assets and the liabilities of the segment. Maturity, currency and timing of the transaction are components of the internal transfer rate calculation. Income and expense are reported in the segment by originating unit and at estimated fair price. Both direct and indirect expenses are allocated to the business segments, including overheads and non-recurring items. The indirect expense from internal services is charged to the internal consumers of the service and credited to provider of the service. The internal services are charged at estimated fair price or at full cost.

The comparative information as of 31 December 2020 and for the six months period ended 30 June 2020 have been restated for comparability by applying the most recent segmentation methodology.

*Main business segments of the Group are:*

*Private customers*

Private individuals serviced in Latvia, Lithuania and Estonia. Operations of the segment include full banking and advisory services provided through branches, internet bank and mobile banking application.

*SME*

Small and medium-sized companies in Latvia, Lithuania and Estonia serviced through branches, internet bank and mobile banking application.

*Corporate*

Large customers serviced in Latvia, Lithuania and Estonia. Yearly turnover of the customer is above EUR 7 million or total risk exposure with Citadele Group is above EUR 2 million or the customer needs complex financing solutions.

*Wealth management*

Private banking, advisory, investment and wealth management services provided to clients serviced in Latvia, Lithuania and Estonia. This segment includes operations of IPAS CBL Asset Management, AS CBL Atklātais Pensiju Fonds and AAS CBL Life.

*Swiss*

This segment comprises operations of Kaleido Privatbank AG. On 1 April 2021 the legal name of the Swiss registered banking subsidiary AP Anlage & Privatbank AG was changed to Kaleido Privatbank AG.

*Leasing*

Leasing services provided to private individuals and companies in Latvia, Lithuania and Estonia by SIA Citadele Leasing.

*Other*

Group's treasury functions and other business support functions, including results of the subsidiaries of the Group operating in non-financial sector.

**Segments of the Group**

| | Group 6m 2021, EUR thousands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | | |
| | **Private customers** | **SME** | **Corporate** | **Wealth** | **Swiss** | **Leasing** | **Other** | **Total** |
| Interest income | 17,565 | 7,372 | 12,830 | 973 | 898 | 18,744 | 2,280 | 60,662 |
| Interest expense | (609) | (16) | (164) | (583) | (124) | (189) | (5,739) | (7,424) |
| **Net interest income** | **16,956** | **7,356** | **12,666** | **390** | **774** | **18,555** | **(3,459)** | **53,238** |
| Fee and commission income | 8,041 | 5,454 | 5,270 | 6,722 | 1,391 | 573 | 710 | 28,161 |
| Fee and commission expense | (5,084) | (1,913) | (2,831) | (877) | (201) | (23) | (329) | (11,258) |
| **Net fee and commission income** | **2,957** | **3,541** | **2,439** | **5,845** | **1,190** | **550** | **381** | **16,903** |
| Net financial income | 332 | 958 | 665 | 586 | 174 | (1) | 1,964 | 4,678 |
| Net other income | (752) | 102 | 1,138 | 140 | - | 1,034 | 308 | 1,970 |
| **Operating income** | **19,493** | **11,957** | **16,908** | **6,961** | **2,138** | **20,138** | **(806)** | **76,789** |
| Net funding allocation | (358) | (157) | (547) | 237 | 39 | (1,041) | 1,827 | - |
| **FTP adjusted operating income** | **19,135** | **11,800** | **16,361** | **7,198** | **2,177** | **19,097** | **1,021** | **76,789** |
| Net credit losses | (1,004) | 2,183 | (553) | 46 | 17 | 5,512 | (2,431) | 3,770 |
| **Net result before operating expense** | **18,131** | **13,983** | **15,808** | **7,244** | **2,194** | **24,609** | **(1,410)** | **80,559** |
| Not allocated income and expense, net | | | | | | | | (47,971) |
| **Net profit / (loss)** | | | | | | | | **32,588** |

| | Group 6m 2020, EUR thousands (Reclassified for comparability, unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | | |
| | Private customers | SME | Corporate | Wealth | Swiss | Leasing | Other | Total |
| Interest income | 19,861 | 7,947 | 13,255 | 1,193 | 1,475 | - | 2,411 | 46,142 |
| Interest expense | (1,167) | (27) | (322) | (2,266) | (299) | - | (8,177) | (12,258) |
| **Net interest income** | **18,694** | **7,920** | **12,933** | **(1,073)** | **1,176** | **-** | **(5,766)** | **33,884** |
| Fee and commission income | 6,673 | 4,926 | 4,348 | 6,143 | 1,649 | - | 869 | 24,608 |
| Fee and commission expense | (4,547) | (1,978) | (2,584) | (897) | (216) | - | (349) | (10,571) |
| **Net fee and commission income** | **2,126** | **2,948** | **1,764** | **5,246** | **1,433** | **-** | **520** | **14,037** |
| Net financial income | 463 | 727 | 109 | 729 | (498) | - | (22,518) | (20,988) |
| Net other income | (714) | (175) | (254) | (345) | (346) | - | 511 | (1,323) |
| **Operating income** | **20,569** | **11,420** | **14,552** | **4,557** | **1,765** | **-** | **(27,253)** | **25,610** |
| Net funding allocation | (999) | (298) | (1,412) | 402 | 281 | - | 2,026 | - |
| **FTP adjusted operating income** | **19,570** | **11,122** | **13,140** | **4,959** | **2,046** | **-** | **(25,227)** | **25,610** |
| Net credit losses | (3,707) | (2,338) | (4,484) | (2,190) | 30 | - | (455) | (13,144) |
| **Net result before operating expense** | **15,863** | **8,784** | **8,656** | **2,769** | **2,076** | **-** | **(25,682)** | **12,466** |
| Not allocated income and expense, net | | | | | | | | (41,491) |
| **Net profit / (loss)** | | | | | | | | **(29,025)** |

| | Group as of 30/06/2021, EUR thousands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | | |
| | Private customers | SME | Corporate | Wealth | Swiss | Leasing | Other | Total |
| **Assets** | | | | | | | | |
| Cash, balances at central banks | - | - | - | - | 11,780 | - | 474,292 | 486,072 |
| Loans to credit institutions | - | - | - | 4,079 | 13,974 | 640 | 41,327 | 60,020 |
| Debt securities | - | - | 40,925 | 38,229 | 110,334 | - | 1,494,725 | 1,684,213 |
| Loans to public | 667,735 | 267,791 | 648,163 | 35,041 | 2,320 | 827,608 | 8,145 | 2,456,803 |
| Equity instruments | - | - | - | - | - | - | 1,311 | 1,311 |
| Other financial instruments | - | - | 429 | 34,835 | - | - | 8,258 | 43,522 |
| **Total segmented assets** | **667,735** | **267,791** | **689,517** | **112,184** | **138,408** | **828,248** | **2,028,058** | **4,731,941** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | 248 | - | 477,799 | 478,047 |
| Deposits from customers | 1,400,245 | 587,609 | 978,686 | 604,668 | 133,404 | 37,325 | 56,045 | 3,797,982 |
| Debt securities issued | - | - | - | - | - | - | 60,088 | 60,088 |
| **Total segmented liabilities** | **1,400,245** | **587,609** | **978,686** | **604,668** | **133,652** | **37,325** | **593,932** | **4,336,117** |

| | Group as of 31/12/2020, EUR thousands (Reclassified for comparability) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | | |
| | Private customers | SME | Corporate | Wealth | Swiss | Leasing | Other | Total |
| **Assets** | | | | | | | | |
| Cash, balances at central banks | - | - | - | - | 15,598 | - | 1,131,008 | 1,146,606 |
| Loans to credit institutions | - | - | - | 2,702 | 8,296 | - | 40,289 | 51,287 |
| Debt securities | - | - | 10,415 | 38,766 | 157,749 | - | 1,553,260 | 1,760,190 |
| Loans to public | 635,448 | 268,344 | 578,021 | 39,431 | 6,711 | - | 13,268 | 1,541,223 |
| Equity instruments | - | - | - | - | - | - | 4,764 | 4,764 |
| Other financial instruments | - | - | - | 29,509 | - | - | 13,834 | 43,343 |
| **Total segmented assets** | **635,448** | **268,344** | **588,436** | **110,408** | **188,354** | **-** | **2,756,423** | **4,547,413** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | - | - | 449,991 | 449,991 |
| Deposits from customers | 1,285,217 | 492,840 | 826,638 | 705,140 | 184,951 | - | 176,604 | 3,671,390 |
| Debt securities issued | - | - | - | - | - | - | 60,080 | 60,080 |
| **Total segmented liabilities** | **1,285,217** | **492,840** | **826,638** | **705,140** | **184,951** | **-** | **686,675** | **4,181,461** |

## NOTE 5. INTEREST INCOME AND EXPENSE

| | EUR thousands | | | |
|---|---|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited | **6m 2021 Bank** | **6m 2020 Bank** unaudited |
| Interest income calculated using the effective interest method: | | | | |
| Financial assets at amortised cost: | | | | |
| *Loans to public* | 33,382 | 37,161 | 40,560 | 39,169 |
| *Debt securities* | 1,138 | 1,678 | 1,016 | 1,438 |
| *Cash balances at and lending to/from central banks and credit institutions (including TLTRO-III)* | 1,592 | 214 | 1,593 | 213 |
| *Deposits from public at negative interest rates* | 132 | 49 | 167 | 49 |
| Debt securities at fair value through other comprehensive income | 969 | 1,919 | 437 | 814 |
| Interest income on finance leases (part of loans to public) | 23,449 | 5,121 | - | - |
| **Total interest income** | **60,662** | **46,142** | **43,773** | **41,683** |
| Interest expense on: | | | | |
| Financial liabilities at amortised cost: | | | | |
| *Deposits and borrowing from public* | (4,551) | (7,394) | (4,313) | (7,139) |
| *Debt securities issued* | (1,808) | (1,809) | (1,808) | (1,809) |
| *Deposits from/to credit institutions and central banks* | (390) | (1,993) | (413) | (2,268) |
| Financial liabilities at fair value through profit or loss | | | | |
| *Deposits and borrowing from public* | (73) | (71) | - | - |
| Lease liabilities | (36) | (16) | (28) | (61) |
| Other interest expense | (566) | (975) | (566) | (975) |
| **Total interest expense** | **(7,424)** | **(12,258)** | **(7,128)** | **(12,252)** |
| **Net interest income** | **53,238** | **33,884** | **36,645** | **29,431** |

Effective interest rate on high-quality liquid assets is negative in 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. Similarly, an inflow of economic benefits from liabilities with negative effective interest rates (including TLTRO-III financing) is presented as interest income.

## NOTE 6. FEE AND COMMISSION INCOME AND EXPENSE

| | EUR thousands | | | |
|---|---|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited | **6m 2021 Bank** | **6m 2020 Bank** unaudited |
| Fee and commission income: | | | | |
| Cards | 14,710 | 12,866 | 14,678 | 12,826 |
| Payments and transactions | 5,983 | 5,720 | 5,143 | 4,715 |
| Asset management and custody | 4,333 | 3,514 | 886 | 762 |
| Securities brokerage | 526 | 899 | 306 | 613 |
| Other fees | 934 | 737 | 827 | 751 |
| **Total fee and commission income from contracts with customers** | **26,486** | **23,736** | **21,840** | **19,667** |
| Guarantees, letters of credit and loans | 1,675 | 872 | 1,163 | 889 |
| **Total fee and commission income** | **28,161** | **24,608** | **23,003** | **20,556** |
| Fee and commission expense on: | | | | |
| Cards | (8,804) | (8,188) | (8,804) | (8,188) |
| Asset management, custody and securities brokerage | (600) | (505) | (455) | (362) |
| Payments, transactions and other fees | (1,854) | (1,878) | (1,559) | (1,611) |
| **Total fee and commission expense** | **(11,258)** | **(10,571)** | **(10,818)** | **(10,161)** |
| **Net fee and commission income** | **16,903** | **14,037** | **12,185** | **10,395** |

## NOTE 7. NET FINANCIAL INCOME

| | EUR thousands | | | |
|---|---|---|---|---|
| | 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
| Foreign exchange trading, revaluation and related derivatives | 4,257 | 3,401 | 3,522 | 3,417 |
| Non-trading assets and liabilities at fair value through profit or loss | 727 | 21 | 640 | - |
| Assets at fair value through other comprehensive income | (314) | 60 | 220 | 530 |
| Assets at amortised cost | (2) | 211 | (2) | 211 |
| Other derivatives | - | (24,617) | - | (24,617) |
| Modifications in cash flows which do not result in derecognition | 10 | (64) | 10 | (64) |
| **Total net financial income** | **4,678** | **(20,988)** | **4,390** | **(20,523)** |

In April 2020, as a response to a fast-developing Covid-19 situation, Citadele acquired option contracts. Among the acquired option contracts were derivative instruments linked to stock market and high yield bond indexes with exercise dates in July 2020 and September 2020. The objective of the acquired option contracts was to implement a tail risk defensive measures to protect the Group and to mitigate the downside risk of a sharp and severe recession with a slow recovery. According to an internal risk assessment the chosen option instruments provided for an insurance in a tail risk in a negative macro-economic development scenario. The acquired option contracts did not qualify for hedge accounting. EUR 24.6 million loss on other derivatives (options) reflects the loss incurred on negative revaluation on the acquired option contracts over the six months period ended 30 June 2020. With recovery in 2020 proving stronger than anticipated and consequently market indexes fluctuating in ranges above option exercise prices, the acquired options stayed out-of-money, market value of the option contracts declined significantly, but so did the likelihood of a sharp and severe recession. As of 31 December 2020 and 30 June 2021, Citadele had no derivative option contracts outstanding as by that time all options had expired or were closed out.

## NOTE 8. OTHER OPERATING EXPENSES

| | EUR thousands | | | |
|---|---|---|---|---|
| | 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
| Information technologies and communications | (3,064) | (2,571) | (2,182) | (2,061) |
| Consulting and other services | (3,465) | (3,384) | (2,629) | (3,596) |
| Rent, premises and real estate | (1,407) | (1,225) | (1,104) | (745) |
| Advertising and marketing | (1,007) | (737) | (864) | (719) |
| Non-refundable value added tax | (1,056) | (1,388) | (983) | (1,278) |
| Other | (768) | (1,189) | (396) | (1,046) |
| **Total other expenses** | **(10,767)** | **(10,494)** | **(8,158)** | **(9,445)** |

## NOTE 9. NET CREDIT LOSSES

**Total net impairment allowance charged to the income statement**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
| Loans to credit institutions | 67 | (21) | 59 | (21) |
| Debt securities | (12) | (64) | (28) | (90) |
| Loans to public | 1,651 | (16,134) | (5,815) | (14,960) |
| Loan commitments, guarantees and letters of credit | 455 | (622) | 173 | (627) |
| Recovered written-off assets | 1,609 | 3,697 | 1,455 | 3,487 |
| **Total net losses on financial instruments** | **3,770** | **(13,144)** | **(4,156)** | **(12,211)** |

Allowances for credit losses are recognised based on future loss expectations. The forward-looking information in the measurement of expected credit losses is implemented through adjustment for future economic development scenarios. As a result of events related to Covid-19, the adjustment for expected impact from future economic scenarios was substantially revised in the beginning of 2020. Consequently, expected credit loss charges recognised in the six months period ended 30 June 2020 (the comparative period) for the Group and the Bank were higher than in the six months period ended 30 June 2020 (the reporting period).

Due to the forward-looking nature of the credit loss estimation, the accumulated loss allowances do not necessarily represent an observable deterioration in the current credit quality of the loan portfolio (for detail refer to Note 12 (*Loans to Public*)), but is significantly affected by a forward looking economic scenarios component. In the reporting period EUR 5.8 million impairment charge for loans to public was recognised by the Bank as a result of application of a constantly prudent provisioning policy and an increase in the Bank's loans to public by EUR 830 million. For the Group EUR 1.7 million impairment release was observed as the credit quality and client payment discipline continued to improve in the leasing business.

In 2020 the Group and the Bank recognised an impairment overlay for Stage 1 classified loans to public exposures. The impairment overlay addressed increased uncertainty regarding the forward-looking economic conditions in the unusual environment where duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group was uncertain. The impairment overlay accounts for economic risks which point in time ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing. The impairment overlay as of 30 June 2021 was reassessed. The impairment overlay concept is maintained as the uncertainty continues to persist.

When a loan is fully or partially written-off, the claim against the borrower normally is not forgiven. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears, or as a result of other resolution. Such recoveries are reported as recovered written-off assets.

**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

**Allowances for credit losses and provisions**

| | EUR thousands | | | |
|---|---|---|---|---|
| | **30/06/2021 Group** | **31/12/2020 Group** | **30/06/2021 Bank** | **31/12/2020 Bank** |
| Stage 1 | | | | |
| Loans to credit institutions | 45 | 104 | 45 | 104 |
| Debt securities | 1,202 | 1,191 | 1,156 | 1,127 |
| Loans to public | 28,312 | 19,662 | 18,334 | 17,384 |
| Loan commitments, guarantees and letters of credit | 1,499 | 1,903 | 1,703 | 1,825 |
| **Total stage 1 credit losses and provisions** | **31,058** | **22,860** | **21,238** | **20,440** |
| Stage 2 | | | | |
| Loans to public | 6,323 | 4,058 | 4,574 | 3,901 |
| Loan commitments, guarantees and letters of credit | 41 | 41 | 41 | 41 |
| **Total stage 2 credit losses and provisions** | **6,364** | **4,099** | **4,615** | **3,942** |
| Stage 3 | | | | |
| Loans to public | 38,884 | 35,720 | 34,978 | 34,475 |
| Loan commitments, guarantees and letters of credit | 117 | 167 | 117 | 167 |
| **Total stage 3 credit losses and provisions** | **39,001** | **35,887** | **35,095** | **34,642** |
| **Total allowances for credit losses and provisions** | **76,423** | **62,846** | **60,948** | **59,024** |
| *Including for debt securities classified at fair value through other comprehensive income* | *132* | *135* | *95* | *81* |
| *Including for loans of SIA Citadele Leasing* | *13,925* | - | - | - |

In the six months period ended 30 June 2021, the increase of EUR 13.9 million in the Group's consolidated balance of allowances for credit losses is a result of the recent acquisition of SIA UniCredit Leasing (renamed to SIA Citadele Leasing), while the increase of EUR 1.0 million in the Bank's standalone stock of allowances for credit losses and provisions relates to credit lines extended to the recently acquired subsidiary.

In case of purchased or originated credit impaired (POCI) loans originated before acquisition date by the recently acquired subsidiary, the initial recognition date for these POCI loans in the Group's consolidated accounts is the acquisition date of the subsidiary. For POCI loans 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.

## NOTE 10. TAXATION

**Corporate income tax expense**

| | EUR thousands | | | |
|---|---|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited | **6m 2021 Bank** | **6m 2020 Bank** unaudited |
| Current corporate income tax | (759) | (83) | (301) | (14) |
| Deferred income tax | (320) | - | - | - |
| **Total corporate income tax expense** | **(1,079)** | **(83)** | **(301)** | **(14)** |

In Latvia and Estonia corporate income tax (CIT) is payable when the profits are distributed, not when the profits are earned. Correspondingly, the deferred tax is calculated at a tax rate which applies to undistributed earnings, which is 0%. The effective tax rate in the reporting period for the Group and the Bank in Latvia and Estonia was close to 0%. In Latvia, incremental CIT expense does not arise on dividend distribution from retained earnings generated under the previous tax regime (EUR 81.8 million for the Bank), and there is no expiry date for this distribution right. In Latvia, for dividend distributions from profits earned under the current tax regime, a 20% CIT rate applies and is calculated as 0.2/0.8 from net distributed dividend. In other jurisdictions where the Group operates, earnings are taxable when earned. The effective tax rate for Lithuanian operations was less than 10%, primarily due to a positive impact from revised estimates of recognisable unutilized tax loss. Overall, almost all of the Group's and the Bank's corporate income tax expense for the reporting period relates to Lithuania operations. As at period end, a part of the Group's and Bank's unutilised tax loss is not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax loss at the level of the particular entity. The recognised deferred tax asset mostly represents unutilised tax loss in Lithuania.

**Income tax assets and liabilities**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Deferred income tax assets | 2,981 | 2,387 | 2,179 | 2,179 |
| Current income tax assets | 2,359 | 885 | 879 | 878 |
| **Tax assets** | **5,340** | **3,272** | **3,058** | **3,057** |
| Deferred income tax liabilities | (507) | (464) | - | - |
| Current income tax liabilities | (299) | (213) | (275) | (115) |
| **Tax liabilities** | **(806)** | **(677)** | **(275)** | **(115)** |

The Group has recognised a deferred tax liability of EUR 0.4 million as in Estonia it anticipates paying out dividends to Latvia. These dividends would become taxable at distribution. In consolidated accounts in 2021, a deferred tax asset in the amount of EUR 0.8 million was recognised in relation to the fair value adjustment on the acquired loan portfolio of the Lithuanian branch of SIA UniCredit Leasing (renamed to SIA Citadele Leasing).

**Recognised deferred income tax assets and liabilities**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Deferred income and accrued expense | 341 | 405 | 339 | 332 |
| Recognised unutilised tax loss carry-forward | 1,961 | 1,978 | 1,840 | 1,847 |
| Fair value adjustment on the acquired loan portfolio | 679 | - | - | - |
| Expected distribution of retained earnings | (375) | (375) | - | - |
| Other items, net | (132) | (85) | - | - |
| **Deferred income tax assets, net** | **2,474** | **1,923** | **2,179** | **2,179** |

## NOTE 11. DEBT SECURITIES

**Debt securities by credit rating grade, classification and profile of issuer**

| | Group, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/2021 | | | 31/12/2020 | | |
| | At fair value through other comprehensive income | At amortised cost | Total | At fair value through other comprehensive income | At amortised cost | Total |
| Investment grade: | | | | | | |
| AAA/Aaa | 64,280 | 109,249 | 173,529 | 67,640 | 108,929 | 176,569 |
| AA/Aa | 36,701 | 281,562 | 318,263 | 78,451 | 251,826 | 330,277 |
| A | 200,201 | 912,927 | 1,113,128 | 204,857 | 988,657 | 1,193,514 |
| BBB/Baa | 13,893 | 24,231 | 38,124 | 25,763 | 23,389 | 49,152 |
| Lower ratings or unrated | 245 | 40,924 | 41,169 | 263 | 10,415 | 10,678 |
| **Total debt securities** | **315,320** | **1,368,893** | **1,684,213** | **376,974** | **1,383,216** | **1,760,190** |
| *Including general government* | *206,349* | *988,685* | *1,195,034* | *197,816* | *1,036,342* | *1,234,158* |
| *Including credit institutions* | *32,467* | *174,563* | *207,030* | *79,665* | *176,665* | *256,330* |
| *Including classified in stage 1* | *315,320* | *1,368,893* | *1,684,213* | *376,974* | *1,383,216* | *1,760,190* |

| | Bank, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/2021 | | | 31/12/2020 | | |
| | At fair value through other comprehensive income | At amortised cost | Total | At fair value through other comprehensive income | At amortised cost | Total |
| Investment grade: | | | | | | |
| AAA/Aaa | 30,186 | 93,929 | 124,115 | 27,671 | 93,808 | 121,479 |
| AA/Aa | 10,776 | 270,155 | 280,931 | 33,067 | 238,556 | 271,623 |
| A | 167,369 | 899,867 | 1,067,236 | 162,938 | 974,237 | 1,137,175 |
| BBB/Baa | 468 | 21,976 | 22,444 | 1,034 | 21,949 | 22,983 |
| Lower ratings or unrated | - | 40,924 | 40,924 | - | 10,415 | 10,415 |
| **Total debt securities** | **208,799** | **1,326,851** | **1,535,650** | **224,710** | **1,338,965** | **1,563,675** |
| *Including general government* | *172,442* | *970,126* | *1,142,568* | *158,559* | *1,016,650* | *1,175,209* |
| *Including credit institutions* | *3,867* | *167,014* | *170,881* | *27,505* | *167,613* | *195,118* |
| *Including classified in stage 1* | *208,799* | *1,326,851* | *1,535,650* | *224,710* | *1,338,965* | *1,563,675* |

Unrated debt securities or debt securities with lower ratings than BBB are mainly with corporates and are acquired or in some cases structured by the Bank as an alternative to ordinary lending transactions. Among considerations for originating such lending products is longer-term indirect benefits from development in local corporate debt markets and higher potential liquidity for lending products structured as debt securities.

**Debt securities by country of issuer**

| | Group, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/2021 | | | 31/12/2020 | | |
| | Government bonds | Other securities | Total | Government bonds | Other securities | Total |
| Lithuania | 553,096 | 38,094 | 591,190 | 594,762 | 6,951 | 601,713 |
| Latvia | 391,788 | 3,496 | 395,284 | 417,450 | 3,526 | 420,976 |
| Estonia | 73,594 | 19,919 | 93,513 | 48,027 | 20,480 | 68,507 |
| Netherlands | 14,477 | 70,297 | 84,774 | 14,641 | 81,459 | 96,100 |
| Poland | 70,193 | 5,536 | 75,729 | 71,716 | 5,574 | 77,290 |
| Germany | 14,822 | 59,438 | 74,260 | 16,011 | 60,846 | 76,857 |
| United States | 16,478 | 31,583 | 48,061 | 11,680 | 50,395 | 62,075 |
| Canada | 5,057 | 39,435 | 44,492 | 5,192 | 43,718 | 48,910 |
| Sweden | 2,931 | 40,590 | 43,521 | 3,107 | 42,602 | 45,709 |
| Finland | 5,421 | 30,995 | 36,416 | 4,998 | 32,819 | 37,817 |
| Multilateral development banks | - | 39,709 | 39,709 | - | 49,650 | 49,650 |
| Other countries | 47,178 | 110,086 | 157,264 | 46,574 | 128,012 | 174,586 |
| **Total debt securities** | **1,195,035** | **489,178** | **1,684,213** | **1,234,158** | **526,032** | **1,760,190** |

| | Bank, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/2021 | | | 31/12/2020 | | |
| | Government bonds | Other securities | Total | Government bonds | Other securities | Total |
| Lithuania | 545,045 | 36,306 | 581,351 | 586,259 | 5,411 | 591,670 |
| Latvia | 384,389 | 2,054 | 386,443 | 408,536 | 2,067 | 410,603 |
| Estonia | 73,594 | 18,251 | 91,845 | 48,027 | 18,823 | 66,850 |
| Netherlands | 10,720 | 59,773 | 70,493 | 10,870 | 64,664 | 75,534 |
| Poland | 67,017 | 3,058 | 70,075 | 68,507 | 3,092 | 71,599 |
| Germany | 9,999 | 47,249 | 57,248 | 9,999 | 46,280 | 56,279 |
| Sweden | - | 38,978 | 38,978 | - | 39,177 | 39,177 |
| United States | 14,803 | 21,685 | 36,488 | 9,999 | 29,813 | 39,812 |
| Finland | 4,999 | 30,995 | 35,994 | 4,998 | 31,163 | 36,161 |
| Canada | - | 32,751 | 32,751 | - | 35,181 | 35,181 |
| Multilateral development banks | - | 32,315 | 32,315 | - | 37,262 | 37,262 |
| Other countries | 32,002 | 69,667 | 101,669 | 28,014 | 75,533 | 103,547 |
| **Total debt securities** | **1,142,568** | **393,082** | **1,535,650** | **1,175,209** | **388,466** | **1,563,675** |

No payments on the debt securities are past due. Total exposure to any single country within “Other countries” group as of 30 June 2021 is smaller than with any of the above disclosed countries.

## NOTE 12. LOANS TO PUBLIC

**Loans by customer profile, industry profile and product type**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| **Financial and non-financial corporations** | | | | |
| Real estate purchase and management | 254,852 | 215,831 | 241,275 | 212,639 |
| Manufacturing | 244,519 | 146,386 | 129,779 | 117,009 |
| Transport and communications | 228,171 | 100,920 | 35,927 | 38,161 |
| Trade | 194,776 | 109,635 | 81,874 | 86,307 |
| Agriculture and forestry | 147,827 | 79,927 | 69,826 | 56,156 |
| Construction | 122,241 | 40,760 | 51,129 | 29,761 |
| Electricity, gas and water supply | 54,165 | 46,059 | 41,494 | 43,727 |
| Hotels, restaurants | 46,359 | 43,108 | 40,543 | 41,321 |
| Financial intermediation | 24,742 | 22,470 | 947,985 | 219,877 |
| Other industries | 178,566 | 44,023 | 21,168 | 24,401 |
| **Total financial and non-financial corporations** | **1,496,218** | **849,119** | **1,661,000** | **869,359** |
| **Households** | | | | |
| Mortgage loans | 587,960 | 541,636 | 587,960 | 541,636 |
| Credit for consumption | 66,848 | 68,721 | 66,839 | 68,721 |
| Card lending | 55,251 | 58,411 | 55,251 | 58,411 |
| Finance leases | 277,483 | 42,848 | - | - |
| Other lending | 22,679 | 20,204 | 14,961 | 16,515 |
| **Total households** | **1,010,221** | **731,820** | **725,011** | **685,283** |
| **General government** | **23,883** | **19,724** | **19,773** | **19,431** |
| **Total gross loans to public** | **2,530,322** | **1,600,663** | **2,405,784** | **1,574,073** |
| Impairment allowance and provisions | (73,519) | (59,440) | (57,886) | (55,760) |
| **Total net loans to public** | **2,456,803** | **1,541,223** | **2,347,898** | **1,518,313** |

Loans by overdue days and impairment stage

| Group, EUR thousands | 30/06/2021 | | | | | 31/12/2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | Expected credit loss | Net carrying | Gross amount | | | Expected credit loss | Net carrying |
| | Stage 1 | Stage 2 | Stage 3 | allowance | amount | Stage 1 | Stage 2 | Stage 3 | allowance | amount |
| ***Loans to public*** | | | | | | | | | | |
| Not past due | 2,282,680 | 97,604 | 34,841 | (34,327) | 2,380,798 | 1,429,589 | 84,151 | 13,780 | (25,946) | 1,501,574 |
| Past due <=30 days | 32,520 | 19,926 | 4,017 | (5,899) | 50,564 | 22,496 | 4,736 | 1,095 | (1,321) | 27,006 |
| Past due >30 and ≤90 days | - | 10,747 | 2,616 | (2,447) | 10,916 | - | 4,043 | 1,873 | (1,701) | 4,215 |
| Past due >90 days | - | - | 45,371 | (30,846) | 14,525 | - | - | 38,900 | (30,472) | 8,428 |
| **Total loans to public** | **2,315,200** | **128,277** | **86,845** | **(73,519)** | **2,456,803** | **1,452,085** | **92,930** | **55,648** | **(59,440)** | **1,541,223** |
| Guarantees and letters of credit | 44,180 | - | 196 | (101) | 44,275 | 22,418 | - | 51 | (142) | 22,327 |
| Financial commitments | 263,483 | 3,258 | 278 | (1,555) | 265,464 | 258,432 | 1,814 | 408 | (1,969) | 258,685 |
| **Total credit exposure to public** | **2,622,863** | **131,535** | **87,319** | **(75,175)** | **2,766,542** | **1,732,935** | **94,744** | **56,107** | **(61,551)** | **1,822,235** |

As of 30 June 2021, the gross amount of Group's POCI loans to public is EUR 30.2 million (2020: EUR 0 million). The recognised expected credit loss allowance on POCI loans to public is EUR 1.0 million (2020: EUR 0 million). Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers. For details refer to Note 19 (*Off-balance Sheet Items*).

| Bank, EUR thousands | 30/06/2021 | | | | | 31/12/2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | Expected credit loss | Net carrying | Gross amount | | | Expected credit loss | Net carrying |
| | Stage 1 | Stage 2 | Stage 3 | allowance | amount | Stage 1 | Stage 2 | Stage 3 | allowance | amount |
| ***Loans to public*** | | | | | | | | | | |
| Not past due | 2,236,686 | 77,335 | 11,469 | (21,263) | 2,304,227 | 1,425,915 | 81,574 | 11,803 | (23,180) | 1,496,112 |
| Past due <=30 days | 25,762 | 6,260 | 1,899 | (4,908) | 29,013 | 7,870 | 2,969 | 902 | (1,105) | 10,636 |
| Past due >30 and ≤90 days | - | 5,197 | 1,007 | (1,736) | 4,468 | - | 3,155 | 1,674 | (1,554) | 3,275 |
| Past due >90 days | - | - | 40,169 | (29,979) | 10,190 | - | - | 38,211 | (29,921) | 8,290 |
| **Total loans to public** | **2,262,448** | **88,792** | **54,544** | **(57,886)** | **2,347,898** | **1,433,785** | **87,698** | **52,590** | **(55,760)** | **1,518,313** |
| Guarantees and letters of credit | 43,633 | - | 196 | (101) | 43,728 | 21,761 | - | 51 | (142) | 21,670 |
| Financial commitments | 443,192 | 3,258 | 278 | (1,759) | 444,969 | 273,867 | 1,814 | 408 | (1,891) | 274,198 |
| **Total credit exposure to public** | **2,749,273** | **92,050** | **55,018** | **(59,746)** | **2,836,595** | **1,729,413** | **89,512** | **53,049** | **(57,793)** | **1,814,181** |

Stage 3 loans to public ratio

| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|
| **Stage 3 loans to public ratio, gross** | **3.4%** | **3.5%** | **2.3%** | **3.3%** |
| **Stage 3 loans to public ratio, net** | **2.0%** | **1.3%** | **0.8%** | **1.2%** |
| **Stage 3 impairment ratio** | **45%** | **64%** | **64%** | **66%** |

The stage 3 loans to public ratio is calculated as stage 3 loans to public divided by total loans to public as of the end of the relevant period. All loans overdue by more than 90 days are classified as stage 3. Non-overdue loans and loans overdue less than 90 days which have been forborne or impairment loses have been identified based on individual assessment or financial condition of the borrower has deteriorated significantly are classified as stage 3. Part of the loans classified as stage 3 do not have any current default indicators but are put under monitoring period for a specific time before being reclassified out of stage 3. Loans under recovery are also classified as stage 3.

The stage 3 impairment ratio is calculated as impairment allowance for stage 3 exposures divided by gross loans to public classified as stage 3. Impairment allowance is the amount of expected credit loss expensed in the income statement as credit loss and is derived from historic loss rates and future expectations, and where available considering fair value of the loan collateral.

# NOTE 13. EQUITY AND OTHER FINANCIAL INSTRUMENTS

**Shares and other non-fixed income securities by issuers profile and classification**

| | Group, EUR thousands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30/06/2021 | | | | 31/12/2020 | | | |
| | Mutual investment funds | Foreign equities | Latvian equities | Total | Mutual investment funds | Foreign equities | Latvian equities | Total |
| Non-trading financial assets at fair value through profit or loss | 39,633 | 1,110 | - | 40,743 | 43,343 | 4,497 | - | 47,840 |
| Financial assets at fair value through other comprehensive income | - | 77 | 124 | 201 | - | 143 | 124 | 267 |
| **Total non-fixed income securities, net** | **39,633** | **1,187** | **124** | **40,944** | **43,343** | **4,640** | **124** | **48,107** |
| *Including unit-linked insurance plan assets* | *23,523* | - | - | *23,523* | *21,026* | - | - | *21,026* |

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are related to the life insurance business, most of these with 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 of 30 June 2021, the Bank and the Group has investments in mutual investment funds with carrying amounts of EUR 7.6 million (2020: EUR 13.8 million) and EUR 23.2 million (2020: EUR 27.2 million) which are managed by IPAS CBL Asset Management. Further, EUR 13.1 million (2020: EUR 10.8 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. These exposures have been acquired only with investment intentions. The Bank has no exposure to investments related to unit-linked contracts.

| | Bank, EUR thousands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30/06/2021 | | | | 31/12/2020 | | | |
| | Mutual investment funds | Foreign equities | Latvian equities | Total | Mutual investment funds | Foreign equities | Latvian equities | Total |
| Non-trading financial assets at fair value through profit or loss | 7,574 | 1,110 | - | 8,684 | 13,834 | 4,497 | - | 18,331 |
| Financial assets at fair value through other comprehensive income | - | 77 | 124 | 201 | - | 143 | 124 | 267 |
| **Total non-fixed income securities, net** | **7,574** | **1,187** | **124** | **8,885** | **13,834** | **4,640** | **124** | **18,598** |

# NOTE 14. INVESTMENTS IN RELATED ENTITIES

**Changes in investments in related entities of the Bank**

| | EUR thousands | |
|---|---|---|
| | 6m 2021 | 6m 2020<br>unaudited |
| **Balance at the beginning of the period, net** | **46,756** | **34,161** |
| Equity investments and acquisitions | 29,203 | - |
| Liquidation of subsidiary | - | (649) |
| Change in impairment allowance | 772 | (73) |
| **Balance at the end of the period, net** | **76,731** | **33,439** |
| *Gross investment in subsidiaries as of the end of the period* | *99,862* | *70,660* |

**Acquisition of UniCredit leasing operations in the Baltics**

In 2019 AS Citadele banka entered into a binding agreement with UniCredit S.p.A. to acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing. Citadele obtained full control from the beginning of January 2021. After completion of the acquisition transaction in 2021, the acquired entity was renamed to SIA Citadele Leasing. The acquisition includes Estonian and Lithuanian branches of the leasing entity and a subsidiary SIA CL Insurance Broker (former legal name SIA UniCredit Insurance Broker). After the acquisition, Citadele refinanced existing borrowings of the acquired entity and committed lending of up to EUR 880 million in total. Over the two-year period leading up to the acquisition date a total of EUR 0.7 million acquisition costs were incurred. All acquisition-related costs have been recognised as other operating expense. In the reporting period, the acquired business contributed approximately EUR 7.8 million to the net profit of the Citadele group.

The acquired leasing subsidiary is one of the leaders in the Baltics, with more than 20 years of experience in the area of leasing and a demonstrated ability to deliver sustainable business growth. Following the acquisition Citadele's aggregate leasing portfolio exceeds EUR 1 billion, creating a stronger Baltic Leasing offering allowing for economies of scale, synergies and shareholder value.

As of 30 June 2021, the sales-purchase price has been finalised. The final settlement and the acquisition accounting for the business combination has been completed. Based on the fair value assessments of the business (modelling present value of future expected free equity distributable to the shareholders, after required equity allocation for capital adequacy compliance), assets, liabilities, potential intangibles and onerous agreements acquired, the major fair value adjustment was allocated to the loan portfolio, which was the main asset of the acquired entity. The fair value adjustment in relation to the Lithuanian branch of the acquired business triggered recognition of a deferred tax asset in the amount of EUR 0.8 million. The fair value assessment of the loan portfolio was derived by discounting expected future loan cash flows with up-to-date required lending yields and by estimating recoverability of the acquired loan contracts. The undiscounted gross contractual amounts receivable from the acquired loan portfolio were EUR 908 million with EUR 37 million recognised as an impairment loss on the contractual cash flows not expected to be collected. Besides allowances for impairment loss, on average higher required rate of return versus actual effective interest rates of the acquired loan portfolio contributed to a lower fair value than the portfolio's acquisition date carrying value.

Major agreements, customer-related intangibles and assumed commitments were analysed in detail, in particular client loyalty, acquiree's client portfolio overlap with existing Citadele's clients, sales channel structure and arrangements. Acquiree's existing borrowing from credit institutions were refinanced on the acquisition date at the amount outstanding which was fair value of these liabilities. Acquiree's existing trademarks were not part of the sales-purchase transaction and after a short transition period, usage of these was ceased.

#### Identifiable assets acquired and liabilities assumed as of the acquisition date of UniCredit leasing operations in the Baltics

Citadele obtained full control of the acquiree from the beginning of January 2021 which is the date of the transaction. No gain from bargain purchase or goodwill was recognised on the transaction as the fair value of the identifiable net assets acquired approximated the total consideration paid in cash to the previous owner. The overall day-one cash outflow for the Group as a result of the acquisition was EUR 799 million, as besides consideration paid and cash and cash equivalent obtained, AS Citadele Banka at an arm's length transaction refinanced acquiree's existing borrowing from credit institutions.

| | EUR thousands |
|---|---|
| Cash and credit institution balances | 23,709 |
| Loans to public | 792,341 |
| Tangible and intangible assets | 11,843 |
| Deferred tax assets | 915 |
| Other assets | 10,948 |
| Borrowing from credit institutions | (793,056) |
| Other liabilities | (16,547) |
| Provisions | (950) |
| **Total fair value of identifiable net assets acquired** | **29,203** |
| Total consideration, paid in cash | (29,203) |
| **Gain from bargain purchase / (Goodwill)** | **-** |

#### Changes in investments in other subsidiaries

In the reporting period valuation of SIA Citadele Factoring and SIA Hortus Residential was reassessed. In total EUR 0.8 million release of impairment in the investments in these subsidiaries was recognised as a result of an improved expectations of future free cash flows distributable to shareholders of SIA Citadele Factoring and an improved profitability of SIA Hortus Residential.

Carrying value of the investment in SIA Citadele Factoring is derived from present value of expected free equity distributable to the shareholders, after required equity allocation for capital adequacy compliance. The target capital adequacy ratio is set at 12% and includes allocated charges for all banking risks inherent in the business model of the leasing plus full set of regulatory buffers as applicable for the Group consolidated and on top of that managements buffer. Other key inputs of the model are 12.0% (2020: 12.0%) discount rate and future profitability of the operations of the entity.

#### Consolidation Group subsidiaries and associated entities for accounting purposes

| Company | Registration number | Registration address and country | Company type* | Basis for inclusion in the Group** | The Group's share (%) | % of total voting rights | Carrying value EUR thousands | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | 30/06/2021 | 31/12/2020 |
| AS Citadele banka | 40103303559 | Latvia, Riga, Republikas laukums 2A | BNK | MT | - | - | - | - |
| SIA Citadele Leasing | 40003423085 | Latvia, Riga, Mūkusalas iela 41 | LIZ | MS | 100 | 100 | 29,203 | - |
| SIA Citadeles moduļi | 40003397543 | Latvia, Riga, Republikas laukums 2A | PLS | MS | 100 | 100 | 15,932 | 15,932 |
| Kaleido Privatbank AG | 130.0.007.738-0 | Switzerland, Bellerivestrasse 17, 8008, Zürich | BNK | MS | 100 | 100 | 13,805 | 13,805 |
| SIA Citadele Factoring | 50003760921 | Latvia, Riga, Republikas laukums 2A | LIZ | MS | 100 | 100 | 7,535 | 6,921 |
| IPAS CBL Asset Management | 40003577500 | Latvia, Riga, Republikas laukums 2A | IPS | MS | 100 | 100 | 5,906 | 5,906 |
| UAB Citadele Factoring | 126233315 | Lithuania, Upės g. 21, Vilnius, LT-0812 | LIZ | MS | 100 | 100 | 2,149 | 2,149 |
| SIA Hortus Residential | 40103460622 | Latvia, Riga, Republikas laukums 2A | PLS | MS | 100 | 100 | 828 | 670 |
| AS CBL Atklātais Pensiju Fonds | 40003397312 | Latvia, Riga, Republikas laukums 2A | PFO | MS | 100 | 100 | 646 | 646 |
| OU Citadele Factoring | 10925733 | Estonia, Tallinn 10152, Narva mnt. 63/1 | LIZ | MS | 100 | 100 | 445 | 445 |
| SIA Mobilly (Investments in associates accounted for using the equity method in consolidated financial statements) | 40003654405 | Latvia, Dzirnavu iela 91 k-3 - 20, Rīga, LV-1011 | ENI | CT | 12.5 | 12.5 | 274 | 274 |
| SIA Hortus Land | 40103460961 | Latvia, Riga, Republikas laukums 2A | PLS | MS | 100 | 100 | 8 | 8 |
| AAS CBL Life | 40003786859 | Latvia, Riga, Republikas laukums 2A | APS | MMS | 100 | 100 | - | - |
| **Total net investments in subsidiaries and associated entities** | | | | | | | **76,731** | **46,756** |

On 1 April 2021 the legal name of the Swiss registered banking subsidiary AP Anlage & Privatbank AG was changed to Kaleido Privatbank AG. Similarly, in the reporting period SIA Citadele Līzings un Faktorings was renamed to SIA Citadele Factoring, UAB Citadele faktoringas ir lizingas was renamed to UAB Citadele Factoring and OU Citadele Leasing & Factoring was renamed to OU Citadele Factoring.

**Consolidation Group subsidiaries in liquidation process in foreign jurisdictions**

| Company | Registration number | Registration address and country | Company type* | Basis for inclusion in the Group** | The Group's share (%) | % of total voting rights | Carrying value EUR thousands | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | 30/06/2021 | 31/12/2020 |
| Calenia Investments Limited (in liquidation) | HE156501 | Cyprus, Nicosia 1075, 58 Arch. MakariosIII Avenue, Iris Tower, 6th floor, office 602 | PLS | MS | 100 | 100 | - | - |
| OOO Mizush Asset Management Ukraina (in liquidation) | 32984601 | Ukraine, Kiev 03150, Gorkovo 172 | IBS | MMS | 100 | 100 | - | - |

*BNK – bank, ENI – authorized electronic money institution, IBS – investment brokerage company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services, APS – insurance company. ** MS – subsidiary company, MMS – subsidiary of the subsidiary company, MT – parent company, MTM – parent of the parent company, CT – other company.

Calenia Investments Limited and OOO Mizush Asset Management Ukraina are in liquidation as these Group subsidiaries had no ongoing business operations.

For Calenia Investments Limited a liquidator (Moore Stephens Stylianou & Co) has been appointed in 2019 and a voluntary liquidation commenced. As of the period-end the appointed liquidator has received a tax clearance letter and is proceeding to obtain a formal final announcement from the statutory register on the liquidation of Calenia Investments Limited. According to standard procedure this should take approximately 3 months; though, due to the Covid-19 situation's induced slowdown in document turnaround speeds, delays are experienced.

For OOO Mizush Asset Management Ukraina a liquidator (AA PricewaterhouseCoopers Legal) has been appointed. The final tax audit has been completed. The final report is being prepared and will be submitted as per statutory requirement, in due time a formal liquidation decision from the statutory register is expected.

## NOTE 15. DEPOSITS FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

**Bank deposits and borrowings by type**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| ECB's targeted longer-term refinancing operations | 477,277 | 438,833 | 477,277 | 438,833 |
| Deposits from Citadele Group banks | - | - | 14,700 | 20,968 |
| Other credit institution deposits and collateral accounts | 764 | 11,153 | 516 | 11,153 |
| Other central bank deposits and accounts | 6 | 5 | 6 | 5 |
| **Total deposits from credit institutions and central banks** | **478,047** | **449,991** | **492,499** | **470,959** |

On 24 June 2020, Citadele participated in the ECB's latest targeted longer-term refinancing operations (TLTRO-III) borrowing EUR 440 million. The maturity date of the facility is 28 June 2023 with an early repayment option starting on 29 September 2021. In June 2021 TLTRO-III borrowing was increased by EUR 40 million. From 24 June 2020 a basic interest rate on TLTRO-III borrowing has been -0.5%. The interest rate is linked to a reference rate which may change in the future. For banks meeting the ECB's specified lending criteria, which Citadele met for the first reference period, the interest rate can be as low as -1.0% and is applicable retrospectively. Based on an internal assessment, part of the inflow of economic benefits from TLTRO-III borrowing with negative effective interest rate, which may be justified as market rate, is recognised within interest income. The remainder is a benefit of the below-market rate of interest and is recognised within other income as a support or compensation for the fulfilment of the required obligations and supporting customer needs.

Due to Citadele meeting specified lending criteria for the first reference period and thus qualifying for -1.0% interest rate, instead of -0.5%, in the reporting period EUR 0.4 million was recognised as an additional interest income and EUR 1.8 million as a support for the fulfilment of the required government obligations.

## NOTE 16. DEPOSITS AND BORROWINGS FROM CUSTOMERS

**Deposits and borrowings by profile of the customer**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Households | 2,054,097 | 2,095,185 | 1,969,546 | 1,992,892 |
| Non-financial corporations | 1,422,302 | 1,280,670 | 1,351,369 | 1,187,775 |
| Financial corporations | 248,335 | 228,679 | 224,863 | 230,572 |
| General government | 61,613 | 49,576 | 61,613 | 49,576 |
| Other | 11,635 | 17,280 | 11,635 | 17,281 |
| **Total deposits from customers** | **3,797,982** | **3,671,390** | **3,619,026** | **3,478,096** |

**Deposits and borrowings from customers by contractual maturity**

| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|
| | EUR thousands | | | |
| Demand deposits | 3,277,965 | 3,015,900 | 3,185,548 | 2,873,767 |
| Term deposits due within: | | | | |
| less than 1 month | 55,430 | 100,229 | 51,022 | 94,722 |
| more than 1 month and less than 3 months | 65,697 | 130,020 | 60,194 | 124,224 |
| more than 3 months and less than 6 months | 145,125 | 53,559 | 138,150 | 47,918 |
| more than 6 months and less than 12 months | 133,826 | 255,437 | 113,884 | 250,857 |
| more than 1 year and less than 5 years | 92,141 | 105,619 | 65,628 | 81,248 |
| more than 5 years | 27,798 | 10,626 | 4,600 | 5,360 |
| Total term deposits | 520,017 | 655,490 | 433,478 | 604,329 |
| **Total deposits from customers** | **3,797,982** | **3,671,390** | **3,619,026** | **3,478,096** |

**Deposits and borrowings from customers by categories**

| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|
| | EUR thousands | | | |
| At amortised cost | 3,759,683 | 3,635,380 | 3,619,026 | 3,478,096 |
| At fair value through profit or loss | 38,299 | 36,010 | - | - |
| **Total deposits from customers** | **3,797,982** | **3,671,390** | **3,619,026** | **3,478,096** |
| *Including unit-linked insurance plan liabilities* | *23,835* | *21,629* | - | - |

All 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. 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.

## NOTE 17. DEBT SECURITIES ISSUED

**Publicly listed unsecured subordinated bond liabilities**

| ISIN code of the issued bond | Currency | Interest rate | Maturity date | Principal, EUR thousands | Amortised cost, EUR thousands 30/06/2021 | Amortised cost, EUR thousands 31/12/2020 |
|---|---|---|---|---|---|---|
| LV0000880011 | EUR | 5.50% | 24/11/2027 | 20,000 | 20,072 | 20,070 |
| LV0000802221 | EUR | 6.25% | 06/12/2026 | 40,000 | 40,016 | 40,010 |
| | | | | | **60,088** | **60,080** |

Both issuances of unsecured subordinated securities qualify for inclusion in the Banks and the Groups Tier 2 capital. For details on capital adequacy refer to *Capital management* section of the Note 23 (*Risk Management*).

**Profile of the bondholders as of the last coupon payment date**

| ISIN code of the issued bond | Last coupon date | Number of bondholders | Legal and professional investors | | | Private individuals | | |
|---|---|---|---|---|---|---|---|---|
| | | | Number | EUR th. | % | Number | EUR th. | % |
| LV0000880011 | 24/05/2021 | 32 | 10 | 17,000 | 85% | 22 | 3,000 | 15% |
| LV0000802221 | 06/06/2021 | 106 | 35 | 32,320 | 81% | 71 | 7,680 | 19% |

## NOTE 18. SHARE CAPITAL

As of period end, the Bank's registered, authorised and paid-in share capital was EUR 156,555,796 (2020: EUR 156,555,796). The Bank has one class ordinary shares. All ordinary shares as of 30 June 2021 and 31 December 2020 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the reporting period. Each ordinary share carries one vote, a share in profits and is eligible for dividends.

**Shareholders of the Bank**

| | 30/06/2021 | | 31/12/2020 | |
|---|---|---|---|---|
| | 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] | 48,946,444 | 48,946,444 | 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 |
| 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

In the six months period ended 30 June 2021, the number of shares owned by RA Citadele Holdings LLC increased to 48,946,444 (35,082,302 shares as of 31 December 2020). The number of shares owned by NNS Luxembourg Investments S.a.r.l. decreased to 0 (13,864,142 shares as of 31 December 2020). 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 investors.

**Earnings per share**

Basic earnings per share are calculated by dividing the net profit that is attributable to the ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the net profit that is attributable to the ordinary shareholders and the weighted-average number of the ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees in the long-term incentive programs. The part of the performance-based employee share options for which the services under the approved long-term incentive programs have been received are included in the calculation of diluted earnings per share. The remaining part of the performance-based employee share options, issuance of which is contingent upon satisfying specific conditions, in addition to the passage of time, are treated as contingently issuable shares and are not included in the calculation of diluted earnings per share.

| | 6m 2021 Group | 6m 2020 Group unaudited | 6m 2021 Bank | 6m 2020 Bank unaudited |
|---|---|---|---|---|
| Profit for the period, EUR thousands | 32,588 | (29,025) | 15,883 | (30,321) |
| Weighted average number of the ordinary shares outstanding during the period in thousands | 156,556 | 156,556 | 156,556 | 156,556 |
| **Basic earnings per share in EUR** | **0.21** | **(0.19)** | **0.10** | **(0.19)** |
| Weighted average number of the ordinary shares (basic) outstanding during the period in thousands | 156,556 | 156,556 | 156,556 | 156,556 |
| Effect of share options in issue in thousands | 1,137 | 812 | 1,137 | 812 |
| **Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands** | **157,693** | **157,368** | **157,693** | **157,368** |
| Profit for the period, EUR thousands | 32,588 | (29,025) | 15,883 | (30,321) |
| Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands | 157,693 | 157,368 | 157,693 | 157,368 |
| **Diluted earnings per share in EUR** | **0.21** | **(0.18)** | **0.10** | **(0.19)** |

## NOTE 19. 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**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Contingent liabilities: | | | | |
| Outstanding guarantees | 18,198 | 18,138 | 17,651 | 17,481 |
| Outstanding letters of credit with public | 26,178 | 4,331 | 26,178 | 4,331 |
| Contingent liabilities with credit institutions | 1,768 | 1,434 | 1,768 | 1,434 |
| **Total contingent liabilities** | **46,144** | **23,903** | **45,597** | **23,246** |
| Provisions for credit risk | (102) | (142) | (102) | (142) |
| **Maximum credit risk exposure for guarantees and letters of credit** | **46,042** | **23,761** | **45,495** | **23,104** |
| Financial commitments: | | | | |
| Card commitments | 122,716 | 124,135 | 122,717 | 124,140 |
| Unutilised credit lines and overdraft facilities | 52,479 | 50,723 | 249,532 | 88,818 |
| Loans granted, not fully drawn down | 74,479 | 63,131 | 74,479 | 63,131 |
| Factoring commitments | 17,345 | 22,665 | - | - |
| Other commitments | 390 | 396 | - | - |
| **Total financial commitments** | **267,409** | **261,050** | **446,728** | **276,089** |
| Provisions for financial commitments | (1,555) | (1,969) | (1,759) | (1,891) |
| **Maximum credit risk exposure for financial commitments** | **265,854** | **259,081** | **444,969** | **274,198** |

Lending commitments are a time limited and binding promise that a specified amount of loan or credit line will be made available to the specific borrower on specific pre-agreed terms. For part of the committed lending promises clients have to perform certain obligations before the balance committed becomes available to them. Some lending commitments and undrawn credit facilities may be cancelled unconditionally by the Group at any time without notice, or in accordance with lending terms and conditions may effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

## NOTE 20. ASSETS UNDER MANAGEMENT

**Fair value of assets managed on behalf of customers by investment type**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Fixed income securities: | | | | |
| Corporate bonds | 201,265 | 206,766 | - | - |
| Government bonds | 74,569 | 68,552 | - | - |
| Credit institution bonds | 31,713 | 30,566 | - | - |
| Other financial institution bonds | 16,475 | 21,787 | - | - |
| **Total investments in fixed income securities** | **324,022** | **327,671** | **-** | **-** |
| Other investments: | | | | |
| Investment funds | 592,438 | 485,557 | - | - |
| Deposits with credit institutions | 12,191 | 61,923 | - | - |
| Compensations for distribution on behalf of deposit guarantee fund | 14,974 | 17,284 | 14,974 | 17,284 |
| Shares | 106,528 | 71,771 | - | - |
| Real estate | 4,179 | 4,247 | - | - |
| Loans | 669 | 681 | 668 | 681 |
| Other | 48,151 | 91,774 | - | - |
| **Total other investments** | **779,130** | **733,237** | **15,642** | **17,965** |
| **Total assets under management** | **1,103,152** | **1,060,908** | **15,642** | **17,965** |

**Customer profile on whose behalf the funds are managed**

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/03/2020 Bank |
| Pension plans | 786,631 | 745,174 | - | - |
| Insurance companies, investment and pension funds | 175,676 | 161,338 | - | - |
| Other companies and government | 33,323 | 54,057 | 15,642 | 17,965 |
| Private individuals | 107,522 | 100,339 | - | - |
| **Total liabilities under management** | **1,103,152** | **1,060,908** | **15,642** | **17,965** |

In 2020 the Group acquired rights to manage 2nd tier Latvian pension investment plans of the former AS PNB banka. As a result of this acquisition assets under management of the Group increased by more than EUR 100 million. To achieve economies of scale, the above PNB pension investment plans in October 2021 are planned to be merged with existing CBL pension investment plans. Management right asset in the amount of consideration paid was recognised by the Group and will be amortised to expenses proportionally to the acquired asset expected management income streams.

## NOTE 21. CASH AND CASH EQUIVALENTS

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2018 Bank |
| Cash and cash balances with central banks | 486,072 | 1,146,606 | 474,292 | 1,131,008 |
| Loans on demand to credit institutions | 38,987 | 31,018 | 20,294 | 20,019 |
| Demand deposits from central banks and credit institutions | (771) | (1,074) | (2,091) | (2,830) |
| **Total cash and cash equivalents** | **524,288** | **1,176,550** | **492,495** | **1,148,197** |

## NOTE 22. 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.

**Loans to public**

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rate is the sum of money market rate as of the end of the reporting period and credit margin, which is adjusted for current market conditions.

### 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 Visa Inc. preferred C shares which have 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. The instrument is categorised as Level 3.

### Derivatives

Derivatives are valued using techniques based on observable market data.

### Deposits and borrowings from customers

Deposits and borrowing from customers include 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 is carried at fair value is the 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.

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 deposit rates.

### Debt securities issued

The fair value of publicly 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 financial assets and liabilities of the Group on 30 June 2021

| | | | Fair value hierarchy (where applicable) | | |
|---|---|---|---|---|---|
| | Carrying value | Total fair value | Quoted market prices | Valuation technique - observable inputs | Valuation technique – non-market observable inputs |
| *Financial assets measured at fair value:* | | | | | |
| Debt securities | 315,320 | 315,320 | 221,227 | 94,093 | - |
| Equity instruments | 1,311 | 1,311 | - | - | 1,311 |
| Other financial instruments | 39,633 | 39,633 | 39,633 | - | - |
| Derivatives | 3,889 | 3,889 | - | 3,889 | - |
| *Financial assets not measured at fair value:* | | | | | |
| Cash and balances at central banks | 486,072 | 486,072 | - | - | - |
| Loans to credit institutions | 60,020 | 60,020 | - | - | - |
| Debt securities | 1,368,893 | 1,378,882 | 1,143,323 | 225,014 | 10,545 |
| Loans to public | 2,456,803 | 2,481,065 | - | - | 2,481,065 |
| **Total assets** | **4,731,941** | **4,766,192** | **1,404,183** | **322,996** | **2,492,921** |
| *Financial liabilities measured at fair value:* | | | | | |
| Derivatives | 1,120 | 1,120 | - | 1,120 | - |
| Deposits and borrowings from customers | 38,299 | 38,299 | 23,835 | - | 14,464 |
| *Financial liabilities not measured at fair value:* | | | | | |
| Deposits from credit institutions and central banks | 478,047 | 478,047 | - | - | - |
| Deposits and borrowings from customers | 3,759,683 | 3,761,209 | - | - | 3,761,209 |
| Debt securities issued | 60,088 | 62,252 | - | 62,252 | - |
| **Total liabilities** | **4,337,237** | **4,340,927** | **23,835** | **63,372** | **3,775,673** |

**Fair values of financial assets and liabilities of the Group on 31 December 2020**

| | Carrying value | Total fair value | Fair value hierarchy (where applicable)<br>Quoted market prices | Valuation technique - observable inputs | Valuation technique – non-market observable inputs |
|---|---|---|---|---|---|
| *Financial assets measured at fair value:* | | | | | |
| Debt securities | 376,974 | 376,974 | 376,974 | - | - |
| Equity instruments | 4,764 | 4,764 | - | 3,516 | 1,248 |
| Other financial instruments | 43,343 | 43,343 | 43,343 | - | - |
| Derivatives | 1,474 | 1,474 | - | 1,474 | - |
| *Financial assets not measured at fair value:* | | | | | |
| Cash and balances at central banks | 1,146,606 | 1,146,606 | - | - | - |
| Loans to credit institutions | 51,287 | 51,287 | - | - | - |
| Debt securities | 1,383,216 | 1,400,002 | 1,389,587 | - | 10,415 |
| Loans to public | 1,541,223 | 1,561,421 | - | - | 1,561,421 |
| **Total assets** | **4,548,887** | **4,585,871** | **1,809,904** | **4,990** | **1,573,084** |
| *Financial liabilities measured at fair value:* | | | | | |
| Derivatives | 4,461 | 4,461 | - | 4,461 | - |
| Deposits and borrowings from customers | 36,010 | 36,010 | 21,629 | - | 14,381 |
| *Financial liabilities not measured at fair value:* | | | | | |
| Deposits from credit institutions and central banks | 449,991 | 449,991 | - | - | - |
| Deposits and borrowings from customers | 3,635,380 | 3,638,069 | - | - | 3,638,069 |
| Debt securities issued | 60,080 | 61,775 | - | 61,775 | - |
| **Total liabilities** | **4,185,922** | **4,190,306** | **21,629** | **66,236** | **3,652,450** |

**Fair values of financial assets and liabilities of the Bank on 30 June 2021**

| | Carrying value | Total fair value | Fair value hierarchy (where applicable)<br>Quoted market prices | Valuation technique - observable inputs | Valuation technique – non-market observable inputs |
|---|---|---|---|---|---|
| *Financial assets measured at fair value:* | | | | | |
| Debt securities | 208,799 | 208,799 | 133,534 | 75,265 | - |
| Equity instruments | 1,311 | 1,311 | - | - | 1,311 |
| Other financial instruments | 7,574 | 7,574 | 7,574 | - | - |
| Derivatives | 3,889 | 3,889 | - | 3,889 | - |
| *Financial assets not measured at fair value:* | | | | | |
| Cash and balances at central banks | 474,292 | 474,292 | - | - | - |
| Loans to credit institutions | 41,288 | 41,288 | - | - | - |
| Debt securities | 1,326,851 | 1,335,572 | 1,110,883 | 214,144 | 10,545 |
| Loans to public | 2,347,898 | 2,372,160 | - | - | 2,372,160 |
| **Total assets** | **4,411,902** | **4,444,885** | **1,251,991** | **293,298** | **2,384,016** |
| Derivatives measured at fair value | 1,120 | 1,120 | - | 1,120 | - |
| *Financial liabilities not measured at fair value:* | | | | | |
| Deposits from credit institutions and central banks | 492,499 | 492,499 | - | - | - |
| Deposits and borrowings from customers | 3,619,026 | 3,620,599 | - | - | 3,620,599 |
| Debt securities issued | 60,088 | 62,252 | - | 62,252 | - |
| **Total liabilities** | **4,172,733** | **4,176,470** | **-** | **63,372** | **3,620,599** |

**Fair values of financial assets and liabilities of the Bank on 31 December 2020**

| | Carrying value | Total fair value | Fair value hierarchy (where applicable): Quoted market prices | Valuation technique - observable inputs | Valuation technique – non-market observable inputs |
|---|---|---|---|---|---|
| *Financial assets measured at fair value:* | | | | | |
| Debt securities | 224,710 | 224,710 | 224,710 | - | - |
| Equity instruments | 4,764 | 4,764 | - | 3,516 | 1,248 |
| Other financial instruments | 13,834 | 13,834 | 13,834 | - | - |
| Derivatives | 1,474 | 1,474 | - | 1,474 | - |
| *Financial assets not measured at fair value:* | | | | | |
| Cash and balances at central banks | 1,131,008 | 1,131,008 | - | - | - |
| Loans to credit institutions | 40,289 | 40,289 | - | - | - |
| Debt securities | 1,338,965 | 1,353,890 | 1,343,475 | - | 10,415 |
| Loans to public | 1,518,313 | 1,538,511 | - | - | 1,538,511 |
| **Total assets** | **4,273,357** | **4,308,480** | **1,582,019** | **4,990** | **1,550,174** |
| Derivatives measured at fair value | 4,461 | 4,461 | - | 4,461 | - |
| *Financial liabilities not measured at fair value:* | | | | | |
| Deposits from credit institutions and central banks | 470,959 | 470,959 | - | - | - |
| Deposits and borrowings from customers | 3,478,096 | 3,480,835 | - | - | 3,480,835 |
| Debt securities issued | 60,080 | 61,775 | - | 61,775 | - |
| **Total liabilities** | **4,013,596** | **4,018,030** | **-** | **66,236** | **3,480,835** |

**Changes in fair value of securities accounted for at fair value and categorised as Level 3**

| | EUR thousands | | | |
|---|---|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited | **6m 2021 Bank** | **6m 2020 Bank** unaudited |
| **As of the beginning of the period, net** | **1,248** | **5,092** | **1,248** | **5,092** |
| Total comprehensive income | | | | |
| *Revaluation gain* | *63* | *11* | *63* | *11* |
| **As of the end of the period, net** | **1,311** | **5,103** | **1,311** | **5,103** |

Fair value for equity instruments for 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.

**Changes in fair value of deposits and borrowings from customers measured at fair value and categorised as Level 3**

| | EUR thousands | |
|---|---|---|
| | **6m 2021 Group** | **6m 2020 Group** unaudited |
| **Balance as at the beginning of the period** | **14,381** | **12,984** |
| Premiums received | 1,261 | 1,338 |
| Commissions and risk charges | (183) | (173) |
| Paid to policyholders | (1,044) | (658) |
| Other | 44 | 87 |
| Currency revaluation result | 5 | 1 |
| **Balance as at the end of the period** | **14,464** | **13,579** |

## NOTE 23. 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 key 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;
- The 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. Since 31 December 2020 the Group's exposure to market risk, interest rate risk, currency risk and operational risk has not changed materially. 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. For more details on the Group's risk management policies refer to the latest annual report of the Group and the interim disclosures below.

**Assets, liabilities and off-balance sheet items by geographical profile**

| | Group as of 30/06/2021, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | Latvia | Lithuania | Estonia | Other EU countries | Other countries | Total |
| **Assets** | | | | | | |
| Cash and cash balances at central banks | 340,216 | 127,721 | 6,355 | - | 11,780 | 486,072 |
| Loans to credit institutions | 4,258 | 141 | 360 | 16,083 | 39,178 | 60,020 |
| Debt securities | 395,285 | 591,190 | 93,513 | 462,185 | 142,040 | 1,684,213 |
| Loans to public | 1,136,364 | 951,011 | 352,681 | 9,403 | 7,344 | 2,456,803 |
| Equity instruments | 124 | - | - | 77 | 1,110 | 1,311 |
| Other financial instruments | 23,189 | - | - | 16,186 | 258 | 39,633 |
| Derivatives | 3,153 | 53 | - | 683 | - | 3,889 |
| Other assets | 51,472 | 11,926 | 7,131 | 28 | 3,432 | 73,989 |
| **Total assets** | **1,954,061** | **1,682,042** | **460,040** | **504,645** | **205,142** | **4,805,930** |
| **Liabilities** | | | | | | |
| Deposits from credit institutions and central banks | 477,278 | - | - | 300 | 469 | 478,047 |
| Deposits and borrowings from customers | 2,743,728 | 684,394 | 54,973 | 132,642 | 182,245 | 3,797,982 |
| Debt securities issued | 60,088 | - | - | - | - | 60,088 |
| Derivatives | 892 | 152 | - | 60 | 16 | 1,120 |
| Other liabilities | 67,254 | 12,174 | 10,253 | 38 | 3,704 | 93,423 |
| **Total liabilities** | **3,349,240** | **696,720** | **65,226** | **133,040** | **186,434** | **4,430,660** |
| **Off-balance sheet items** | | | | | | |
| Contingent liabilities | 8,493 | 34,729 | 628 | 202 | 2,092 | 46,144 |
| Financial commitments | 175,871 | 71,966 | 19,049 | 25 | 498 | 267,409 |

For additional information on geographical distribution of securities exposures please refer to Note 11 (*Debt Securities*). EUR 11.8 million of the Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2020: EUR 15.6 million). From the Group's loans to credit institutions presented as "Other countries" EUR 11.0 million are with Swiss credit institutions (2020: EUR 6.7 million) and EUR 22.3 million with United States registered credit institutions (2020: EUR 21.4 million). Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

| | Group as of 31/12/2020, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | Latvia | Lithuania | Estonia | Other EU countries | Other countries | Total |
| **Assets** | | | | | | |
| Cash and cash balances at central banks | 1,049,958 | 48,214 | 32,837 | - | 15,597 | 1,146,606 |
| Loans to credit institutions | 2,702 | - | - | 16,681 | 31,904 | 51,287 |
| Debt securities | 420,977 | 601,713 | 68,507 | 485,620 | 183,373 | 1,760,190 |
| Loans to public | 875,681 | 493,598 | 149,436 | 8,876 | 13,632 | 1,541,223 |
| Equity instruments | 124 | - | - | 143 | 4,497 | 4,764 |
| Other financial instruments | 27,151 | - | - | 15,880 | 312 | 43,343 |
| Derivatives | 1,139 | 7 | - | 327 | 1 | 1,474 |
| Other assets | 37,200 | 7,716 | 2,854 | 36 | 625 | 48,431 |
| **Total assets** | **2,414,932** | **1,151,248** | **253,634** | **527,563** | **249,941** | **4,597,318** |
| **Liabilities** | | | | | | |
| Deposits from credit institutions and central banks | 448,926 | - | - | 86 | 979 | 449,991 |
| Deposits and borrowings from customers | 2,596,230 | 558,796 | 58,769 | 238,025 | 219,570 | 3,671,390 |
| Debt securities issued | 60,080 | - | - | - | - | 60,080 |
| Derivatives | 3,002 | 8 | - | 1,441 | 10 | 4,461 |
| Other liabilities | 56,395 | 6,072 | 2,074 | 15 | 2,530 | 67,086 |
| **Total liabilities** | **3,164,633** | **564,876** | **60,843** | **239,567** | **223,089** | **4,253,008** |
| **Off-balance sheet items** | | | | | | |
| Contingent liabilities | 15,684 | 5,230 | 919 | 205 | 1,865 | 23,903 |
| Financial commitments | 177,199 | 78,293 | 4,809 | 136 | 613 | 261,050 |

| | Bank as of 30/06/2021, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | Latvia | Lithuania | Estonia | Other EU countries | Other countries | Total |
| **Assets** | | | | | | |
| Cash and cash balances at central banks | 340,216 | 127,721 | 6,355 | - | - | 474,292 |
| Loans to credit institutions | - | - | - | 13,150 | 28,138 | 41,288 |
| Debt securities | 386,442 | 581,351 | 91,845 | 377,801 | 98,211 | 1,535,650 |
| Loans to public | 1,617,841 | 549,536 | 166,932 | 8,843 | 4,746 | 2,347,898 |
| Equity instruments | 124 | - | - | 77 | 1,110 | 1,311 |
| Other financial instruments | 7,574 | - | - | - | - | 7,574 |
| Derivatives | 3,153 | 53 | - | 683 | - | 3,889 |
| Other assets | 93,395 | 10,789 | 3,540 | 4 | 13,956 | 121,684 |
| **Total assets** | **2,448,745** | **1,269,450** | **268,672** | **400,558** | **146,161** | **4,533,586** |
| **Liabilities** | | | | | | |
| Deposits from credit institutions and central banks | 477,278 | - | - | 300 | 14,921 | 492,499 |
| Deposits and borrowings from customers | 2,734,726 | 684,289 | 53,812 | 55,202 | 90,997 | 3,619,026 |
| Debt securities issued | 60,088 | - | - | - | - | 60,088 |
| Derivatives | 892 | 152 | - | 60 | 16 | 1,120 |
| Other liabilities | 20,896 | 5,613 | 1,500 | 38 | 20 | 28,067 |
| **Total liabilities** | **3,293,880** | **690,054** | **55,312** | **55,600** | **105,954** | **4,200,800** |
| **Off-balance sheet items** | | | | | | |
| Contingent liabilities | 8,472 | 34,729 | 628 | 50 | 1,718 | 45,597 |
| Financial commitments | 352,181 | 71,634 | 22,780 | 25 | 108 | 446,728 |

For additional information on geographical distribution of securities exposures please refer to Note 11 (*Debt Securities*). From the Bank's loans to credit institutions presented as "Other countries" EUR 22.3 million with United States registered credit institutions (2020: EUR 21.4 million).

| | Bank as of 31/12/2020, EUR thousands | | | | | |
|---|---|---|---|---|---|---|
| | Latvia | Lithuania | Estonia | Other EU countries | Other countries | Total |
| **Assets** | | | | | | |
| Cash and cash balances at central banks | 1,049,957 | 48,214 | 32,837 | - | - | 1,131,008 |
| Loans to credit institutions | - | - | - | 15,070 | 25,219 | 40,289 |
| Debt securities | 410,603 | 591,670 | 66,850 | 375,827 | 118,725 | 1,563,675 |
| Loans to public | 870,136 | 488,202 | 144,289 | 8,775 | 6,911 | 1,518,313 |
| Equity instruments | 124 | - | - | 143 | 4,497 | 4,764 |
| Other financial instruments | 13,834 | - | - | - | - | 13,834 |
| Derivatives | 1,139 | 7 | - | 327 | 1 | 1,474 |
| Other assets | 60,535 | 9,582 | 3,125 | 7 | 13,840 | 87,089 |
| **Total assets** | **2,406,328** | **1,137,675** | **247,101** | **400,149** | **169,193** | **4,360,446** |
| **Liabilities** | | | | | | |
| Deposits from credit institutions and central banks | 448,926 | - | - | 86 | 21,947 | 470,959 |
| Deposits and borrowings from customers | 2,586,803 | 558,818 | 58,209 | 173,238 | 101,028 | 3,478,096 |
| Debt securities issued | 60,080 | - | - | - | - | 60,080 |
| Derivatives | 3,002 | 8 | - | 1,441 | 10 | 4,461 |
| Other liabilities | 22,171 | 5,551 | 1,504 | 15 | 10 | 29,251 |
| **Total liabilities** | **3,120,982** | **564,377** | **59,713** | **174,780** | **122,995** | **4,042,847** |
| **Off-balance sheet items** | | | | | | |
| Contingent liabilities | 15,662 | 5,230 | 919 | - | 1,435 | 23,246 |
| Financial commitments | 182,061 | 85,821 | 7,854 | 136 | 217 | 276,089 |

**Liquidity coverage ratio**

The general principles of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position are defined in the Regulation (EC) No 575/2013. The Commission Delegated Regulation (EU) 2015/61 defines general LCR calculation principles in more details. The minimum LCR requirement is 100% and it represents the amount of liquidity available to cover calculated net future liquidity outflows. The Bank and the Group is compliant with LCR requirements.

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| 1. Liquidity buffer | 1,283,317 | 2,061,640 | 1,220,996 | 1,985,199 |
| 2. Net liquidity outflow | 687,691 | 578,923 | 641,962 | 573,097 |
| **3. Liquidity coverage ratio** | **187%** | **356%** | **190%** | **346%** |

## *Capital management*

Capital adequacy is calculated in accordance with the current global standards of the bank capital adequacy (the Basel III international regulatory framework) as implemented by the European Union via a regulation (EU) 575/2013 and a directive 2013/36/EU, the Financial and Capital Markets Commission's (FCMC) rules and other relevant regulations.

Capital adequacy is a measure of sufficiency of the Group's eligible capital resources to cover credit risks, market risks, operational risk and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The regulations require credit institutions to maintain a Total Capital adequacy ratio of 8.0% of the total risk weighted exposure amounts. The rules also require 4.5% minimum Common Equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio.

Total SREP capital requirement (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. The additional pillar 2 capital requirement is re-assessed annually by the FCMC. As of the period end based on the FCMC's assessment an additional 2.30% capital requirement (TSCR) for the Group and the Bank is determined to cover pillar 2 risks. As of the period end the Bank and the Group is required to cover 56% of the TSCR with Common Equity Tier 1 capital (1.29% capital requirement), 75% with Tier 1 capital (1.73% capital requirement) and 100% with Total Capital (2.30% capital requirement).

On top of the minimum capital adequacy ratios and the pillar 2 capital requirements (TSCR), the Group and the Bank must comply with the capital buffer requirements. The buffer requirements must be reached by Common Equity Tier 1 capital. The capital conservation buffer both for the Group and the Bank is set at 2.50%, limiting dividend pay-out and certain other Tier 1 equity instrument buybacks, if the buffer threshold is not exceeded.

Citadele, being identified as "other systemically important institution" (O-SII), must also comply with the O-SII capital buffer requirement set by the FCMC at 1.50%.

Countercyclical capital buffer norms at each balance sheet date are calculated based on the actual risk exposure geographical distribution and the countercyclical buffer rates applicable for each geographical location. In the reporting period in reaction to the Covid-19 events most European countercyclical capital buffer requirements were decreased to 0%. Therefore, based on the regional distribution of the Group's exposures the effective countercyclical capital buffer requirement of the Group has decreased to almost 0%.

The Group and the Bank applies requirements of minimum loss coverage for non-performing exposures in line with FCMC regulations for the exposures originated until 25 April 2019, and in line with a regulation (EU) 2019/630 for exposures originated starting from 26 April 2019. The minimum loss coverage calculation is mathematically simplistic "calendar based" calculation for non-performing exposures, which is constructed on the principle - the longer an exposure has been non-performing, the lower the probability for the recovery of its value. Therefore, the portion of the exposure that should be covered by provisions, impairments, other adjustments or deductions should increase with time, following a pre-defined calendar. Insufficient coverage for non-performing exposures is deductible from the regulatory capital. Due to the Group's provisioning policy and portfolio structure, the regulation of minimum loss coverage for non-performing exposures has had minor impact on the Group's capital adequacy position.

The Bank has to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As of the period end both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements. The long-term regulatory capital position of the Group and the Bank is planned and managed in line with these and other expected upcoming regulatory requirements.

**Regulatory capital requirements of the Group on 30 June 2021**

| | 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 (pillar 2 capital requirement) | 1.29% | 1.73% | 2.30% |
| 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 | 0.00% | 0.00% | 0.00% |
| **Capital requirement** | **9.79%** | **11.73%** | **14.30%** |

As of the period end capital and capital buffer requirements for the Bank and the Group are the same.

#### Capital adequacy ratio (including net result for the period)

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Common equity Tier 1 capital | | | | |
| Paid up capital instruments | 156,556 | 156,556 | 156,556 | 156,556 |
| Retained earnings | 209,087 | 176,651 | 172,739 | 156,574 |
| Regulatory deductions | (7,879) | (5,599) | (5,573) | (5,187) |
| Other capital components and transitional adjustments, net | 10,445 | 13,405 | 6,546 | 8,746 |
| Tier 2 capital | | | | |
| Eligible part of subordinated liabilities | 60,000 | 60,000 | 60,000 | 60,000 |
| **Total own funds** | **428,209** | **401,013** | **390,268** | **376,689** |
| Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk | 2,010,325 | 1,340,639 | 2,011,063 | 1,303,818 |
| Total exposure amounts for position, foreign currency open position and commodities risk | 4,146 | 13,690 | 4,146 | 4,747 |
| Total exposure amounts for operational risk | 187,358 | 187,358 | 146,960 | 146,960 |
| Total exposure amounts for credit valuation adjustment | 4,462 | 933 | 4,462 | 933 |
| **Total risk exposure amount** | **2,206,291** | **1,542,620** | **2,166,631** | **1,456,458** |
| **Total capital adequacy ratio** | **19.4%** | **26.0%** | **18.0%** | **25.9%** |
| **Common equity Tier 1 capital ratio** | **16.7%** | **22.1%** | **15.2%** | **21.7%** |

The consolidated Group for regulatory purposes is different from the consolidated Group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidated 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.

#### Transitional adjustments applied as of 30 June 2021

Capital adequacy calculation in accordance with the EU and the FCMC regulations permits transitional adjustments. The regulatory compliance is measured based on the transitional capital adequacy ratio. For transparency purposes the fully loaded capital adequacy ratio (i.e., excluding transitional adjustments) is also disclosed. The expectation is that in the medium term the transitional capital adequacy ratio will converge with the fully loaded capital adequacy ratio, as the transitional provisions expire.

Most of the transitional provisions, if applied, allow for a favourable treatment of specific capital components or risk exposure items, resulting in a marginal improvement in the capital adequacy ratios. Application of the transitional provisions is mostly discretionary. An application decision is evaluated in the context of estimated positive impact on the capital adequacy ratio versus the resources required to develop the systems and the processes to implement each transitional provision.

The transitional provisions that the Group and the Bank has applied for the period end capital adequacy calculations:

***The regulation (EU) 2017/2395*** which permits specific proportion of the IFRS 9 implementation impact to be amortised over a five-year period (starting from 2018) for capital adequacy calculation purposes.

All other transitional provisions for which the Group and the Bank is eligible are not applied as of the period end and are still in the assessment phase, implementation phase or have been decided not to be implemented.

#### Fully loaded capital adequacy ratio (i.e., excluding transitional adjustments, including net result for the period)

| | EUR thousands | | | |
|---|---|---|---|---|
| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
| Common equity Tier 1 capital, fully loaded | 365,283 | 336,917 | 327,213 | 312,412 |
| Tier 2 capital | 60,000 | 60,000 | 60,000 | 60,000 |
| **Total own funds, fully loaded** | **425,283** | **396,917** | **387,213** | **372,412** |
| **Total risk exposure amount, fully loaded** | **2,203,802** | **1,539,013** | **2,163,873** | **1,452,523** |
| **Total capital adequacy ratio, fully loaded** | **19.3%** | **25.8%** | **17.9%** | **25.6%** |
| **Common equity Tier 1 capital ratio, fully loaded** | **16.6%** | **21.9%** | **15.1%** | **21.5%** |

#### Leverage ratio – fully loaded and transitional (including net result for the period)

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure. The minimum requirement is 3%. The exposure measure includes both non-risk based on-balance sheet and off-balance sheet items calculated in accordance with the capital requirements regulation. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining the minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

| | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|
| Leverage Ratio – fully phased-in definition of Tier 1 capital | 7.5% | 7.3% | 7.0% | 7.1% |
| Leverage Ratio – transitional definition of Tier 1 capital | 7.6% | 7.4% | 7.1% | 7.1% |

#### Fully loaded and transitional capital adequacy ratio excluding net result for the period

The transitional capital adequacy ratio, if the net result for the period is not included, for the Group is 18.0% and for the Bank is 17.3%; the transitional Tier 1 capital ratio for the Group is 15.2% and for the Bank is 14.5%. The fully loaded capital adequacy ratio, if the net result for the period is not included, for the Group is 17.8% and for the Bank is 17.2%; the fully loaded Tier 1 capital ratio for the Group is 15.1% and for the Bank is 14.4%.

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

The European Commission has adopted the regulatory technical standards (RTS) on the criteria for determining the minimum requirement for own funds and eligible liabilities (MREL) under the Banking Package (CRR2/CRD5/BRRD2/SRMR2). In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD 2, it requires that all institutions must meet an individual MREL requirement. The MREL requirement for each institution is comprised of several elements, including the required loss absorbing capacity of the institution, 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 the capital requirements directive), along with eligible liabilities subject to conditions set in regulation 2019/876.

As a part of the new Banking Package in 2020 the SRB published an updated MREL policy, effective from 2021. It requires MREL to be calculated based on both total risk exposure amount (TREA) and leverage ratio exposure (LRE) amount. Statutory subordination requirements will be set depending on the Group's classification and will be communicated individually in a MREL decision.

SRB has determined the consolidated intermediate MREL target for Citadele Group at the level of 18.03% of TREA or 5.26% of LRE, whichever is higher, to be met by 1 January 2022 and the final calibrated MREL target to be met by 1 January 2024 at the level of 19.96% of TREA or 5.26% of LRE, whichever is higher. After the transition period the Group shall comply with MREL at all times on the basis of evolving amounts of TREA/LRE.

The MREL targets were determined by the SRB using the financial and supervisory information as of 31 December 2019 and is expected to be updated by the SRB annually based on more recent financial information of the Group.

## NOTE 24. EVENTS AFTER THE REPORTING DATE

### *Citadele acquires mortgage portfolio from ABLV Bank in liquidation*

In 2021 Citadele has agreed to acquire from ABLV Bank (in liquidation) a mortgage loan portfolio with a total exposure of EUR 170 million. On 2 July 2021 in the first phase of the transaction, mortgage loans with net exposure amounting to EUR 114 million were acquired. The second phase of the transaction is expected to be finalised by the end of the year and will involve mortgage agreements in the amount of around EUR 50 million.

KPMG Baltics AS
Vesetas iela 7
Riga, LV-1013
Latvia

T: + 371 67038000
kpmg.com/lv
kpmg@kpmg.lv

# Independent Auditors' Report

## To the shareholders of AS "Citadele banka"

### Report on the Audit of the Condensed Interim Separate and Consolidated Financial information

*Our Opinion on the Separate and Consolidated Financial Information*

We have audited the condensed interim separate financial information of AS "Citadele banka" ("the Bank") and the condensed interim consolidated financial information of the Bank and its subsidiaries (together "the Group") set out on pages 12 to 40 of the accompanying Interim Report, which comprises:

- the separate and consolidated condensed balance sheet as at 30 June 2021,
- the separate and consolidated condensed income statement for the 6 month period then ended,
- the separate and consolidated condensed statement of comprehensive income for the 6 month period then ended,
- the separate and consolidated condensed statement of changes in equity for the 6 month period then ended,
- the separate and consolidated condensed statement of cash flows for the 6 month period then ended, and
- the notes to the separate and consolidated condensed financial information, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying condensed interim separate and consolidated financial information has been prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

*Basis for Opinion*

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

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

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed interim separate and consolidated financial information of the current period. These matters were addressed in the context of our audit of the condensed interim separate and consolidated financial information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

| Impairment of loans, and provisions for off-balance sheet items (consolidated and separate interim financial information) | |
|---|---|
| ***Key audit matter*** | ***Our response*** |
| *The gross amount of loans to public in the condensed interim consolidated financial information as at 30 June 2021: EUR 2 530 million; total allowances for impairment losses as at 30 June 2021: EUR 73.5 million; of which impairment allowance release on loans recognised in 2021: EUR 1.65 million; the gross amount of off-balance sheet items as at 30 June 2021: EUR 267.4 million; total provisions as at 30 June 2021: EUR 1.56 million; of which provision release on these items recognised in 2021: EUR 0.455 million;*<br><br>*The gross amount of loans to public in the condensed interim separate financial information as at 30 June 2021: EUR 2 406 million; total impairment loss allowances as at 30 June 2021: EUR 57.89 million; of which impairment losses on loans recognised in 2021: EUR 5.8 million. The gross amount of off-balance sheet items as at 30 June 2021: EUR 446.7 million; total provisions as at 30 June 2021: EUR 1.76 million; of which provision release on these items recognised in 2021: EUR 0.17 million.*<br><br>*We refer to the financial information: Note 3 (d), Notes 9, 12, 19. We also refer to the 2020 annual* | Our audit procedures included, among others:<br><br>With respect to the Impairment of loans, and provisions for off-balance sheet items in general:<br><br>• inspecting the Bank's and the Group's expected credit losses ("ECL") impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;<br><br>• assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment loss allowances;<br><br>• assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9;<br><br>• making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the impairment allowances and provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists.<br><br>We involved our own financial risk modelling and IT specialists in the following: |

*financial statements: Note 3 (j), (p), (z) and (ff), Notes 11, 16, 26.*

Impairment allowances represent the Management Board's best estimate of the expected credit losses within the loans and off-balance sheet items at the reporting date. We focused on this area as the determination of impairment loss allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment, especially considering the current uncertain economic environment as a result of COVID-19 pandemic.

As required by IFRS 9, the Group calculates impairment allowances and provisions for off-balance sheet items based on expected credit losses ("ECLs"). ECLs determined by modelling techniques and estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators such as the probability of default ("PD") and loss given default ("LGD").

Individual impairment allowances recognized by the Bank and other entities within the Group often relate to large, individually monitored, corporate exposures, where the Group is assessing ECLs on an individual basis. The assessment is therefore based on the knowledge about each individual borrower and often on estimation of the fair value of the related collateral.

Accordingly, the most significant areas of estimation uncertainty and judgements associated with recognition of impairment

- Evaluating the appropriateness of the Group's IFRS 9 impairment methodologies (including the staging criteria used);
- Reperforming and inspecting model code for the calculation of certain components of the ECL model (including the staging criteria);
- Evaluating whether the changes were appropriate by assessing the updated model methodology;
- Assessing the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences.

For loans assessed on an individual basis:

- Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial information due to their magnitude and risk characteristics like restructurings, as well as lower value items which we independently assessed as high-risk;
- For non-credit impaired exposures, for which the credit risk has not significantly increased since the initial recognition ("stage 1") and non-credit impaired exposures, for which the credit risk has significantly increased since the initial recognition ("stage 2"), within the sample selected, critically assessing the existence of any evidence of credit-impairment as at 30 June 2021, by reference to the underlying documentation and through discussion with the Management Board and credit risk personnel's and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern;
- For stage 3 (credit impaired) exposures in our sample, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows such as collateral values and realization period, and performing respective independent recalculations, where relevant. We sought the Management Board's and credit risk personnel's explanations for any material discrepancies identified as a result of the above procedures.

For loans where impairment allowances and off-balance sheet provisions are based on modelled expected credit losses:

- testing the underlying impairment models, assessed as significant, including model approval processes, including the calculation of main risk parameters (probability of default allowances for loans and provisions for off-balance sheet items are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure, the expected future cash flows of the customer, probability of a default and potential loss level in case of the default.
- Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
- Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures.
- Application of unbiased forward-looking information reflecting a range of future economic conditions where determining the economic scenarios to be used and the probability weightings applied to them requires significant management judgment.
- Qualitative adjustments to the model-driven ECL results to address impairment model limitations as well as risks not captured by models. These adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.

(PD), loss given default (LGD) and exposure at default (EAD)) and macroeconomic factors;

- obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's and the Group's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and through inspection of publicly available information;
- challenging LGD and PD parameters, by assessing historical default levels and by reference to historical realized losses on defaults;
- for a sample of exposures, assessing the appropriateness of the staging;
- for a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;
- For post model adjustment, considering the size and complexity of management COVID-19 related overlay, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.

In order to assess loss allowances in totality:

- critically assessing the reasonableness of the ECL allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage;
- evaluating the accuracy and adequacy of the financial information disclosures.

KPMG

**Business combination (consolidated interim financial information)**

| *Key audit matter* | *Our response* |
| --- | --- |
| *The Group finalised a leasing group acquisition deal in early 2021. This acquisition constituted a business combination under IFRS 3 Business combinations. Fair value of total assets acquired: EUR 839.8 million, fair value of liabilities assumed: EUR 810.6 million, consideration transferred: EUR 29.2 million.*<br><br>*We refer to the financial information: Note 14.*<br><br>The accounting for this transaction is complex due to significant judgements and estimates that are required to determine the assets acquired and liabilities assumed as a part of the transaction and initially measure them at fair value on the acquisition date. Accordingly, we have identified this area to be a key audit matter. | Our audit procedures included, among others:<br><br>• obtaining understanding of the management's process related to the acquisition accounting. We inspected key documents, terms and conditions of the transaction and assessed the accounting treatment of consideration transferred and assets and liabilities acquired in accordance with IFRS 3 Business Combinations.<br><br>• involving our own valuation specialists to support us in challenging the valuations produced by the Group and the methodology used to identify the assets and liabilities acquired, in particular:<br>  - the methodologies adopted and key assumptions used in valuing the acquired leasing and loans portfolio, which included the required discount rates to discount the different risk grades of loans acquired and the reconciliation of underlying data used in arriving at the fair value estimate;<br><br>• evaluating the adequacy of the financial information disclosures, including disclosures of key assumptions and judgements. |

*Other Matter*

The corresponding comparative financial information for the 6 month period ended 30 June 2020 is based on unaudited interim separate and consolidated financial information for the 6 month period ended 30 June 2020.

*Reporting on Other Information*

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

- Key figures as set out on page 2 of the accompanying Interim Report ("Interim Report"),
- the Management Report, as set out on pages 4 to 10 of the Interim Report,
- the Statement of the Management's Responsibility, as set out on page 11 of the Interim Report,
- The Other regulatory disclosures, as set out on pages 49 to 51.
- The Quarterly statements of income and balance sheets of the Group, as set out on pages 52 to 53.

Our opinion on the condensed interim separate and consolidated financial information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

*Responsibilities of Management and Those Charged with Governance for the Interim Separate and Consolidated Financial Information*

Management is responsible for the preparation of the condensed interim separate and consolidated financial information in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of condensed interim separate and consolidated financial information that is free from material misstatement, whether due to fraud or error.

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

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

*Auditors' Responsibility for the Audit of the Condensed Interim Separate and Consolidated Financial Information*

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the condensed interim separate and consolidated financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the condensed interim separate and consolidated financial information, including the disclosures, and whether the condensed interim separate and consolidated financial information represents the underlying transactions and events in a manner that is consistent with requirements of IAS 34 *Interim Financial Reporting* as adopted by the European Union.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

We were appointed by the annual shareholders' meeting on 23 April 2021 to audit the condensed interim separate and consolidated financial information of AS "Citadele banka" for the 6 month period ended 30 June 2021. Our total uninterrupted period of engagement is 9 years, covering the periods ending 31 December 2013 to 30 June 2021.

We confirm that:

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

The responsible certified auditor on the audit resulting in this independent auditors' report is Rainers Vilāns.

KPMG Baltics AS
Licence No. 55

Anders Bäckström
Partner
KPMG Baltics AS authorised representative
Riga, Latvia

Rainers Vilāns
Latvian Sworn Auditor
Certificate No. 200

The Auditor's report is signed with a secure electronic signature, which contains a timestamp, the date of signing the Auditors' report is the date of the last attached secure electronic signature timestamp

# OTHER REGULATORY DISCLOSURES

Besides financial, corporate governance and other disclosures included in this interim report of AS Citadele banka, the Financial and Capital Market Commission's regulation No. 231 "Regulation on Preparation of Public Quarterly Reports of Credit institutions" requires several additional disclosures which are presented in this note.

## *Income Statement, regulatory format*

| | *EUR thousands* | 6m 2021 Group | 6m 2020 Group | 6m 2021 Bank | 6m 2020 Bank |
|---|---|---|---|---|---|
| 1. | Interest income | 60,662 | 46,142 | 43,773 | 41,683 |
| 2. | Interest expense | (7,424) | (12,258) | (7,128) | (12,252) |
| 3. | Dividend income | 24 | 24 | 24 | 24 |
| 4. | Commission and fee income | 28,161 | 24,608 | 23,003 | 20,556 |
| 5. | Commission and fee expense | (11,258) | (10,571) | (10,818) | (10,161) |
| 6. | Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net | (316) | 207 | 218 | 677 |
| 7. | Gain or loss on financial assets and liabilities measured at fair value through profit or loss, net | 727 | (24,596) | 640 | (24,617) |
| 8. | Fair value change in the hedge accounting | - | - | - | - |
| 9. | Gain or loss from foreign exchange trading and revaluation of open positions | 4,257 | 3,401 | 3,522 | 3,417 |
| 10. | Gain or loss on derecognition of non-financial assets, net | - | - | - | - |
| 11. | Other income | 4,088 | 715 | 2,990 | 1,516 |
| 12. | Other expense | (2,142) | (2,062) | (1,551) | (1,444) |
| 13. | Administrative expense | (41,530) | (36,497) | (31,120) | (32,676) |
| 14. | Amortisation and depreciation charge | (5,153) | (3,948) | (3,786) | (3,713) |
| 15. | Gain or loss on modifications in financial asset contractual cash flows | 10 | - | 10 | - |
| 16. | Provisions, net | 455 | (1,522) | 173 | (1,527) |
| 17. | Impairment charge and reversals, net | 3,208 | (12,504) | (3,664) | (11,709) |
| 18. | Negative goodwill recognised in profit or loss | - | - | - | - |
| 19. | Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method | - | - | - | - |
| 20. | Profit or loss from non-current assets and disposal groups classified as held for sale | (102) | (81) | (102) | (81) |
| **21.** | **Profit before taxation** | **33,667** | **(28,942)** | **16,184** | **(30,307)** |
| 22. | Corporate income tax | (1,079) | (83) | (301) | (14) |
| **23.** | **Net profit / loss for the period** | **32,588** | **(29,025)** | **15,883** | **(30,321)** |
| **24.** | **Other comprehensive income for the period** | **(2,147)** | **(335)** | **(1,214)** | **(306)** |

## *Balance Sheet, regulatory format*

| | *EUR thousands* | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|---|
| 1. | Cash and demand balances with central banks | 486,072 | 1,146,606 | 474,292 | 1,131,008 |
| 2. | Demand deposits due from credit institutions | 38,987 | 31,018 | 20,294 | 20,020 |
| 3. | Financial assets designated at fair value through profit or loss | 44,631 | 49,314 | 12,573 | 19,805 |
| *3.1.* | *Including loans to public and credit institutions* | - | - | - | - |
| 4. | Financial assets at fair value through other comprehensive income | 315,521 | 377,240 | 208,999 | 224,976 |
| 5. | Financial assets at amortised cost | 3,846,730 | 2,944,709 | 3,695,744 | 2,877,548 |
| *5.1.* | *Including loans to public and credit institutions* | *2,477,836* | *1,561,492* | *2,368,892* | *1,538,582* |
| 6. | Derivatives – hedge accounting | - | - | - | - |
| 7. | Change in the fair value of the portfolio hedged against interest rate risk | - | - | - | - |
| 8. | Investments in subsidiaries, joint ventures and associates | 274 | 274 | 76,731 | 46,756 |
| 9. | Tangible assets | 23,770 | 12,930 | 13,406 | 14,143 |
| 10. | Intangible assets | 8,212 | 5,981 | 6,005 | 5,832 |
| 11. | Tax assets | 5,340 | 3,272 | 3,058 | 3,057 |
| 12. | Other assets | 35,447 | 25,028 | 21,538 | 16,355 |
| 13. | Non-current assets and disposal groups classified as held for sale | 946 | 946 | 946 | 946 |
| **14.** | **Total assets (1.+....+13.)** | **4,805,930** | **4,597,318** | **4,533,586** | **4,360,446** |
| 15. | Due to central banks | 477,282 | 438,838 | 477,282 | 438,838 |
| 16. | Demand liabilities to credit institutions | 765 | 1,069 | 2,087 | 2,824 |
| 17. | Financial liabilities designated at fair value through profit or loss | 39,420 | 40,471 | 1,120 | 4,461 |
| *17.1* | *Including deposits from customers* | *38,299* | *36,010* | - | - |
| 18. | Financial liabilities measured at amortised cost | 3,819,770 | 3,705,544 | 3,692,244 | 3,567,473 |
| *18.1* | *Including deposits from customers* | *3,759,682* | *3,645,464* | *3,632,156* | *3,507,393* |
| 19. | Derivatives – hedge accounting | - | - | - | - |
| 20. | Change in the fair value of the portfolio hedged against interest rate risk | - | - | - | - |
| 21. | Provisions | 1,757 | 2,211 | 1,961 | 2,133 |
| 22. | Tax liabilities | 806 | 677 | 275 | 115 |
| 23. | Other liabilities | 90,860 | 64,198 | 25,831 | 27,003 |
| 24. | Liabilities included in disposal groups classified as held for sale | - | - | - | - |
| **25.** | **Total liabilities (15.+...+24.)** | **4,430,660** | **4,253,008** | **4,200,800** | **4,042,847** |
| 26. | Shareholders' equity | 375,270 | 344,310 | 332,786 | 317,599 |
| **27.** | **Total liabilities and shareholders' equity (25.+26.)** | **4,805,930** | **4,597,318** | **4,533,586** | **4,360,446** |

| | | | | | |
|---|---|---|---|---|---|
| **28.** | **Memorandum items** | **313,553** | **284,953** | **492,325** | **299,335** |
| 29. | Contingent liabilities | 46,144 | 23,903 | 45,597 | 23,246 |
| 30. | Financial commitments | 267,409 | 261,050 | 446,728 | 276,089 |

## *ROE and ROA ratios*

| | 6m 2021 Group | 6m 2020 Group | 6m 2021 Bank | 6m 2020 Bank |
|---|---|---|---|---|
| Return on equity (ROE) (%) | 18.11% | (17.79%) | 9.77% | (19.74%) |
| Return on assets (ROA) (%) | 1.39% | (1.40%) | 0.71% | (1.58%) |

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

## *Capital adequacy ratio*

| | *EUR thousands* | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|---|
| **1** | **Own funds (1.1.+1.2.)** | **396,056** | **401,013** | **374,385** | **376,689** |
| 1.1 | Tier 1 capital (1.1.1.+1.1.2.) | 336,056 | 341,013 | 314,385 | 316,689 |
| *1.1.1* | *Common equity Tier 1 capital* | *336,056* | *341,013* | *314,385* | *316,689* |
| *1.1.2* | *Additional Tier 1 capital* | - | - | - | - |
| 1.2 | Tier 2 capital | 60,000 | 60,000 | 60,000 | 60,000 |
| **2** | **Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)** | **2,206,291** | **1,542,620** | **2,166,631** | **1,456,458** |
| 2.1 | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 2,010,325 | 1,340,639 | 2,011,063 | 1,303,818 |
| 2.2 | Total risk exposure amount for settlement/delivery | - | - | - | - |
| 2.3 | Total risk exposure amount for position, foreign exchange and commodities risks | 4,146 | 13,690 | 4,146 | 4,747 |
| 2.4 | Total risk exposure amount for operational risk | 187,358 | 187,358 | 146,960 | 146,960 |
| 2.5 | Total risk exposure amount for credit valuation adjustment | 4,462 | 933 | 4,462 | 933 |
| 2.6 | Total risk exposure amount related to large exposures in the trading book | - | - | - | - |
| 2.7 | Other risk exposure amounts | - | - | - | - |
| **3** | **Capital adequacy ratios** | | | | |
| 3.1 | Common equity Tier 1 capital ratio (1.1.1./2.*100) | **15.2%** | **22.1%** | **14.5%** | **21.7%** |
| 3.2 | Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%) | 236,773 | 271,595 | 216,887 | 251,148 |
| 3.3 | Tier 1 capital ratio (1.1./2.*100) | **15.2%** | **22.1%** | **14.5%** | **21.7%** |
| 3.4 | Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%) | 203,679 | 248,456 | 184,387 | 229,302 |
| 3.5 | Total capital ratio (1./2.*100) | **18.0%** | **26.0%** | **17.3%** | **25.9%** |
| 3.6 | Surplus (+)/ Deficit (-) of total capital (1.-2.*8%) | 219,553 | 277,604 | 201,055 | 260,172 |
| **4** | **Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)** | 88,251 | 61,705 | 86,665 | 58,258 |
| 4.1 | Capital conservation buffer | 55,157 | 38,566 | 54,166 | 36,411 |
| 4.2 | Conservation buffer for macroprudential or systemic risk at member state's level | - | - | - | - |
| 4.3 | Institution specific countercyclical buffer | - | - | - | - |
| 4.4 | Systemic risk buffer | - | - | - | - |
| 4.5 | Other systemically important institution buffer | 33,094 | 23,139 | 32,499 | 21,847 |
| **5** | **Capital adequacy ratios, including adjustments** | | | | |
| 5.1 | Impairment or asset value adjustments for capital adequacy ratio purposes | - | - | - | - |
| 5.2 | Common equity tier 1 capital ratio including line 5.1 adjustments | 15.2% | 22.1% | 14.5% | 21.7% |
| 5.3 | Tier 1 capital ratio including line 5.1 adjustments | 15.2% | 22.1% | 14.5% | 21.7% |
| 5.4 | Total capital ratio including line 5.1 adjustments | 18.0% | 26.0% | 17.3% | 25.9% |

Capital adequacy ratios here are calculated in accordance with the Basel III regulation as implemented via EU regulation 575/2013, directive 2013/36/EU and relevant FCMC regulations. In the disclosure above, in the Group's and the Bank's regulatory capital audited annual profits and any losses accumulated up to the reporting date are included, but all other profits of the reporting period are excluded.

| | *EUR thousands* | 30/06/2021 Group | 31/12/2020 Group | 30/06/2021 Bank | 31/12/2020 Bank |
|---|---|---|---|---|---|
| **1.A** | **Own funds, IFRS 9 transitional provisions not applied** | **393,130** | **396,917** | **371,330** | **372,412** |
| 1.1.A | Tier 1 capital, IFRS 9 transitional provisions not applied | 333,130 | 336,917 | 311,330 | 312,412 |
| *1.1.1. A* | *Common equity Tier 1 capital, IFRS 9 transitional provisions not applied* | *333,130* | *336,917* | *311,330* | *312,412* |
| **2.A** | **Total risk exposure amount, IFRS 9 transitional provisions not applied** | **2,203,802** | **1,539,013** | **2,163,873** | **1,452,523** |
| 3.1.A | Common equity Tier 1 capital ratio, IFRS 9 transitional provisions not applied | 15.1% | 21.9% | 14.4% | 21.5% |
| 3.3.A | Tier 1 capital ratio, IFRS 9 transitional provisions not applied | 15.1% | 21.9% | 14.4% | 21.5% |
| 3.5.A | Total capital ratio, IFRS 9 transitional provisions not applied | 17.8% | 25.8% | 17.2% | 25.6% |

## *Business Strategy and Objectives*

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

## *Branches*

AS Citadele banka has 20 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. AS Citadele banka has 4 client consultation centres in Latvia. The Lithuanian branch has 6 customer service units in Lithuania. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".

## *Bank's Organizational Structure*

**Supervisory Board**

**Internal Audit**

**Chief Executive Officer (MB)**

**Chief Corporate Commercial Officer (MB)**
- Corporate Business
- Transaction Banking
- Loan Recovery
- Baltic Leasing
- Corporate Financial Markets
- Corporate Internal Risk Control

**Chief Retail Commercial Officer (MB)**
- Sky Branch
- Retail Branch Network
- Wealth Management
- Sales Support

**Chief Technology & Operations Officer (MB)**
- IT Technology
- IT Security
- Digital Ventures
- Project Management
- Operations

**Chief Risk Officer (MB)**
- Risk management
- Legal

**Chief Strategy Officer (MB)**
- Business Development
- Data Science & AI

**Chief Compliance Officer (MB)**
- Compliance
- Security

**Chief Financial Officer (MB)**
- Finance
- Investors Relations
- Financial Institutions

- MB Secretariat
- Human Resources
- Marketing & Communications
- Transformation Office
- Treasury
- Financial markets

## QUARTERLY STATEMENTS OF INCOME AND BALANCE SHEETS OF THE GROUP

| | Group, EUR thousands | | | | |
|---|---|---|---|---|---|
| | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 |
| Interest income | 30,653 | 30,009 | 21,892 | 22,090 | 22,472 |
| Interest expense | (3,470) | (3,954) | (5,152) | (5,174) | (6,752) |
| **Net interest income** | **27,183** | **26,055** | **16,740** | **16,916** | **15,720** |
| Fee and commission income | 14,709 | 13,452 | 13,529 | 13,624 | 11,711 |
| Fee and commission expense | (5,956) | (5,302) | (5,851) | (5,158) | (5,039) |
| **Net fee and commission income** | **8,753** | **8,150** | **7,678** | **8,466** | **6,672** |
| Net financial income | 2,293 | 2,385 | 5,301 | (1,776) | (23,089) |
| Net other income / (expense) | 1,874 | 96 | 15,336 | 396 | (1,140) |
| **Operating income** | **40,103** | **36,686** | **45,055** | **24,002** | **(1,837)** |
| Staff costs | (15,895) | (14,868) | (13,009) | (11,876) | (13,073) |
| Other operating expenses | (5,558) | (5,209) | (5,333) | (5,230) | (5,975) |
| Depreciation and amortisation | (2,630) | (2,523) | (2,021) | (2,075) | (1,969) |
| **Operating expense** | **(24,083)** | **(22,600)** | **(20,363)** | **(19,181)** | **(21,017)** |
| **Profit before impairment** | **16,020** | **14,086** | **24,692** | **4,821** | **(22,854)** |
| Net credit losses | 6,878 | (3,108) | 300 | 3,493 | 2,268 |
| Other impairment losses | (89) | (18) | (448) | 224 | (871) |
| **Operating profit before non-current assets held for sale** | **22,809** | **10,960** | **24,544** | **8,538** | **(21,457)** |
| Result from non-current assets held for sale | (46) | (56) | (243) | 17 | (32) |
| **Operating profit** | **22,763** | **10,904** | **24,301** | **8,555** | **(21,489)** |
| Income tax | (648) | (431) | (194) | (29) | (7) |
| **Net profit** | **22,115** | **10,473** | **24,107** | **8,526** | **(21,496)** |

| | Group, EUR thousands | | | | |
|---|---|---|---|---|---|
| | 30/06/2021 | 31/03/2021 | 31/12/2020 | 30/09/2020 | 30/06/2020 |
| **Assets** | | | | | |
| Cash and cash balances at central banks | 486,072 | 306,060 | 1,146,606 | 718,574 | 1,329,458 |
| Loans to credit institutions | 60,020 | 79,184 | 51,287 | 173,293 | 203,784 |
| Debt securities | 1,684,213 | 1,702,676 | 1,760,190 | 1,884,985 | 1,375,249 |
| Loans to public | 2,456,803 | 2,473,663 | 1,541,223 | 1,527,234 | 1,486,111 |
| Equity instruments | 1,311 | 1,281 | 4,764 | 5,646 | 5,103 |
| Other financial instruments | 39,633 | 43,587 | 43,343 | 42,996 | 42,976 |
| Derivatives | 3,889 | 5,094 | 1,474 | 2,508 | 6,025 |
| Investments in related entities | 274 | 274 | 274 | - | - |
| Tangible assets | 23,770 | 24,686 | 12,930 | 47,480 | 45,799 |
| Intangible assets | 8,212 | 7,474 | 5,981 | 5,450 | 5,112 |
| Tax assets | 5,340 | 4,216 | 3,272 | 3,297 | 3,346 |
| Non-current assets held for sale | 946 | 946 | 946 | 1,145 | 4,800 |
| Other assets | 35,447 | 41,324 | 25,028 | 23,780 | 25,169 |
| **Total assets** | **4,805,930** | **4,690,465** | **4,597,318** | **4,436,388** | **4,532,932** |
| **Liabilities** | | | | | |
| Deposits from credit institutions and central banks | 478,047 | 440,384 | 449,991 | 454,076 | 455,138 |
| Deposits and borrowings from customers | 3,797,982 | 3,737,707 | 3,671,390 | 3,541,995 | 3,651,661 |
| Debt securities issued | 60,088 | 60,981 | 60,080 | 60,965 | 60,053 |
| Derivatives | 1,120 | 1,392 | 4,461 | 1,664 | 1,861 |
| Provisions | 1,757 | 2,221 | 2,211 | 2,792 | 5,672 |
| Tax liabilities | 806 | 681 | 677 | 614 | 546 |
| Other liabilities | 90,860 | 93,953 | 64,198 | 52,901 | 46,229 |
| **Total liabilities** | **4,430,660** | **4,337,319** | **4,253,008** | **4,115,007** | **4,221,160** |
| **Equity** | | | | | |
| Share capital | 156,556 | 156,556 | 156,556 | 156,556 | 156,556 |
| Reserves and other capital components | 8,354 | 8,627 | 10,265 | 9,724 | 11,347 |
| Retained earnings | 210,360 | 187,963 | 177,489 | 155,101 | 143,869 |
| **Total equity** | **375,270** | **353,146** | **344,310** | **321,381** | **311,772** |
| **Total liabilities and equity** | **4,805,930** | **4,690,465** | **4,597,318** | **4,436,388** | **4,532,932** |
| **Off-balance sheet items** | | | | | |
| Guarantees and letters of credit | 46,144 | 47,658 | 23,903 | 19,131 | 20,286 |
| Financial commitments | 267,409 | 267,395 | 261,050 | 223,820 | 236,938 |

# DEFINITIONS AND ABBREVIATIONS

**ALCO** – Assets and Liabilities Management Committee.

**AML** – anti-money laundering.

**BRRD** – the bank recovery and resolution directive.

**CIR** – cost to income ratio. "Operating expense" divided by “Operating income”.

**COR** – cost of risk ratio. “Net credit losses” divided by the average of gross loans at the beginning and the end of the period.

**CTF** – combating terrorist financing.

**ECB** - European Central Bank.

**EU** – the European Union.

**FCMC** – Financial and Capital Markets Commission.

**FMCRC** – Financial Market and Counterparty Risk Committee.

**GIC** – Group’s Investment Committee.

**IAS** – International accounting standards.

**ICAAP** – internal capital adequacy assessment process.

**IFRS** – International financial reporting standards.

**LCR** – liquidity coverage ratio.

**Loan-to-deposit ratio**. Carrying value of “Loans to public” divided by “Deposits and borrowings from customers” at the end of the relevant period.

**ML/TF** – money laundering and terrorism financing.

**MREL** – minimum requirement for own funds and eligible liabilities.

**NSFR** – net stable funding ratio.

**OFAC** – Office of Foreign Assets Control of the US Department of the Treasury.

**O-SII** – other systemically important institution.

**ROA** – return on average assets. Annualised net profit for the relevant period divided by the average of opening and closing balances for the period.

**ROE** – return on average equity. Annualised net profit for the relevant period divided by the average of opening and closing total equity for the period.

**RTS** – regulatory technical standards.

**SRB** – the Single Resolution Board.

**SREP** – supervisory review and evaluation process.

**Stage 1 financial instruments** – exposures without significant increase in credit risk since initial recognition.

**Stage 2 financial instruments** – exposures with significant increase in credit risk since initial recognition but not credit-impaired.

**Stage 3 financial instruments** – Credit-impaired exposures.

**Stage 3 impairment ratio** – impairment allowance for stage 3 exposures divided by gross loans to public classified as stage 3.

**Stage 3 loans to public ratio** – stage 3 loans to public divided by total loans to public as of the end of the relevant period.

**TLOF** – total liabilities and own funds.

**TLTRO** – ECB's targeted longer-term refinancing operations

**TSCR** – SREP capital requirement.