AS Citadele banka

Annual Report

For the year ended
31 December 2019

Key figures and events of the Group

Further improvements and upgrades in the Bank's range of digital products, resulting in increasing activity in digital channels.

Number of active customers reached 313 thousand clients at the end of 2019, an increase of 42 thousand customers.

Total net loan portfolio increased by EUR 177 million (13%) from year end 2018, reaching EUR 1,573 million.

EUR 600 million issued in new loans to Baltic private, SME and corporate customers. Baltic deposits increased by EUR 624 million (30% growth) during 2019.

Citadele has agreed to acquire UniCredit's leasing operations in the Baltics with its lease portfolio of more than EUR 850 million.

EUR millions (restated)	**2019**	**2018**	**2017**
Net interest income	84.6	82.6	75.4
Net fee and commission income	30.9	33.4	35.2
Net financial and other income	8.4	11.2	18.7
Operating income	**123.9**	**127.2**	**129.3**
Operating expense	(82.8)	(85.4)	(82.1)
Net credit losses and impairments	(3.7)	(7.0)	(4.5)
Net profit	**36.5**	**34.8**	**16.0**
Return on average assets (ROA)	1.07%	1.10%	0.48%
Return on average equity (ROE)	11.5%	12.3%	6.1%
Cost to income ratio (CIR)	66.8%	67.1%	63.5%
Cost of risk ratio (COR)	0.2%	0.5%	1.0%

EUR millions	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2017**
Total assets	3,743	3,052	3,312
Loans to public	1,573	1,396	1,331
Deposits from customers	3,290	2,645	2,917
Shareholders' equity	341	297	269
Loan-to-deposit ratio	48%	53%	46%
Total capital adequacy ratio (CAR), transitional (including period's profits)	22.2%	20.1%	18.4%
Common equity Tier 1 (CET1) capital ratio, transitional (including period's profits)	18.8%	16.7%	15.0%
Full time employees	1,369	1,492	1,540

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Rounding and Percentages

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

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

Citadele remains focused on building its Baltic value proposition, expanding in leasing and maintaining the best customer service standards

It has been a strong year for the Citadele Group. We continued to increase our lending footprint in both the retail and corporate banking sectors, achieving 13% loan book growth in 2019. We fulfilled our commitment of providing the best customer service, maintaining the top position among banks in Latvia. Citadele's number of active clients increased by 16% in 2019.

Guntis Beļavskis
Chairman of the Management Board until 2 March 2020

2019 was characterized by a strong financial performance, growing customer bases across core business segments and further implementation of new and improved daily banking services, with newly developed innovative solutions for our customers.

High client activity

We are pleased to see that our efforts to provide the best possible client service and products, continuous digital channel development and the convenience of remote services have resulted in increased customer activity.

Mobile App users and Internet bank customers increased y-o-y by 69% and 11%, respectively, reaching 131 thousand active Mobile App users and 193 thousand active Internet Bank customers.

The number of active customers increased by 42 thousand (16% growth) in 2019, and reached a record high of 313 thousand clients at the end of the year.

Innovative products and services

Throughout 2019, Citadele continued to develop and launch innovative digital solutions, products and services to meet customer expectations across multiple channels. We have launched consumer loans via Mobile App, in-store payments by smartphone, instant card and POS terminal issuance, and P2P payments to mobile phone numbers for private customers. In Q4, we launched an interactive online platform, *finoterapija.lv*, offering free automated financial consultation.

Bank with the best customer service in Latvia

Our commitment of providing the best customer service enabled Citadele to maintain the top position among banks in Latvia, according to the annual mystery shopper survey conducted by international customer service evaluation company DIVE. Citadele was announced as the bank with the best customer service in Latvia for the fifth time.

Focus on Baltic private and corporate customers

Citadele continued to increase its lending footprint in both retail and corporate banking sectors, achieving 13% growth year-on-year (increase of EUR 177 million). The loan portfolio reached EUR 1,573 million.

Strong progress was also made in deposit gathering, where the Group increased Baltic deposits by EUR 644 million during 2019. Total deposits increased by 24% since year end 2018.

Expanding Baltic assets, leasing footprint

Following Citadele's long-term goal to become the leading financial services provider in the Baltics for private customers and SMEs, Citadele has entered into a binding agreement with UniCredit S.p.A. to acquire 100% of the shares of SIA UniCredit Leasing and its subsidiary SIA UniCredit Insurance Broker. The acquisition, pending regulatory approvals, is expected to close in H1 2020, and would increase Citadele Bank's leasing portfolio by EUR 850 million, to a total of EUR 1.1 billion.

We believe that UniCredit Leasing is one of the best-established players in the region, with a leading presence in all three Baltic countries. It has an innovative and user-friendly product proposition, and robust operating and control systems. Its business profile is complementary to Citadele and would provide the Group with a viable platform for further growth across target customer segments and markets.

Launch of Sustainable Pension Plan

At the end of May, Citadele Bank's subsidiary, CBL Asset Management, created Latvia's first pension plan whereby pension savings are invested in businesses that are the most sustainable in their respective industries: protecting the environment, taking care of employees, and acting responsibly for the long-term.

Bank's credit ratings put on review for upgrade

The Bank's credit rating of Ba1 has been placed under review for upgrade by Moody's, reflecting positive developments in the Bank's financial profile and progress towards delivering its previously announced strategy of continuing to expand its Baltic operations.

Financial review of the Group

Overall business sentiment in the Baltics was positive and domestic consumption remains strong, supported by decreasing unemployment level and wage growth. High activity levels were also exhibited in both private and corporate segments – the Group's loan portfolio increased by 13% year-on-year. Net profit in 12 months 2019 was EUR 36.5 million, which translated into 11.5% annual return on equity.

Results and profitability in 2019

Net interest income reached EUR 84.6 million, a 2.5% increase year-on-year, primarily driven by loan portfolio growth of 13%. The loan portfolio increase was driven by increased business activity primarily from the Retail segment that saw year-on-year net interest income increase by 14.7%.

The Group's **net fee and commission income** reached EUR 30.9 million, a 7% decrease year-on-year, mainly due to lower income from currency exchange, payments and transactions.

The Group's **operating income** reached EUR 123.9 million, a 3% decrease year-on-year. **Operating expenses** decreased by 3% compared to the same period in 2018, mainly due to considerably lower advertising and marketing expenses (-30%) and consulting fees (-9%). Staff costs decreased by 1% and stood at EUR 53.3 million. The number of full-time employees was 1,369 vs 1,492 as at year end 2018, reflecting ongoing efficiency initiatives. Citadele continued to develop and launch innovative digital solutions and products, and IT costs reached EUR 6.2 million, a 5% increase year-on-year.

Depreciation and amortisation expenses stood at EUR 7.7 million (+24% YoY), following the IFRS 16 requirements - reclassification of Operating lease expenses, previously included in "Other expenses".

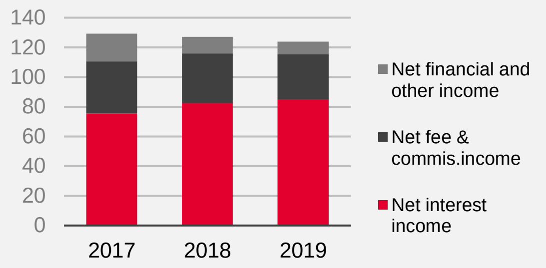
Citadele's **cost to income ratio** was 66.8% versus 67.1% in 2018.

Net credit losses and impairments were EUR (3.7) million, vs (7.0) as of end of 2018. The credit quality of the Group's loan portfolio remained stable. The Stage 3 loans to public ratio decreased to 4.8% as of 31 December 2019, compared to 9.1% at the end of 2018. The securities portfolio also demonstrated stable development in terms of yield and risk profile. 90% of debt securities are rated A or higher.

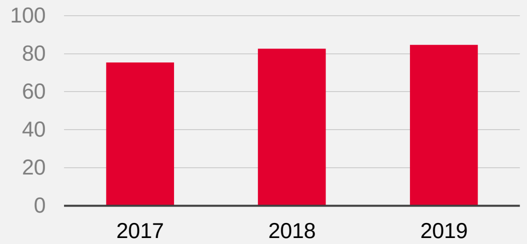
Return on equity in 2019 was 11.5%.

Q4 stand-alone financials display a slightly lower operating income versus the previous year, and 9% lower net profit.

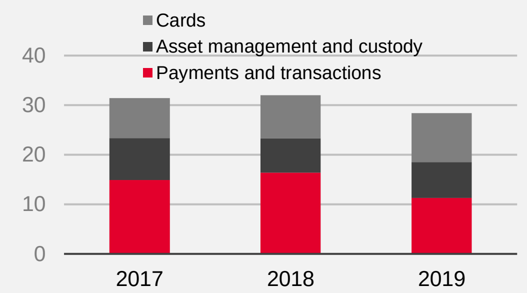
Operating income, EURm



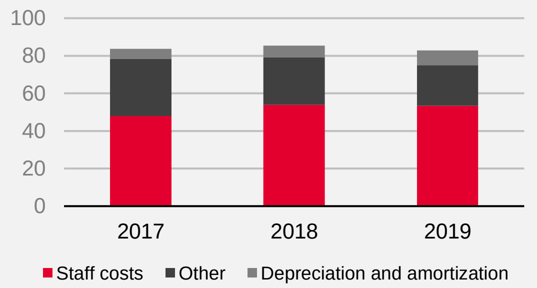
Net interest income, EURm



Net fee and commission income, EURm



Operating expense, EURm



Balance sheet overview

The Group's assets stood at EUR 3,743 million as of 31 December 2019, representing a 23% increase from year end 2018 (EUR 3,052 million).

The **net loan portfolio** has grown by EUR 177 million (13% growth) from year end 2018, reflecting prudent lending standards and ambition to retain loan book quality. The loan portfolio stood at EUR 1,573 million at year end 2019. **New lending** during the year reached EUR 605 million, with the Corporate portfolio seeing a healthy pipeline going forward. EUR 221 million was granted to Retail clients across all Baltic countries and EUR 379 million was granted to corporate customers.

In terms of geographical profile, the loan portfolio by country has remained unchanged over recent years. As of 31 December 2019, Latvia accounted for 60% of the portfolio (EUR 948 million), followed by Lithuania at 27% (EUR 419 million) and Estonia at 11% (EUR 153 million). Portfolios in Latvia and Lithuania also saw the largest increases since year end 2018, with 14% growth (EUR 117 million) and 9% growth (36 million), respectively.

No major changes in **industry concentrations** occurred during 2019. Loans to Households represented 44% of the portfolio, where mortgages have experienced a stable increase in recent years and saw 15% growth in 2019. Consumer credit and card lending also increased by 19% and 10%, respectively, since year end 2018. Overall, the main industry concentrations were Real Estate Purchase and Management (27% of gross loans), Transport and Communications (13%), and Manufacturing and Trade (15% and 12%, respectively).

The main source of funding, customer deposits, grew by 24% vs year end 2018, with growth coming from Baltic residents that increased by EUR 624 million. As of 31 December 2019, total Group customer deposits were EUR 3,290 million.

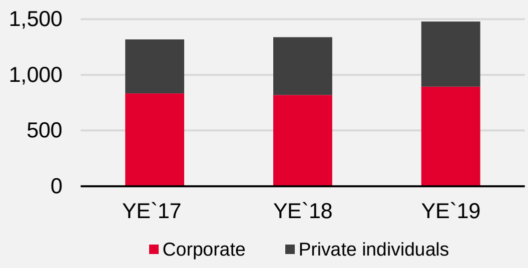
Acquisition of UniCredit Leasing

UniCredit Leasing represents one of the leading market players in the Baltics, with more than 20 years of leasing experience and a demonstrated ability to deliver sustainable business growth. The acquisition, which is expected to complete in H1 2020, would create significant value and scale for the Group. Citadele's aggregate net leasing loans would exceed EUR 1.1 billion, placing the Bank in the top three largest players in the Latvian leasing market. Citadele expects to continue to maintain strong capital and liquidity ratios well above regulatory requirements, and enhance its profitability metrics on a pro forma basis.

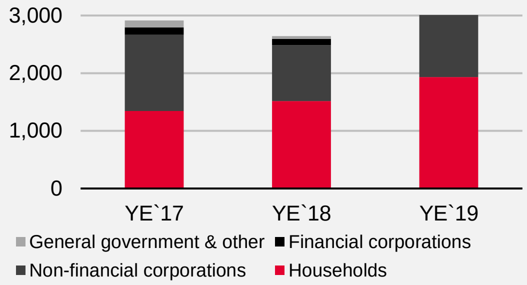
Subordinated bonds issue

The Bank's Management Board has approved plans to launch Citadele's Third Unsecured Subordinated Bonds Programme and issue new Subordinated Bonds of up to EUR 30 million. Proceeds from the offer are to be used for general business development and to further strengthen the Group's capital base.

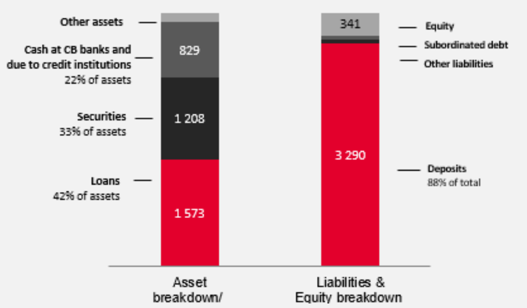
Loans, EURm



Deposits, EURm



Balance sheet structure, EURm



Ratings

International credit rating agency Moody's Investors Service has assigned Citadele bank a deposit rating of Ba1, currently under review for upgrade (3 January 2020).

The main credit strengths are:

- Continued improvement in capitalisation, signalling a commitment by its owners to continue building a viable bank
- Improved governance, with selective growth in its home markets and exiting non-resident segments

Moody's	
Long term deposit	Ba1
Long term counterparty risk rating	Baa3
Short term deposit	NP
Short term counterparty risk rating	P-3
Outlook:	Under review/ possible upgrade

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

Segment highlights – 2019

Retail segment characterised by solid performances in terms of customer acquisition, loan growth and new product development

In 2019 we followed our ambition to become the Baltic Banking Champion. Focus was devoted to the delivery of digital solutions for becoming a "bank in your pocket", as well as our goal to provide the best client service 24/7 in our remote Sky Branch and 36 physical branches throughout the Baltics.

Increasing demand for digital products and services

The importance of technology and digitalization of services continues to increase. During past years we have introduced various innovative technologies to our banking services, such as intuitive mobile banking apps with innovative features, the option of opening an account using a selfie without the need to come to a branch, confirming payments using facial recognition and fingerprints, and the ability to pay using a wristband, sticker or smartphone. We continue to innovate our products and services and offer a seamless experience for existing and new customers.

As of 31 December 2019, Mobile App active users reached 131 thousand clients (69% growth year-on-year). Internet bank active customers constituted 193 thousand active customers (11% growth). Share of digitally onboarded customers through the Mobile app and Web also increased. In Latvia more than 15 thousand clients have applied to open an account remotely since the beginning of 2019.

Improving client service and increasing number of customers

We have actively worked to improve our client service during the year. We are very pleased that the international customer service evaluation company DIVE, in its annual banking client service survey, named Citadele as the Bank with the best customer service in Latvia for the 5th year.

The number of active private customers continued to grow rapidly, increasing by 41 thousand clients in 2019 and reaching 282 thousand at year-end. The number of active SME clients also grew by 5.4 thousand, and reached approx. 18 thousand at year end. Also, Citadele is the first bank in the Baltic states, and one of the first in Europe, to issue consumer loans through a peer-to-peer lending platform.

Partnering with leading FinTech companies

The Bank will make investments utilising Fellow Finance's lending platform, headquartered in Finland, which provides consumer and SME loans in the Nordic countries and Central Europe.

Strong lending growth

New lending to retail customers reached EUR 222 million during 2019. Total loans to Private customers constituted EUR 586 million as at 31 December 2019. Loans to SMEs and Leasing reached EUR 128 million and EUR 217 million, respectively.

Retail deposits reached EUR 1,133 million, a 23% increase since year end 2018. Operating income to private customers in 2019 was EUR 43.7 million. The SME segment reached EUR 12.6 million in operating income.

Corporate segment increases new loans issued and promotes the growth of small and medium businesses

The Corporate segment continues to execute our strategy to become the home bank for Baltic businesses in the manufacturing, trade and service industries.

Besides continuing to promote growth of small and medium businesses, we supported new investments by some of the top corporates in the Baltics.

New lending remains strong

The Corporate segment continued to increase its new lending volumes, which reached EUR 379 million through 2019. Nevertheless, the gross corporate portfolio as of 31 December 2019 amounted to EUR 564 million, a 2% decrease from the previous year, primarily due to the early repayment of several loans. Corporate segment deposits reached EUR 695 million, up by 18% year-on-year.

Particular attention was devoted to launching new partnerships with manufacturing and trading companies, both to provide day-to-day services as well as to support investment programs. We also continued to develop financing opportunities with various players in the Fintech sector.

Business Environment

Global economy shows signs of stabilization

The global economy remains in a relatively moderate cyclical slowdown with some signs of stabilization in short-term macroeconomic indicators. Manufacturing sentiments in the US, euro area, China and other major economies are no longer declining, and service sector and consumer sentiments remain strong. China-US Trade Agreement has decreased trade tensions. Interest rate decreases by major global central banks have given a boost to the global economy and financial markets. However, the appearance of the new coronavirus COVID-19 in January 2020 in China has created a new potentially significant risk for the global economy in 2020.

Growth in the Baltics remains strong, but sentiment is declining

The Baltic region continues to grow faster than the euro area, despite the slowing global economy. In Lithuania and Estonia, annual real GDP growth in 2019 remained close to 4%. Growth in Latvia declined to 2.1%. Despite the still solid GDP growth, economic sentiment in the Baltics has begun to decline.

The growth slowdown in Latvia in 2019 was mainly impacted by internal factors and one-off issues, such as bad weather conditions in the energy sector, a fall in lumber prices, a drop in transit volumes, tight fiscal policy, problems in the banking sector and a reduction in cross-border trade as a result of changes in Estonian tax policy.

Weak external demand in export sectors

Manufacturing and export industries usually see the largest impacts from an unfavorable global macroeconomic environment. Nevertheless, the manufacturing sectors' growth in the Baltics in 2019 have been stronger than elsewhere in the euro area, indicating that Baltic manufacturers remain competitive. However, the volume of new industrial orders has declined significantly, and export growth in the Baltic States slowed down in the second half of 2019.

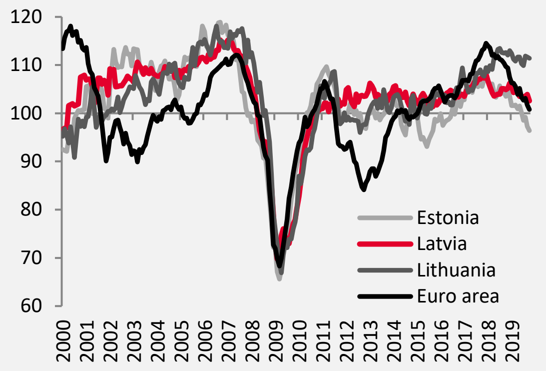
Manufacture of fabricated metal products, electrical equipment, as well as computers and optical equipment are still the fastest growing manufacturing industries in the Baltics, with output growth of over 10% in almost all Baltic countries during 2019.

Domestic consumption remains strong

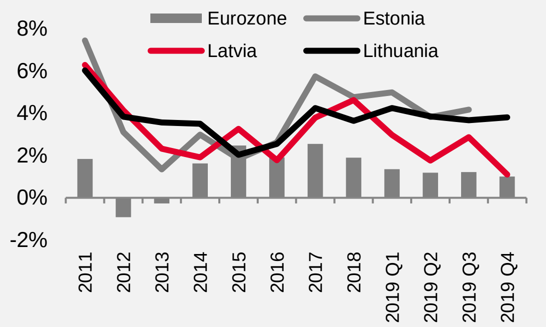
Domestic consumption remains one of the main drivers of economic growth in the Baltics. However, in the second half of the year, annual retail sales growth in euro terms has decreased slightly from 6-8% in the first half of 2019 to 4-5% in the last months of the year. Growth rates have declined most rapidly in Latvia, partly due to the decline in alcohol sales following the reduction of excise duty tax in Estonia.

Consumer sentiment remains strong, unemployment in the Baltics is declining and average wages in the Baltics have risen by about 8% in 2019. Consumer price inflation is also moderate within the range of 2-3%.

Economic sentiment index

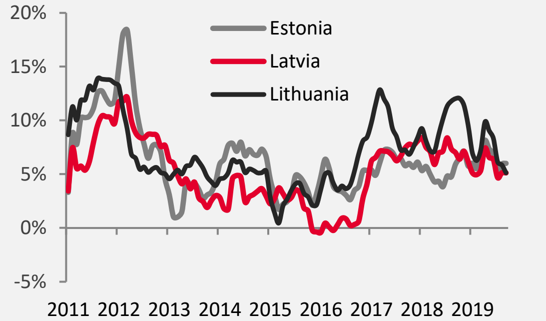


Real GDP, % YoY



New industrial orders

Retail trade turnover, EUR % YoY (3 MA)



OTHER REGULATORY INFORMATION

Name	AS Citadele banka
Address	Republikas laukums 2A, Riga, LV-1010, Latvia
Web page	www.citadele.lv www.cblgroup.com
Phone	(371) 67010 000
Registration number	40103303559
Licence number	06.01.05.405/280
Licence issue date	30/06/2010
Branches	AS Citadele banka has 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. The Lithuanian branch has 7 customer service units in Lithuania. The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 and started to operate on 1 January 2019. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".
Dividends	Refer to Note 25 (*Share Capital*) of the annual report. As at issuance of the annual report the Management proposes not to distribute 2019 profits in dividends, but to keep as retained earnings to strengthen the capital position of the Group.
Future development	Citadele aims to become the primary bank of choice for aspiring retail and small business customers across the Baltics, and will continue to relentlessly improve products and services. Citadele will continue to provide high quality financial services to clients and their businesses with an objective to foster further growth across the whole Baltic region. A complete portfolio of banking, financial and wealth management services is to be offered for both private individuals and companies. The core market of Citadele remains unchanged: Latvia, Lithuania and Estonia.

CORPORATE GOVERNANCE

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

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

Audit Committee's report to the shareholders

In 2019 Audit Committee of AS Citadele banka (hereinafter – the Committee) acted in the role of audit committee as required by the Financial Instruments Market Law.

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

- *Supervised the preparation of the annual report for the year ended 31 December 2019;*
- *Supervised the process of audit of the annual report for the year ended 31 December 2019;*
- *Supervised the effectiveness of internal controls, risk management and internal audit systems as applicable to the process of the preparation of financial statements;*
- *Supervised the approval of the external auditor for audit of the annual report for the year ended 31 December 2019;*
- *Supervised the compliance of the auditor of the annual report for the year ended 31 December 2019 with independence and objectivity requirements set forth in the Law of the Provision of Audit Services;*
- *Communicated to the Supervisory Board the conclusions made by the auditor of the annual report for the year ended 31 December 2019.*

In 2019 the Committee was not hindered in any way, and full access to any information required by the Committee was ensured. The Committee throughout the year kept the Management Board and the Supervisory Board informed about the conclusions and recommendations made by it.

In the course of discharging its duties as related to the preparation of the annual report for the year ended 31 December 2019 the Committee did not encounter any evidence that would suggest that these financial statements would not be true and fair.

A detailed report on the activities of the Committee in 2019 has been submitted to the Supervisory Board of the Bank.

Supervisory Board of the Bank as of 31/12/2019:

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.

Timothy Collins, Chairman of the Supervisory Board. Mr. Collins is the Chief Executive Officer of Ripplewood Advisors LLC. Ripplewood has successfully invested in and built companies globally, including in the US, Europe, the Middle East and Asia, delivering superior returns on investments in business with over USD 40 billion in enterprise value. Before founding Ripplewood, Mr. Collins held executive positions with Cummins Engine Company, Lazard Frères & Company and Booz, Allen & Hamilton. Mr. Collins sits on the Board of Directors of Banque Saudi Fransi, EFG Hermes and SODIC. He is Chairman of the Advisory Board for Yale School of Management, co-chair of the Advisory Council of the NYU Global Institute for Advanced Study and a member of the Investment Advisory Committee to the New York State Common Retirement Fund. He formerly served on several public-company boards, including Advance Auto Parts, Asbury Automotive, Citigroup (after it accepted public funds), Commercial International Bank, Gogo, Rental Services Corporation and Shinsei Bank. He also served as an independent director at Weather Holdings, a large private emerging-markets telecom operator that was sold to VimpelCom. Mr. Collins has a BA in Philosophy from DePauw University and an MBA in Public and Private Management from Yale University's School of Management.

Elizabeth Critchley, Deputy Chairman of the Supervisory Board. Mrs. Critchley is a Partner of Ripplewood Advisors Limited. Prior to joining Ripplewood Advisors Limited, Mrs. Critchley was a Founding Partner of Resolution Operations which raised £660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services. Until forming Resolution Operations, Mrs. Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. Mrs. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs. Critchley holds a First

Class Honours Degree in Mathematics from University College London. Mrs. Critchley joined the Supervisory Board and assumed the role of Deputy Chairman on 20 April 2015. Her term of office expires on 28 October 2023.

James L. Balsillie, member of the Supervisory Board. Mr. Balsillie currently chairs the Board of Directors of Sustainable Development Technology Canada. Mr. Balsillie was appointed to this role by the Government of Canada in 2013. Mr. Balsillie is a co-founder and former co-CEO of Research In Motion (BlackBerry) and founder of the Centre for International Governance Innovation (CIGI). He is also the founder of the Balsillie School of International Affairs (BSIA), Arctic Research Foundation, and co-founder of Communitech. Mr. Balsillie was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Time Magazine World's 100 Most Influential People, and three times Barron's list of "World's Top CEOs". Mr. Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario. Mr. Balsillie joined the Supervisory Board on 20 April 2015. His term of office expires on 28 October 2023.

Dhananjaya Dvivedi, member of the Supervisory Board. Mr. Dhananjaya Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr. Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as internet banking, 24-hr ATMs, managed and monitored remotely, and real-time data, while maintaining cost control. Mr. Dvivedi has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr. Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management. Mr. Dvivedi joined the Supervisory Board on 20 April 2015. His term of office expires on 28 October 2023.

Lawrence Lavine, member of the Supervisory Board. Mr. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28 year career in investment banking. At Ripplewood Advisors LLC, Mr. Lavine has focused primarily on companies in the financial services and telecommunications industries. Mr. Lavine was previously a Managing Director of Credit Suisse First Boston in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a Managing Director in M&A since 1987. He started his career on Wall Street at Kidder Peabody & Co. in 1976. Mr. Lavine holds a BS from Northeastern University and an MBA from Harvard Business School. Mr. Lavine joined the Supervisory Board on 20 April 2015. His term of office expires on 28 October 2023.

Klāvs Vasks, member of the Supervisory Board. Mr. Vasks has served as Chairman of Citadele Supervisory Board since the establishment of the bank in 2010 until 20 April 2015, at which point he was replaced by Mr. Timothy Collins. He has 20 years of experience in the banking sector. Previously he was vice president of the SEB Bank Latvia, also working as the director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr. Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University. His term of office expires on 28 October 2023.

Nicholas Haag, Member of the Supervisory Board. Mr. Haag is an independent non-executive director (INED) and chairman of the audit committee of TBC Bank Group PLC, the largest Georgian bank. He is an INED and chairs the audit, risk and compliance committee of Bayport Management Ltd., the holding company for a leading African and Latin American financial solutions provider. Prior to that, he was a Member of the Supervisory Board of Credit Bank of Moscow PJSC. Mr. Haag has a 30 year banking career, half at Managing Director level, with various financial institutions including Barclays, Banque Paribas, ABN AMRO and Royal Bank of Scotland, specialising in technology finance and equity capital markets. Mr. Haag holds a First Class Honours Degree from the University of Oxford. His term of office expires on 28 October 2023.

Karina Saroukhanian, Member of the Supervisory Board. Karina Saroukhanian is a Managing Director of Ripplewood Advisors Limited. Before joining the company, from 2008, she worked as senior banker in the Financial Institutions team of the European Bank for Reconstruction and Development. At the EBRD, she specialized in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD, Karina was an Associate Director in the M&A group at Nomura International in London and a Vice President at Sindicatum, a specialist financial advisory and asset management firm. Karina holds an MSc in Economics from the London School of Economics and a degree in mathematical economics from the Moscow State University. Her term of office expires on 28 October 2023.

Sylvia Gansser-Potts, Member of the Supervisory Board. Sylvia Gansser-Potts is a member of the investment and forex committees of the European Fund for Southeast Europe (EFSE). Before joining EFSE, Sylvia was a Managing Director at the European Bank for Reconstruction and Development (EBRD) with the overall responsibility for EBRD's investments and operations in Central and Southeastern Europe. Over her 25 year career at the EBRD, Sylvia ran a succession of banking teams including the financial institutions operations in Central Europe, in MENA/Turkey as well as the property and tourism team. Sylvia started her career at Swiss Bank Corporation (which later merged to become UBS) in Switzerland and Japan. She holds a master's in business from the University of Paris IX Dauphine, a honour's degree in Japanese language from the University of Paris and a MBA from INSEAD. Her term of office expires on 28 October 2023.

Management Board of the Bank as of 31/12/2019:

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

Subsequent to the period end, effective from 2 March 2020, the long-time Chairman of the Management Board, Guntis Belavskis, resigned. As from 2 March 2020, Johan Åkerblom, Chief Financial Officer of the Bank, has been appointed as interim Chairman of the Management Board. For more details on the resignation of the Chairman of the Management Board refer to Note 34 (*Events after the Reporting Date*). On 1 March 2020, Vaidas Žagūnis became a member of the Management Board responsible for the development and management of the corporate business in the Baltics. As of 24 October 2019, Santa Purgaile resigned from the Management Board.

Guntis Beļavskis, Chairman of the Management Board and Chief Executive Officer until 2 March 2020.

Guntis Beļavskis was Chairman of the Management Board, holding this position from 1 May 2012 to 2 March 2020. Prior to that, from 30 June 2010, he was a Member of the Management Board. Guntis Beļavskis has more than 15 years of experience in the banking sector and over twenty years of experience in business operations. In 2002, he was invited to head the sales department of Parex banka. One year later he became the head of sales and marketing, and the following year – the head of retail and SME services network. In December 2008, when the Latvian State took over Parex banka, Guntis Beļavskis was invited to join the new Management Board of the bank, and after the successful split-up, he assumed the same post in Citadele. He acquired his bachelor's degree in business management at the Riga Transport and Telecommunications Institute.

Johan Åkerblom, Chief Financial Officer and from 2 March 2020 interim Chairman of the Management Board.

Johan Åkerblom is responsible for the Group's Finance and Treasury functions and from 2 March 2020 is interim Chairman of the Management Board. Before joining the Bank, he worked for SEB group as Chief Financial Officer for its Baltic business division in 2016 and 2017 and prior to that Johan Åkerblom was Chief Financial Officer and member of the Management Board of SEB AG, SEB group's German subsidiary. He has more than 10 years of banking experience and started his career as a management consultant with McKinsey & Co where he spent 4 years. Johan Åkerblom holds a master's degree in industrial management and engineering from the Lund Institution of Technology.

Valters Ābele, Chief Risk Officer.

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

Vladislavs Mironovs, Chief Commercial Officer Retail.

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

Uldis Upenieks, Chief Compliance Officer.

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

Slavomir Mizak, Chief Technology Officer.

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

Kaspars Jansons, Chief Operations Officer.

Kaspars Jansons is responsible for Group administrative services and bank operations. Kaspars has over 20 years of work experience in the banking sector. He has led Treasury department of Citadele since the Bank's establishment in August 2010, and from October 2016 to January 2018, Kaspars Jansons worked as interim Chief Financial Officer of Citadele. Kaspars Jansons holds a master's degree in economics from the BA School of Business and Finance.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

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

The financial statements set out on pages 15 to 70 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as of 31 December 2019 and 2018 and the results of their operations, changes in shareholders' equity and cash flows for the year then ended. The management report set out on pages 4 to 13 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

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

Johan Åkerblom
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Riga,
13 March 2020

STATEMENT OF INCOME

	Note	2019 Group	2018 Group Restated (Note 3 ee)	2019 Bank	2018 Bank Restated (Note 3 ee)
		EUR thousands			
Interest income	5	100,555	97,644	91,126	74,521
Interest expense	5	(15,914)	(15,066)	(16,013)	(13,052)
Net interest income		**84,641**	**82,578**	**75,113**	**61,469**
Fee and commission income	6	56,388	57,019	47,406	42,314
Fee and commission expense	6	(25,467)	(23,640)	(24,836)	(20,475)
Net fee and commission income		**30,921**	**33,379**	**22,570**	**21,839**
Net financial income	7	8,196	10,402	6,867	8,781
Net other income	8	172	820	4,711	3,362
Operating income		**123,930**	**127,179**	**109,261**	**95,451**
Staff costs	9	(53,319)	(53,966)	(47,572)	(40,024)
Other operating expenses	10	(21,782)	(25,201)	(17,166)	(20,592)
Depreciation and amortisation	20	(7,690)	(6,216)	(7,271)	(3,275)
Operating expense		**(82,791)**	**(85,383)**	**(72,009)**	**(63,891)**
Profit before impairment		**41,139**	**41,796**	**37,252**	**31,560**
Net credit losses	11	(2,405)	(6,653)	(442)	(5,244)
Other impairment losses	12	(1,305)	(343)	2,485	6,763
Operating profit before non-current assets held for sale		**37,429**	**34,800**	**39,295**	**33,079**
Result from non-current assets held for sale		404	-	(71)	-
Operating profit		**37,833**	**34,800**	**39,224**	33,079
Income tax	13	(1,329)	46	(248)	(42)
Net profit		**36,504**	**34,846**	**38,976**	**33,037**
Basic earnings per share in EUR	25	0.23	0.22	0.25	0.21
Diluted earnings per share in EUR	25	0.23	0.22	0.25	0.21

The notes on pages 20 to 70 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	EUR thousands			
	2019 Group	**2018 Group**	**2019 Bank**	**2018 Bank**
Net profit	**36,504**	**34,846**	**38,976**	**33,037**
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)	(1,284)	(587)	(589)	(179)
Change in fair value of debt securities	6,929	(1,393)	4,395	(872)
Deferred income tax charged / (credited) directly to equity	(259)	108	-	-
Other reserves				
Foreign exchange retranslation	875	862	-	-
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	1,648	154	1,647	154
Transfer to retained earnings at disposal	(1,395)	-	(1,395)	-
Other comprehensive income / (loss)	**6,514**	**(856)**	**4,058**	**(897)**
Total comprehensive income	**43,018**	**33,990**	**43,034**	**32,140**

The notes on pages 20 to 70 are an integral part of these financial statements.

BALANCE SHEET

		EUR thousands			
	Note	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Assets					
Cash and cash balances at central banks	14	707,914	405,315	691,455	155,510
Loans to credit institutions		121,395	131,902	96,021	110,851
Debt securities	15	1,203,631	989,230	967,467	779,011
Loans to public	16	1,572,746	1,395,692	1,594,103	1,168,116
Equity instruments	18	5,092	2,901	5,092	2,875
Other financial instruments	18	39,972	34,146	6,434	6,078
Derivatives	26	960	611	960	614
Investments in subsidiaries	19	-	-	34,161	71,614
Tangible assets	20	49,989	48,893	18,231	4,817
Intangible assets	20	4,698	4,868	4,571	4,651
Current income tax assets	13	707	500	707	247
Deferred income tax assets	13	2,429	2,429	2,179	-
Non-current assets held for sale		2,862	-	2,862	-
Other assets	21	30,373	35,604	23,200	25,599
Total assets		**3,742,768**	**3,052,091**	**3,447,443**	**2,329,983**
Liabilities					
Deposits from credit institutions and central banks		1,637	7,277	39,287	39,170
Deposits and borrowings from customers	22	3,289,534	2,645,042	2,990,630	1,937,857
Debt securities issued	23	60,044	60,010	60,044	60,010
Derivatives	26	528	1,470	528	1,504
Provisions	11	4,150	3,196	4,108	2,616
Current income tax liabilities	13	581	768	-	-
Deferred income tax liabilities	13	676	42	-	-
Other liabilities	24	44,893	37,486	30,532	21,006
Total liabilities		**3,402,043**	**2,755,291**	**3,125,129**	**2,062,163**
Equity					
Share capital	25	156,556	156,556	156,556	156,556
Reserves and other capital components		11,276	3,868	5,412	(853)
Retained earnings		172,893	136,376	160,346	112,117
Total equity		**340,725**	**296,800**	**322,314**	**267,820**
Total liabilities and equity		**3,742,768**	**3,052,091**	**3,447,443**	**2,329,983**
Off-balance sheet items					
Guarantees and letters of credit	26	22,809	22,405	22,107	17,820
Financial commitments	26	330,250	344,116	410,928	355,309

The notes on pages 20 to 70 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 15*)	Foreign currency retrans-lation	Statutory reserves	Share based payments (*Note 9*)	Retained earnings	Total equity
Balance as of 31/12/2017	**156,556**	**2,161**	**2,257**	**907**	**-**	**107,014**	**268,895**
Adjustment on initial application of IFRS 9, net of tax	-	(1,394)	-	-	-	(5,078)	(6,472)
Restated balance as of 01/01/2018	**156,556**	**767**	**2,257**	**907**	**-**	**101,936**	**262,423**
Total comprehensive income for the period					-		
Net profit for the period	-	-	-	-	-	34,846	34,846
Share based payments to employees	-	-	-	-	387	-	387
Other comprehensive income / (loss) for the period	-	(1,718)	862	-	-	-	(856)
Transactions with shareholders					-		
Transfer to reserves	-	-	-	406	-	(406)	-
Balance as of 31/12/2018	**156,556**	**(951)**	**3,119**	**1,313**	**387**	**136,376**	**296,800**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	36,504	36,504
Share based payments to employees	-	-	-	-	812	95	907
Other comprehensive income / (loss) for the period	-	7,034	875	-	-	(1,395)	6,514
Transactions with shareholders							
Transfer from reserves	-	-	-	(1,313)	-	1,313	-
Balance as of 31/12/2019	**156,556**	**6,083**	**3,994**	**-**	**1,199**	**172,893**	**340,725**

	Bank, EUR thousands				
	Issued Share capital	Securities fair value revaluation reserve (*Note 15*)	Share based payments (*Note 9*)	Retained earnings	Total equity
Balance as of 31/12/2017	**156,556**	**1,511**	**-**	**81,828**	**239,895**
Adjustment on initial application of IFRS 9, net of tax	-	(1,854)	-	(2,748)	(4,602)
Restated balance as of 01/01/2018	**156,556**	**(343)**	**-**	**79,080**	**235,293**
Total comprehensive income for the period					
Net profit for the period	-	-	-	33,037	33,037
Share based payments to employees	-	-	387	-	387
Other comprehensive income / (loss) for the period	-	(897)	-	-	(897)
Balance as of 31/12/2018	**156,556**	**(1,240)**	**387**	**112,117**	**267,820**
Total comprehensive income for the period					
Net profit for the period	-	-	-	38,976	38,976
Share based payments to employees	-	-	812	95	907
Other comprehensive income / (loss) for the period	-	5,453	-	(1,395)	4,058
Transactions with shareholders					
Integration of AB Citadele bankas (*Note 2*)	-	-	-	10,553	10,553
Balance as of 31/12/2019	**156,556**	**4,213**	**1,199**	**160,346**	**322,314**

The notes on pages 20 to 70 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
		EUR thousands			
Operating activities					
Operating profit before tax		37,833	34,800	39,224	33,079
Interest income	5	(100,555)	(97,644)	(91,126)	(74,521)
Interest expense	5	15,914	15,066	16,013	13,052
Dividends income		(43)	(34)	(3,348)	(2,491)
Depreciation and amortisation	20	7,690	6,216	7,271	3,275
Impairment allowances and provisions	11, 12	3,710	6,996	(2,043)	(1,519)
Currency translation and other non-cash items		(768)	(5,736)	13,591	1,836
Cash flows from the income statement		**(36,219)**	**(40,336)**	**(20,418)**	**(27,289)**
(Increase) / decrease in loans to public		(178,290)	(74,594)	(161,455)	(58,022)
Increase / (decrease) in deposits and borrowings from customers		644,839	(290,944)	621,343	(225,607)
(Increase) / decrease in loans to credit institutions		7,129	(29,802)	(4,202)	(23,473)
Increase / (decrease) in deposits from credit institutions		(6,056)	21,680	(1,453)	(925)
(Increase) / decrease in other items at fair value through profit or loss		(1,291)	99	(1,294)	203
(Increase) / decrease in other assets		806	1,617	(679)	(2,925)
Increase / (decrease) in other liabilities		3,171	(1,224)	(10,025)	1,754
Cash flows from operating activities before interest and corporate income tax		**434,089**	**(413,504)**	**421,817**	**(336,284)**
Interest received		100,578	97,359	90,311	74,348
Interest paid		(12,630)	(11,449)	(12,055)	(9,344)
Corporate income tax paid		(1,598)	(259)	(802)	(42)
Cash flows from operating activities		**520,439**	**(327,853)**	**499,271**	**(271,322)**
Investing activities					
Acquisition of tangible and intangible assets		(4,195)	(4,982)	(3,864)	(3,884)
Disposal of tangible and intangible assets		30	38	13	21
Investments in debt securities and other financial instruments		(738,596)	(599,100)	(602,030)	(502,974)
Proceeds from debt securities and other financial instruments		526,471	595,892	407,290	342,214
Dividends received		43	34	3,348	2,491
Increase in cash and cash equivalents as a result of integration of AB Citadele bankas	2	-	-	222,022	-
Sale or investments in subsidiaries		-	-	(2,679)	24
Cash flows from investing activities		**(216,247)**	**(8,118)**	**24,100**	**(162,108)**
Financing activities					
Repayment of subordinated liabilities		-	(18,400)	-	(18,400)
Interest paid on debt securities and other subordinated liabilities		(3,633)	(4,417)	(3,633)	(4,417)
Repayment of lease liabilities		(1,486)	-	(3,929)	-
Cash flows from financing activities		**(5,119)**	**(22,817)**	**(7,562)**	**(22,817)**
Cash flows for the period		**299,073**	**(358,788)**	**515,809**	**(456,247)**
Cash and cash equivalents at the beginning of the period		**499,985**	**858,773**	**238,561**	**694,808**
Cash and cash equivalents at the end of the period	29	**799,058**	**499,985**	**754,370**	**238,561**

The notes on pages 20 to 70 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 2018 or for the year ended 31 December 2018.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 12 March 2020 and the Supervisory Board on 13 March 2020 and comprise the financial information of AS Citadele banka (hereinafter – the Bank or Citadele) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' have the right to make the decision on the approval of these financial statements.

NOTE 2. GENERAL INFORMATION AND INTEGRATION OF THE LITHUANIAN BANK

Citadele is a Latvian-based bank offering retail, private banking, asset management, lending, leasing and other commercial banking services. On 31 December 2019 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 subsidiaries which include financial services companies. 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 31 December 2019, the Group had 1,369 (2018: 1,492) and the Bank had 1,292 (2018: 1,147) full time equivalent active employees. The number of employees of the Bank increased as a result of the transfer of the business and employees from AB Citadele bankas (Lithuania) to the Lithuanian branch of AS Citadele banka in January 2019.

The integration of AB Citadele bankas (Lithuania)

As a result of the AB Citadele bankas (Lithuania) transformation to the Lithuanian branch of AS Citadele banka in January 2019 the subsidiary's assets, liabilities and equity were merged into the Bank's balance sheet. In-line with the Group's accounting policy, a EUR 10.6 million positive difference between the Bank's investment in the subsidiary and the total equity of the subsidiary was recognized directly in the Bank's retained earnings (see Statement of Changes in Equity). The Bank's income statement was not directly affected by the transaction. The Group's financials were similarly unaffected as the transaction was within the Group, except for transfer of a previously recognized statutory reserve to retained earnings (due to changes in the legal status).

	Bank as of 01/01/2019, EUR thousands			
	Bank before the integration	**AB Citadele standalone**	**Eliminations and intra group amounts**	**Bank after the integration**
Assets				
Cash and cash balances at central banks	155,510	219,955	-	375,465
Loans to credit institutions	110,851	2,579	(2,159)	111,271
Debt securities	779,011	-	-	779,011
Loans to public	1,168,116	262,797	-	1,430,913
Equity instruments	2,875	26	-	2,901
Other financial instruments	6,078	-	-	6,078
Derivatives	614	28	(28)	614
Investments in subsidiaries	71,614	-	(43,836)	27,778
Tangible assets	4,817	2,009	-	6,826
Intangible assets	4,651	-	-	4,651
Tax assets	247	2,179	-	2,426
Other assets	25,599	1,667	(229)	27,037
Total assets	**2,329,983**	**491,240**	**(46,252)**	**2,774,971**
Liabilities				
Deposits from credit institutions and central banks	39,170	512	(2,159)	37,523
Deposits and borrowings from customers	1,937,857	431,336	-	2,369,193
Debt securities issued	60,010	-	-	60,010
Derivatives	1,504	-	(28)	1,476
Provisions	2,616	1,985	-	4,601
Tax liabilities	-	94	-	94
Other liabilities	21,006	2,924	(229)	23,701
Total liabilities	**2,062,163**	**436,851**	**(2,416)**	**2,496,598**
Total equity (see Statement of Changes in Equity)	**267,820**	**54,389**	**(43,836)**	**278,373**
Total liabilities and equity	**2,329,983**	**491,240**	**(46,252)**	**2,774,971**
Off-balance sheet items				
Contingent liabilities	17,820	5,093	-	22,913
Financial commitments	355,309	28,658	-	383,967

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) New standards and amendments

New accounting and financial reporting standards, interpretations and amendments which were not applicable to the previous annual financial statements since then have been issued. Some of the standards become effective in 2019, 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 2019

IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27). The Group has initially applied IFRS 16 using the modified retrospective approach, under which the comparative information is not restated and the Group has elected to apply the new standard by not affecting the retained earnings at 1 January 2019.

A lease is a contract, or a part of a contract, that conveys the right to use an asset (the lease asset) for a period of time in exchange for consideration. According to the new standard for qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents assets of the same nature that it owns. Lease liabilities are presented within other liabilities. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets, but to expense lease payments for low-value assets over the lease term.

For lessors classification of lease as an operating lease or a finance lease remains unchanged; therefore, the Group as a lessor has no direct impact from the new standard.

When estimating lease term, the Group's intentions as well as contractual early termination and extension options of lessee and lessor are considered. When a previously recognised lease is modified and scope of the lease increases and increase in compensation is commensurate, a new separate lease is recognised; if the increase in compensation is not commensurate or the scope of lease decreases the current right-of-use asset and corresponding lease liability is re-measured. In case of a decrease in scope of lease a gain or loss (if any) is recognised in the income statement.

For the Group as a lessee the major class of right-of-use assets are rent agreements for the branch network and other premises used for the operating needs of the Group. Most lease contracts may be early terminated by both the Group and the lessor. Many contracts may be extended beyond their current term at discretion of the Group. Thus if there is an extension clause or early termination clause a lease term equal to the planning horizon of three years is often applied unless the lease term is shorter already. In the case of branches this is based on a plan to move towards a more digital model less dependent on the physical presence. The Group owns its headquarters building, which is leased by the Bank from its subsidiary. As both parties are under common control the lease term may be extended or shortened at the Management's discretion. For the intra-group lease of the headquarters building the applied three years lease term assumption is linked to the business plan horizon. The incremental borrowing rate at the date of initial application was set at 1.05% and was based on the Bank's deposit rate with an additional 0.5% risk spread for lack of deposit guarantee for leases. The Group uses the practical expedient of low value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is out-scoped.

The amount of right-of-use asset which was recognised at implementation of the new standard was EUR 11.2 million for the Bank and EUR 3.7 million for the Group. Corresponding lease liability was recognised. In the reporting period, the Bank and the Group has recognised depreciation charges for right-of-use assets in the amount of EUR 3.9 million and EUR 1.5 million, respectively.

	Group	Bank
Future minimum lease payments under non-cancellable operating leases as of 31 December 2018 (IAS 17)	**1,417**	**6,272**
Short term and low value asset leases	(31)	(31)
Recognised lease term beyond non-cancellable lease period	2,389	5,170
Effect from discounting at the incremental borrowing rate	(59)	(184)
Lease liabilities as of 1 January 2019 (IFRS 16)	**3,716**	**11,227**

New standards, amendments to standards and interpretations which did not have a significant effect to the Group:
IFRIC 23 – Uncertainty over Income Tax Treatment
Amendments to IFRS 9 – Prepayment Features with Negative Compensation
Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19 – Plan Amendments, Curtailment or Settlement
Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Requirements to come but not impacting 2019 financials

Certain new standards, amendments to standards and interpretations have been endorsed by EU for the accounting periods beginning after 1 January 2019 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. Effective for annual reporting periods beginning on or after 1 January 2021 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 to make 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 References to Conceptual Framework in IFRS Standards
Amendments to IFRS 3 – Definition of a Business
Amendments to IAS 1 and IAS 8 – Definition of Material
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union and relevant Financial and Capital Markets Commission's (FCMC) regulations on a going concern basis. The financial statements are prepared under the historical cost convention, except for assets measured at fair value through other comprehensive income, financial assets and financial liabilities measured at fair value through profit or loss and all derivative contracts, which have been measured at fair value.

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from the estimated. For more details refer to paragraph *ff)*.

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) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financials of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at cost. More detailed information on the Group's subsidiaries is presented in Note 19 (*Investments in Subsidiaries*).

The financial statements of AS Citadele banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by aggregating like items of assets, liabilities, income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements.

e) Income and expense recognition

Income and revenue are only recognised, if the Group is likely to receive economic benefits associated with the transaction. Interest income and expense items are recognised on an accrual basis using the effective interest rate. Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. The Group presents the fee income from financial guarantees as part of fee and commission income. For loan commitments which are not expected to result in draw-down, the reservation fee is credited to the income statement on a straight-line basis over the commitment period. For a contract with a customer containing a financial instrument, the part that relates to financial instrument is measured and separated first and then to the residual part recognised appropriately as revenue from contracts with customers.

Revenue from contracts with customers, including account servicing fees, asset management fees, custody fees, and sales commissions are credited to the statement of income as the related services are performed and control over a service is transferred to a customer. Revenue from customers is recognised as fee and commission income or other income. Revenue may be recognised at a point in time or over the time. Over time revenue recognition is proportional to progress towards satisfying a performance obligation by transferring control of promised services to a customer. Revenue which does not qualify for recognition over time is recognised at a point in time when the service is rendered or product is sold. The Group has no material receivables and contract liabilities from contracts with customers.

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies for the major categories of commission income:

Cards, payments and transactions – regular fees for accounts servicing, cards and product packages are charged to the customer's on a monthly basis according to the price list; revenue is recognised over time as the services are provided. Transaction-based fees for payments, foreign to the customer's when the transaction takes place and revenue is recognised at the point in time when the currency transactions and similar are charged transaction takes place.

Asset management, custody and securities – fees are calculated based on a fixed percentage of the value of assets managed or held in custody and are deducted from the customer's account on a monthly basis. Upon commencement of the service an insignificant non-refundable initial fee may be charged as a compensation for client's screening, agreement and other services provided. Revenue from management and custody services is recognised over time as the services are provided.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Penalty income is recognised on cash-received basis as often there is significant uncertainty about collectability.

f) Foreign currency translation

Transactions denominated in foreign currencies are recorded in Euros at the rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of non-monetary financial assets at fair value through other comprehensive income for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the official rate of exchange prevailing at the reporting date. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

g) Staff costs and related contributions

The Group recognises employee financial benefits when an employee has rendered services in exchange for these financial benefits.

The Group's personnel expenses relate mostly to short term benefits and related tax expense. The Group pays social security contributions to state pension insurance and to state-funded pension scheme in accordance with the relevant regulations. In most countries where the Group operates, a part of the social insurance contributions is used to fund the state defined contribution pension system. The state-funded pension scheme is a defined contribution plan under which the Group pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or the state-funded pension scheme is not able to settle their liabilities to employees. The social security contributions are accrued in the period in which the associated services are rendered by the employees of the Group.

Citadele has a multi-year long-term incentive plans for its employees. Under the approved long-term incentive plans share options are granted. Settlement is in shares of Citadele. Each option grants eligibility to one ordinary share of Citadele and has an exercise price of null euros. Vesting dates are predetermined. For each participant individual performance conditions aligned with business plan and strategic objectives of Citadele apply. The Remuneration and Nomination Committee of the Supervisory Board is responsible for aligning, setting, and amending individual performance conditions. Granted options may be forfeited to the extent any of the performance conditions are not satisfied.

Expense for share-based remuneration is measured at fair value at the grant date. Share-based remuneration may be in a form of Citadele shares or conditional share options. The grant date is the date at which the entity and the participating employee agree to a share-based payment arrangement and an internal approval is obtained. The fair value is the estimated share price reduced by the present value of dividends that participants will not receive and value of other restricting terms of the compensation agreed. Expense for share-based remuneration is re-measured only if the compensation arrangement is modified so that the fair value after modification has increased compared to the fair value before modification. Such increase is recognised as compensation expense at the re-measurement date.

The expense is recognised on a straight line basis over the period of the remuneration program as intention is to receive services from employees over the whole period. For share options granted a corresponding increase in equity is recognised as other reserves. Estimates of actual or expected forfeitures are re-estimated at each reporting date and if necessary previously recognised other reserves are reversed directly to the retained earnings. After deferral period, when vesting conditions are met and conditional share option exercised, previously recognised other reserves are transferred to issued share capital and share premium accounts.

h) Customer loyalty programmes

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

i) Corporate income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Certain Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, for these Group companies, income tax on profit distribution is recognised as expenses only at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences are reversed or the tax loss carry forwards are utilised. The deferred tax balance is measured at a tax rate which is applicable for undistributed profits until decision of profits distribution is made. Therefore, for jurisdictions where income tax is payable on profit distribution (e.g. dividends) any deferred tax liabilities or benefits are recognised at a tax rate applicable to undistributed profits. When applicable at the Group level the deferred tax is recognised at the expected future taxable dividend rate. Deferred tax assets and liabilities are netted only within the individual companies of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the current circumstances.

j) Financial instruments classification and measurement

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

At initial recognition, the financial assets or financial liabilities are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the de-recognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities measured at amortised cost

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

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The impairment allowance for financial assets that are not-credit impaired (stage 1 and stage 2 classified) is measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Group in accordance with contract and the cash flows that the Group expects to receive discounted at the effective interest rate of a financial asset. The impairment allowance for financial assets that are credit impaired at the reporting date (stage 3 classified) is measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the financial asset. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition.

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

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

When the financial asset or part of it cannot be recovered, it or the respective part is written-off and charged against impairment for credit losses. The Group makes the decision regarding any write-off of financial assets based on existence and valuation of collateral available for a foreclosure, and the likelihood and the amount of any other expected future cash flows. Recoveries of previously written-off assets or parts of assets are credited to the statement of income.

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

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should both be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at fair value through other comprehensive income are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets measured at fair value through other comprehensive income are subsequently re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

For equity instruments that are neither held for trading nor acquired in a business combination, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive income are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

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

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

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

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain life insurance contract liabilities, which are managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract terms, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering into the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit or loss, a potential accounting mismatch is avoided.

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

Derivative Financial Instruments

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

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet as derivative assets and liabilities.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

k) Sale and repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or re-pledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

l) De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the contractual rights to receive cash flows from the financial asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Debt securities issued and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After an initial measurement, being a fair value minus directly attributable transaction costs, in the case of a financial liability not at fair value through profit or loss, debt issued, subordinated liabilities and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowing using the effective interest rate.

m) Fair values of financial assets and liabilities

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Furthermore, changes and movements in market conditions may affect accuracy of the fair value calculations so that the actual outcome of a transaction is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported results of the Group.

n) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated over time period in-line with the lease term to produce a constant return on the net investments outstanding in respect of the finance leases. Finance lease receivables are presented as loans to public.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's tangible assets.

Group as lessee

A lease is a contract, or a part of a contract, that conveys the right to use asset (the lease asset) for a period of time in exchange for consideration. For qualifying lease assets, upon lease commencement, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. An incremental borrowing rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents assets of the same nature that it owns. Lease liabilities are presented within other liabilities. The Group uses the practical expedient of low-value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is expensed as incurred with no right-of-use asset or lease liability recognition.

When estimating lease term, the Group's intentions as well as contractual early termination and extension options of lessee and lessor are considered. When a previously recognised lease is modified and the scope of the lease increases and the increase in compensation is commensurate, a new separate lease is recognised. If the increase in compensation is not commensurate or the scope of the lease decreases the current right-of-use asset and corresponding lease liability is re-measured. In case of a decrease in scope of the lease a gain or loss (if any) is recognised in the income statement.

For lease contracts with eligible extension or early termination clauses a lease term equal to the planning horizon of three years is often applied unless the lease term is shorter already. In case of branches this is based on a plan to move towards a more digital model less dependent on the physical presence. The Group owns its headquarters building, which is leased by the Bank from its subsidiary. As both parties are under common control the lease term may be extended or shortened at the Management's discretion. For the intra-group lease of the headquarters building the applied three years lease term assumption is linked to the business planning horizon. Incremental borrowing rate, derivate from the Bank's deposit rate, but adjusted for additional spread for absence of deposit guarantee for leases, is used.

The Group applied IFRS 16 using the modified retrospective approach, under which comparatives information for 2018 were not restated. The comparatives are presented as reported under the previous standard and are not restated. Previously leases of assets under which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Lease payments under an operating lease were recognised as expenses over the lease term and included in administrative expenses.

o) Renegotiated loans and debt forbearances

For economic or legal reasons, the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, an individual approach is practised. Generally, debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. When the terms of a financial asset are renegotiated or modified a de-recognition assessment is made. When modifications result in de-recognition of the existing financial asset, than the estimated fair value of the asset is treated as cash inflow from the existing financial asset and a new contract is recognised at fair value plus any eligible transaction costs. When modification results in de-recognition, a new loan is recognised and allocated to Stage 1, if not credit-impaired at that time. When modification or renegotiation of contractual cash flows of a financial asset does not result in de-recognition of financial asset, the Group recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. For discounting expected future cash flows the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets is applied.

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

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for loans to public that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For collective measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors.

The major macroeconomic factors considered are unemployment rate, average monthly wage, year-on-year change in inflation rate, real gross domestic product and real estate prices. PDs and LGDs are derived from historic performance of the loans to public. 'Point in time' probabilities (probability of default in the current economic conditions, as opposed to economic cycle-neutral 'through the cycle' probabilities of default as often used for regulatory purposes) are used for PDs. Correspondingly, estimated PDs are expected to change through the economic cycle. For measurement of expected credit loses financial instruments are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry, product type, collateral type and geographical location of the borrower.

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments, persistent and major covenant noncompliance;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

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

For loans to public, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

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

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

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

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

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

r) Tangible assets

Property and equipment initially is measured at acquisition cost or creation cost. After initial measurement property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment is periodically reviewed for impairment according to principles described in the paragraph *w) Impairment of non-financial assets*. If the recoverable value of an asset is lower than its carrying amount, the asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% - 10%
Transport vehicles	14% - 20%
Other	14% - 33%

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

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis. Maintenance and repair costs are charged to the statement of income as incurred.

s) Intangible assets

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

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 33%. All intangible assets, except for goodwill, are with definite lives.

t) Inventories

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies.

Group's inventories are accounted at individual cost. The costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

u) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification.

Non-current assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term but are not expected to be sold in the ordinary course of business.

Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line 'Other impairment losses'. In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

v) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs.

For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable. Investment properties are periodically reviewed for impairment.

If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods

w) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (e.g. inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cost generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Insurance business

The Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is shown within deposits and borrowings from customers. Insurance reserves are shown as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance if the Group deems this appropriate. Insurance risk in view of the management is not material to accounts of the Group.

y) Off-balance sheet financial commitments and contingent liabilities

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

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

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in the paragraph *z)*.

z) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

aa) Asset management

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under management are presented in financial statements only for disclosure purposes. Commission for asset management is recognised on accrual basis and generally is dependent on the volume of assets managed.

bb) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand balances with central banks and other credit institutions with an insignificant risk of changes in value, less demand deposits due to credit institutions and central banks.

cc) Offsetting of assets and liabilities

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

dd) Events after the reporting date

Post-period-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes if material.

ee) Changes in classification

In 2019 Citadele reviewed classification of annual and quarterly supervisory fees and reclassified these from *Fee and commission expense* to *Net other income*. Supervisory fees are payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and are directly dependent on the size of the banking business, mostly the amount of assets held as at relevant measurement date. Similarly based on a trough review several expense categories were reclassified from *Other operating expenses* to *Net other income* as these relate to direct cost of core business and not an administrative efficiency.

Adjustments to comparatives due to changes in presentation

	2018 EUR thousands					
	Group			Bank		
	Restated	Adjustment	Initial	Restated	Adjustment	Initial
Fee and commission expense	(23,640)	1,411	(25,051)	(20,475)	1,239	(21,714)
Net other income	820	(2,279)	3,099	3,362	(1,555)	4,917
Other operating expenses	(25,201)	868	(26,069)	(20,592)	316	(20,908)

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

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for assets, determination of the control of investees for consolidation purposes, and 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 and the resulting trading performance 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 (2018: EUR +/-0.3 million) and EUR +/-0.1 million for the Group (2018: EUR +/-0.4 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 +/-1.2 million change in impairment allowance for the Bank (2018: EUR +/-1.2 million) and EUR +/-1.2 million for the Group (2018: EUR +/-1.4 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 estimates 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.

As a result of the annual ECL model reassessment, several incremental improvements were made and a recalibration exercise carried out in 2019. For PD inputs a shorter history was introduced (four years instead of all available historical data previously) to better align the PD inputs with a revised macroeconomic forward-looking model and more precisely represent point-in-time ECL. Stage 3 classification now is applied to a group of related clients irrespective of the credit quality of each individually significant exposure. LGD inputs are now similarly based on a four year historical averages with a pan-Baltic pooling of the data.

Changes in all applied LGD rates by 500 basis points would result in change in collectively estimated impairment allowance and provisions by EUR +3.3/-3.5 million for the Bank and EUR +3.7/-3.9 million for the Group (2018: EUR +2.7/-3.0 million for the Bank and EUR +4.2/-4.5 million for the Group). Changes in the PD rates for not overdue category by 100 basis points would result in change in collectively estimated impairment allowance by EUR +3.0/-2.3 million for the Bank and EUR +3.6/-2.8 million for the Group (2018: EUR +2.8/-2.6 million for the Bank and EUR +3.6/-3.3 million for the Group) and provisions for off balance sheet commitments and guarantees by EUR +0.6/-0.6 million for the Bank and EUR +0.6/-0.6 million for the Group (2018: EUR +0.5/-0.4 million for the Bank and EUR +0.5/-0.5 million for the Group).

The Group has implemented forward-looking information in the measurement of 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 mild-recession scenario. The current implementation, based on an expert judgement, weights base case scenario with 70% likelihood and the adverse mild-recession scenario at 30% likelihood. The 70% vs. 30% weighted augmented scenario is used for forward-looking adjustment. If the weighting of the mild-recession scenario was to increase to 50%, the expected credit loss allowance of the Bank would increase by EUR 0.8 million and for the Group by EUR 0.9 million as of 31 December 2019. 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 1.2 million and for the Group by EUR 1.4 million as of 31 December 2019.

Impairment of securities not at fair value through profit or loss

The Group regularly conducts an impairment assessment for securities not at fair value through profit or loss. A number of principles are defined for classifying any exposure within impairment stages. Besides assessment based on credit rating issued by a qualifying external credit assessment institution, which is the major criterion, and other conventional impairment indicators (i.e. missed payment), the Group for Stage 3 exposures of securities assesses other factors such as prevailing credit spreads (estimation of spread of the respective security vs. spreads on securities rated Caa1 and below) and liquidity of the instrument (i.e. frequency of available quotes, traded volumes). For expected credit loss estimation qualifying external credit assessment institution historic LGD and PD rates are applied consistent to the assigned credit rating of the respective exposure.

The future credit quality of the securities is subject to uncertainties that could cause actual credit losses to differ from expected credit losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. A downgraded by one rating category (e.g. from Aaa to Aa1 in the Moody's scale) in credit rating issued by a qualifying external credit assessment institution for all securities not at fair value through profit or loss would result in increase in estimated impairment allowance by EUR 0.2 million for the Bank (2018: EUR 0.2 million). For additional information on fair value assessment of fixed and non-fixed income securities refer to Note 30 (*Fair Values of Financial Assets and Liabilities*). If for all Bank's securities not at fair value through profit or loss the applied historic LGD rate was to change by +/-100bp the estimated impairment allowance would change by EUR +/-0.01 milion.

Impairment of other assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries refer to Note 19 (*Investments in Subsidiaries*).

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to Note 19 (*Investments in Subsidiaries*). For investments in securities which are not consolidated refer to Note 18 (*Equity and Other Financial Instruments*). In the ordinary course of business IPAS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the funds should not be consolidated.

Deferred tax assets and liabilities

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. For more details refer to Note 13 (*Taxation*).

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.

In 2019, as a result of a forthcoming acquisition of a leasing business (refer to Note 34 (*Events after the Reporting Date*)), the strategic focus has shifted and leasing is now considered a standalone segment. This is represented in the new operating segments of the Group, which are revised for 2019 in line with the changes in strategic priorities and organisational structure. Some operations were re-allocated among operating segments.

These updates were thoroughly implemented in the segment disclosure. Prior period comparatives were adjusted accordingly. Allocation of client business among segments is based on the segment where the client was serviced at the point in time when the transaction took place; thus, when a client is transferred to a new segment, past transactions are not redistributed to the new segment. In 2019 in total EUR 59 million of client loans were reallocated from Corporate to SME segments.

All transactions between operating segments are on an arm's length basis. 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 is 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.

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.

Corporates

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 high net-worth individuals serviced in Latvia, Lithuania and Estonia.

Swiss

This segment comprises operations of AP Anlage & Privatbank AG.

Leasing

Leasing and factoring services provided to private individuals and companies in Latvia, Lithuania and Estonia.

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 2019, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Interest income	39,149	7,455	28,841	2,616	3,890	10,232	8,372	100,555
Interest expense	(2,183)	(59)	(313)	(2,319)	(754)	-	(10,286)	(15,914)
Net interest income	**36,966**	**7,396**	**28,528**	**297**	**3,136**	**10,232**	**(1,914)**	**84,641**
Fee and commission income	14,806	8,607	12,674	15,114	3,949	187	1,051	56,388
Fee and commission expense	(8,597)	(4,026)	(8,512)	(2,362)	(395)	(80)	(1,495)	(25,467)
Net fee and commission income	**6,209**	**4,581**	**4,162**	**12,752**	**3,554**	**107**	**(444)**	**30,921**
Net financial income	851	708	612	2,866	702	-	2,457	8,196
Net other income	(297)	(101)	(291)	(317)	-	(254)	1,432	172
Operating income	**43,729**	**12,584**	**33,011**	**15,598**	**7,392**	**10,085**	**1,531**	**123,930**
Net funding allocation	(2,052)	(336)	(2,787)	3,276	760	(384)	1,523	-
FTP adjusted operating income	**41,677**	**12,248**	**30,224**	**18,874**	**8,152**	**9,701**	**3,054**	**123,930**

	Group 2018, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Interest income	36,223	6,098	30,007	4,377	3,433	9,355	8,151	97,644
Interest expense	(3,301)	(359)	(1,160)	(2,164)	(488)	-	(7,594)	(15,066)
Net interest income	**32,922**	**5,739**	**28,847**	**2,213**	**2,945**	**9,355**	**557**	**82,578**
Fee and commission income	13,657	6,840	11,244	19,782	3,931	106	1,459	57,019
Fee and commission expense	(8,828)	(3,011)	(8,026)	(2,567)	(377)	(18)	(813)	(23,640)
Net fee and commission income	**4,829**	**3,829**	**3,218**	**17,215**	**3,554**	**88**	**646**	**33,379**
Net financial income	792	602	951	4,244	755	-	3,058	10,402
Net other income	58	349	(289)	538	(9)	(73)	246	820
Operating income	**38,601**	**10,519**	**32,727**	**24,210**	**7,245**	**9,370**	**4,507**	**127,179**
Net funding allocation	966	64	(1,822)	4,347	338	(591)	(3,302)	-
FTP adjusted operating income	**39,567**	**10,583**	**30,905**	**28,557**	**7,583**	**8,779**	**1,205**	**127,179**

	Group as of 31/12/2019, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	16,459	-	691,455	707,914
Loans to credit institutions	-	-	-	7,005	18,369	-	96,021	121,395
Debt securities	-	-	-	16,903	219,261	-	967,467	1,203,631
Loans to public	586,345	128,333	564,053	47,671	9,431	217,226	19,687	1,572,746
Equity instruments	-	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	33,657	-	-	6,315	39,972
Total segmented assets	**586,345**	**128,333**	**564,053**	**105,236**	**263,520**	**217,226**	**1,786,037**	**3,650,750**
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,637	1,637
Deposits from customers	1,132,738	321,644	695,176	761,748	273,874	-	104,354	3,289,534
Debt securities issued	-	-	-	-	-	-	60,044	60,044
Total segmented liabilities	**1,132,738**	**321,644**	**695,176**	**761,748**	**273,874**	**-**	**166,035**	**3,351,215**

	Group as of 31/12/2018, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	29,849	-	375,466	405,315
Loans to credit institutions	-	-	-	2,368	37,688	88	91,758	131,902
Debt securities	-	-	-	14,348	195,871	-	779,011	989,230
Loans to public	520,617	54,204	573,208	48,831	2,419	187,198	9,215	1,395,692
Equity instruments	-	-	-	-	-	-	2,901	2,901
Other financial instruments	-	-	-	28,068	-	-	6,078	34,146
Total segmented assets	**520,617**	**54,204**	**573,208**	**93,615**	**265,827**	**187,286**	**1,264,429**	**2,959,186**
Liabilities								
Deposits from banks	-	-	-	1	-	-	7,276	7,277
Deposits from customers	921,646	186,363	586,578	684,169	253,458	-	12,828	2,645,042
Debt securities issued	-	-	-	-	-	-	60,010	60,010
Total segmented liabilities	**921,646**	**186,363**	**586,578**	**684,170**	**253,458**	**-**	**80,114**	**2,712,329**

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Interest income calculated using the effective interest method:				
Financial assets at amortised cost:				
Loans to public	78,581	76,422	83,008	67,155
Debt securities	3,891	3,738	3,170	2,912
Cash balances at and lending to central banks and credit institutions	1,075	1,426	850	1,142
Debt securities at fair value through other comprehensive income	6,776	6,703	4,098	3,312
Interest income on finance leases (part of loans to public)	10,232	9,355	-	-
Total interest income	**100,555**	**97,644**	**91,126**	**74,521**
Interest expense on:				
Financial liabilities at amortised cost:				
Deposits and borrowing from public	(9,566)	(8,186)	(8,904)	(6,155)
Debt securities issued	(3,633)	(3,635)	(3,633)	(3,635)
Deposits from credit institutions and central banks	(1,862)	(2,249)	(2,678)	(2,458)
Financial liabilities at fair value through profit or loss				
Deposits and borrowing from public	(151)	(184)	-	-
Lease liabilities	(41)	-	(137)	-
Other interest expense	(661)	(812)	(661)	(804)
Total interest expense	**(15,914)**	**(15,066)**	**(16,013)**	**(13,052)**
Net interest income	**84,641**	**82,578**	**75,113**	**61,469**

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

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Interest income recognised on credit impaired assets	4,868	8,719	4,767	8,467

Credit impaired financial assets are defined as all stage 3 classified assets. These besides overdue or specifically impaired assets also include non-overdue, non-restructured assets under monitoring period and similar contracts where there are indications that the credit risk has increased significantly since origination.

NOTE 6. FEE AND COMMISSION INCOME AND EXPENSE

	EUR thousands			
	2019 Group	**2018 Group** Restated (Note 3 ee)	**2019 Bank**	**2018 Bank** Restated (Note 3 ee)
Fee and commission income:				
Cards	30,474	28,114	30,417	25,360
Payments and transactions	14,791	17,971	11,783	12,861
Asset management and custody	7,280	7,451	1,554	1,602
Securities brokerage	700	723	573	547
Other fees	1,619	1,655	1,550	1,068
Total fee and commission income from contracts with customers	**54,864**	**55,914**	**45,877**	**41,438**
Guarantees, letters of credit and loans	1,524	1,105	1,529	876
Total fee and commission income	**56,388**	**57,019**	**47,406**	**42,314**
Fee and commission expense on:				
Cards	(20,645)	(19,395)	(20,645)	(17,185)
Payments and transactions	(3,519)	(2,732)	(3,331)	(2,462)
Asset management, custody and securities brokerage	(892)	(929)	(687)	(705)
Other	(411)	(584)	(173)	(123)
Total fee and commission expense	**(25,467)**	**(23,640)**	**(24,836)**	**(20,475)**
Net fee and commission income	**30,921**	**33,379**	**22,570**	**21,839**

NOTE 7. NET FINANCIAL INCOME

	EUR thousands			
	2019 Group	**2018 Group**	**2019 Bank**	**2018 Bank**
Foreign exchange trading and related derivatives	6,719	10,057	6,588	8,624
Assets at fair value through other comprehensive income	1,284	587	589	179
Modifications in cash flows which do not result in de-recognition	(339)	(22)	(339)	(22)
Assets and liabilities at fair value through profit or loss	503	(220)	-	-
Assets at amortised cost	29	-	29	-
Total net financial income	**8,196**	**10,402**	**6,867**	**8,781**

In 2019 net modification gain or loss recognised for loans to public for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses (Stage 2 and Stage 3 classified) is EUR 213 thousand (2018: EUR 33 thousand). The net carrying amount of loans to public that are Stage 3 classified as at 31 December 2019 that have been modified since initial recognition is EUR 2.6 million (2018: EUR 12.7 million).

In the reporting period select debt securities classified at amortised cost were disposed before maturity. These sales constitute a part of a larger one-off plan to accumulate the required liquidity and optimisations in capital-use in a preparation for an anticipated acquisition transaction. For details on the acquisition transaction refer to Note 34 (*Events after the Reporting Date*). Due to the one-off nature of the plan, the specific business model's objective to hold financial assets in order to collect contractual cash flows still holds.

NOTE 8. NET OTHER INCOME

	EUR thousands			
	2019 Group	**2018 Group** Restated (Note 3 ee)	**2019 Bank**	**2018 Bank** Restated (Note 3 ee)
Dividend income	43	34	3,348	2,491
Net insurance result	125	486	-	-
Rental income from investment properties	1,205	-	-	-
Other income	968	2,579	3,164	2,426
Supervisory fees	(1,582)	(1,411)	(1,484)	(1,239)
Other expenses	(587)	(868)	(317)	(316)
Total net other income	**172**	**820**	**4,711**	**3,362**

In the reporting period a dividend income of EUR 1.5 million from subsidiaries IPAS CBL Asset Management (2018: EUR 2.5 million) and EUR 1.8 million from UAB Citadele faktoringas ir lizingas (2018: none) was received. Other income includes net result from disposal of repossessed collaterals and other miscellaneous items which may not be considered interest or fee and commission income. Supervisory fees include annual and quarterly fees payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and similar. These directly dependent on the size of the banking business (mostly total assets).

NOTE 9. STAFF COSTS

Personnel costs include remuneration for work to the personnel, related social security contributions, bonuses and costs of other benefits. Other personnel expense includes health insurance, training, education and similar expenditure.

Part of the remuneration for work is deferred up to the period of one year and subsequent pay-outs may be conditional. As at 31 December 2019 the Group and the Bank has a compulsory deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 562 thousand and EUR 524 thousand which will become payable in 2020 if certain conditions are met (2018: EUR 706 thousand and EUR 464 thousand payable in 2019, respectively).

Citadele has two equity-based long-term incentive plans for its employees. Expense for share-based remuneration is measured at fair value at the grant date. The grant date is the date at which the entity and the participating employee agree to a share-based payment arrangement and an internal approval is obtained. The fair value is the estimated share price reduced by the present value of dividends that participants will not receive and value of other restricting terms of the compensation agreed. Expense for share-based remuneration is re-measured only if the compensation arrangement is modified so that the fair value after modification has increased compared to the fair value before modification. Such increase is recognised as compensation expense at the re-measurement date. The expense is recognised on a straight line basis over the period of the remuneration program as intention is to receive services from employees over the whole period. For share options granted a corresponding increase in equity is recognised as other reserves. Estimates of actual or expected forfeitures are re-estimated at each reporting date and if necessary previously recognised other reserves are reversed directly to the retained earnings. After deferral period, when vesting conditions are met and conditional share option exercised, previously recognised other reserves are transferred to issued share capital and share premium accounts

Under the long-term incentive plan for the management 1,690 thousand of share options valued at EUR 2.9 million were initially granted in 2018, and for non-management employees 159 thousand share options valued at EUR 0.3 million in 2019. To qualify for the share options (vesting requirement), among other conditions the participant is required to remain employed until the end of the respective deferral period. In the reporting period 165 thousand share options valued EUR 0.3 million between the two programmes were cancelled (2018: none). The personnel options were issued in line with the meaning of Article 2481 of the Latvian Commercial Law. Each option has the following parameters: registered share with the nominal value of EUR 1 (one euro); convertible to the ordinary shares of Citadele (all Citadele's ordinary shares have equal voting rights, equal rights to dividend and equal liquidation quota), an exercise price of null euros, vesting dates are predetermined. Clawback and malus provisions apply in the event of a material misstatement, an act of gross misconduct or an error in the assessment of performance targets. For options granted performance is measured over a pre-agreed period ranging from tree-years to five-years ending in 2023 or earlier. The expense is recognised as the service is rendered. At the end of the performance measurement period, the Remuneration Committee of the Supervisory Board has absolute discretion to determine the extent to which the awards will vest, if at all, on account of underlying Group, individual and share price performance. The Remuneration Committee of the Supervisory Board may, in its absolute discretion, adjust upwards or downwards and including to nil the number of options which would otherwise vest. The first vesting will occur not earlier than 2021. Performance targets relate to both financial and non-financial measures linked to the long-term business strategy of the Group, including but not limited to: Group net income, return on capital, and strategic objectives of the Group.

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Remuneration:				
- management	3,497	3,977	1,888	2,229
- other personnel	40,767	38,734	37,319	29,226
Total remuneration for work	**44,264**	**42,711**	**39,207**	**31,455**
Social security and solidarity tax contributions:				
- management	618	799	442	530
- other personnel	7,620	9,541	7,205	7,200
Total social security and solidarity tax contributions	**8,238**	**10,340**	**7,647**	**7,730**
Other personnel expense	**817**	**915**	**718**	**839**
Total personnel expense	**53,319**	**53,966**	**47,572**	**40,024**
Number of full time equivalent employees at the period end	1,369	1,492	1,292	1,147

In 2019 the Lithuanian government reformed the individual income tax system. The objective of the reform was to ease tax burden on labour and introduce a greater progressivity in the personal income tax system. Payment of the social security contributions was largely shifted from employers to employees and, to compensate employees for the shift in the tax burden, the gross salary was increased proportionally. Consequently proportion of social security contributions in the total personnel expense decreased for the Bank and the Group.

NOTE 10. OTHER OPERATING EXPENSES

	EUR thousands			
	2019 Group	**2018 Group** Restated (Note 3 ee)	**2019 Bank**	**2018 Bank** Restated (Note 3 ee)
Information technologies and communications	6,184	5,902	5,184	3,955
Consulting and other services	5,932	5,437	4,509	4,349
Rent, premises and real estate	3,463	4,689	2,150	5,664
Advertising and marketing	2,237	3,196	1,954	2,656
Non-refundable value added tax	1,922	3,137	1,562	2,412
Other	2,044	2,840	1,807	1,556
Total other expenses	**21,782**	**25,201**	**17,166**	**20,592**

Operating lease expenses, which previously were presented as “Rent, premises and real estate”, according to the new *IFRS 16 (Leases*) in 2019 are presented as “Depreciation and amortisation”. Similarly the implied interest expense on lease liabilities is presented as interest expense. The new standard does not require retrospective application of the new presentation requirements, thus comparatives are not restated. “Rent, premises and real estate” classification is retained for all utility expenses and certain rental fees which do not qualify for classification as depreciation under the new standard. See section a) of Note 3 (*New standards and amendments*).

Audit and other fees paid to the Group’s independent audit company

	EUR thousands			
	2019 Group	**2018 Group**	**2019 Bank**	**2018 Bank**
Annual and interim audit fees	331	234	196	90
Other audit and similar fees	102	109	10	10
Tax advisory fees	4	6	4	6
Other advisory, training and similar fees	4	37	4	25

NOTE 11. NET CREDIT LOSSES

Total net impairment allowance charged to the income statement

	EUR thousands			
	2019 Group	**2018 Group**	**2019 Bank**	**2018 Bank**
Loans to credit institutions	(34)	(58)	(35)	(61)
Debt securities	(6)	116	(16)	81
Loans to public	(7,341)	(12,933)	(6,718)	(10,182)
Guarantees and letters of credit	72	129	72	125
Loan commitments	(1,465)	484	(1,424)	169
Recovered written-off assets	6,369	5,609	7,679	4,624
Total net losses on financial instruments	**(2,405)**	**(6,653)**	**(442)**	**(5,244)**

During the ordinary course of business the recoverability of some loans deteriorates while for others it improves. Fully impaired assets, recovery of which may become economically unviable or impossible, may be written-off. When a loan is fully or partially written-off, the claim against the borrower normally is not forgiven. Full and partial loan write-offs directly decrease specifically assessed accumulated impairment allowance. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears or as a result of other resolution. Such recoveries are reported as recovered written-off assets. The amounts written-off during the period represent the contractual amount minus penalties (the Group has a policy to recognise penalties on cash basis) recognised for these contracts; the amount is still subject to enforcement activity.

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

Changes in the allowances for credit losses and provisions

	Group, EUR thousands				
	Opening balance 01/01/2019	**Charged to statement of income**	**Write-offs of allow-ances**	**Other adjust-ments**	**Closing balance 31/12/2019**
Stage 1					
Loans to credit institutions	61	34	-	2	97
Debt securities	352	16	-	5	373
Loans to public	12,394	166	-	(1)	12,559
Loan commitments, guarantees and letters of credit	2,102	1,321	-	(3)	3,420
Total stage 1 credit losses and provisions	**14,909**	**1,537**	**-**	**3**	**16,449**
Stage 2					
Debt securities	10	(10)	-	-	-
Loans to public	7,415	(1,848)	-	1	5,568
Loan commitments, guarantees and letters of credit	411	(240)	-	1	172
Total stage 2 credit losses and provisions	**7,836**	**(2,098)**	**-**	**2**	**5,740**
Stage 3					
Loans to public	46,985	9,023	(17,972)	749	38,785
Loan commitments, guarantees and letters of credit	249	312	-	(3)	558
Total stage 3 credit losses and provisions	**47,234**	**9,335**	**(17,972)**	**746**	**39,343**
Total allowances for credit losses and provisions	**69,979**	**8,774**	**(17,972)**	**751**	**61,532**
Including for debt securities classified at fair value through other comprehensive income	*145*				*116*
Excluding non-ECL provisions	*434*				*-*

Write-offs of allowances refer to reduction of previously recognised ECL balances due to exit of exposures from the balance sheet. The write-offs of allowances are not representative of the impact on profit or loss due to allowances being raised in previous periods as well as offsetting recoveries. In 2019 recoveries of previously written-off balances, which were directly recognised in the income statement amounted to EUR 6.4 million for the Group (2018: EUR 5.6 million).

	Group, EUR thousands				
	Opening balance 01/01/2018	**Charged to statement of income**	**Write-offs of allow-ances**	**Other adjust-ments**	**Closing balance 31/12/2018**
Stage 1					
Loans to credit institutions	13	58	-	(10)	61
Debt securities	392	(98)	-	58	352
Loans to public	11,634	836	(29)	(47)	12,394
Loan commitments, guarantees and letters of credit	3,765	(1,665)	-	2	2,102
Total stage 1 credit losses and provisions	**15,804**	**(869)**	**(29)**	**3**	**14,909**
Stage 2					
Debt securities	28	(18)	-		10
Loans to public	10,137	(2,661)	(57)	(4)	7,415
Loan commitments, guarantees and letters of credit	231	180	-	-	411
Total stage 2 credit losses and provisions	**10,396**	**(2,499)**	**(57)**	**(4)**	**7,836**
Stage 3					
Loans to public	58,030	14,758	(26,759)	956	46,985
Loan commitments, guarantees and letters of credit	122	872	-	(745)	249
Total stage 3 credit losses and provisions	**58,152**	**15,630**	**(26,759)**	**211**	**47,234**
Total allowances for credit losses and provisions	**84,352**	**12,262**	**(26,845)**	**210**	**69,979**
Including for debt securities classified at fair value through other comprehensive income	*132*				*145*
Excluding non-ECL provisions	*893*				*434*

	Bank, EUR thousands					
	Opening balance 01/01/2019	Integration (Note 2)	Charged to statement of income	Write-offs of allowances	Other adjustments	Closing balance 31/12/2019
Stage 1						
Loans to credit institutions	61	-	35	-	1	97
Debt securities	245	-	26	-	2	273
Loans to public	9,634	1,323	(203)	-	-	10,754
Loan commitments, guarantees and letters of credit	1,984	113	1,279	-	2	3,378
Total stage 1 credit losses and provisions	**11,924**	**1,436**	**1,137**	**-**	**5**	**14,502**
Stage 2						
Debt securities	10	-	(10)	-	-	-
Loans to public	6,433	837	(2,087)	-	1	5,184
Loan commitments, guarantees and letters of credit	386	25	(238)	-	(1)	172
Total stage 2 credit losses and provisions	**6,829**	**862**	**(2,335)**	**-**	**-**	**5,356**
Stage 3						
Loans to public	38,508	6,264	9,008	(17,936)	772	36,616
Loan commitments, guarantees and letters of credit	246	1,413	311	(1,481)	69	558
Total stage 3 credit losses and provisions	**38,754**	**7,677**	**9,319**	**(19,417)**	**841**	**37,174**
Total allowances for credit losses and provisions	**57,507**	**9,975**	**8,121**	**(19,417)**	**846**	**57,032**
Including for debt securities classified at fair value through other comprehensive income	*68*					*42*

	Bank, EUR thousands				
	Opening balance 01/01/2018	Charged to statement of income	Write-offs of allowances	Other adjustments	Closing balance 31/12/2018
Stage 1					
Loans to credit institutions	1	61	-	(1)	61
Debt securities	254	(63)	-	54	245
Loans to public	9,316	318	-	-	9,634
Loan commitments, guarantees and letters of credit	3,452	(1,467)	-	(1)	1,984
Total stage 1 credit losses and provisions	**13,023**	**(1,151)**	**-**	**52**	**11,924**
Stage 2					
Debt securities	28	(18)	-	-	10
Loans to public	8,549	(2,111)	(3)	(2)	6,433
Loan commitments, guarantees and letters of credit	179	207	-	-	386
Total stage 2 credit losses and provisions	**8,756**	**(1,922)**	**(3)**	**(2)**	**6,829**
Stage 3					
Loans to public	52,012	11,975	(26,640)	1,161	38,508
Loan commitments, guarantees and letters of credit	56	966	-	(776)	246
Total stage 3 credit losses and provisions	**52,068**	**12,941**	**(26,640)**	**385**	**38,754**
Total allowances for credit losses and provisions	**73,847**	**9,868**	**(26,643)**	**435**	**57,507**
Including for debt securities classified at fair value through other comprehensive income	*51*				*68*

NOTE 12. OTHER IMPAIRMENT LOSSES

Changes in impairment allowances for investments in subsidiaries, tangible, intangible and other assets

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Impairment allowance at the beginning of the period	**2,764**	**3,409**	**42,128**	**50,306**
Reversal of impairment for investments in subsidiaries, net	-	-	(3,706)	(6,928)
Other allowances charged to the statement of income, net	1,305	343	1,221	165
Change of allowance due to write-offs and foreign exchange retranslation	(2,980)	(988)	(1,758)	(1,415)
Impairment allowance at the end of the period	**1,089**	**2,764**	**37,885**	**42,128**
Including for investments in subsidiaries	-	-	*37,196*	*40,902*

For more details on the investments in subsidiaries refer to Note 19 (*Investments in Subsidiaries*).

NOTE 13. TAXATION

Corporate income tax expense

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Current corporate income tax	954	830	248	42
Deferred income tax	375	(876)	-	-
Total corporate income tax expense	**1,329**	**(46)**	**248**	**42**

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 tax rate which applies to undistributed earnings which is 0%. Therefore, the effective tax rate in the reporting period for the Bank in Latvia and Estonia and the Group in Latvia was c.a. 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 distributable earnings for the Bank), and there is no expiry date for this distribution right. In Latvia for actual and implied dividend distributions from profits earned under the current tax regime a 20% CIT rate applies; the tax base is calculated by dividing taxable distribution with a 0.8 coefficient.

In the reporting period the Estonian leasing subsidiary OU Citadele Leasing & Factoring recognised a deferred tax liability of EUR 0.4 million as it anticipates to pay out dividends to the Bank which at distribution will become taxable.

In other jurisdictions where the Group operates earnings are taxable when earned. The effective tax rate in the reporting period for the Swiss operations of the Group was c.a. 20%; for Lithuanian operations it was close to zero, primarily driven by positive impact from revised estimates of recognisable unutilized tax loss. 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 assessment of the recognisable amount of the tax asset is based on reasonably certain three year forecast to utilised accumulated tax loss by the respective entities. The recognised deferred tax asset mostly represents unutilised tax loss in Lithuania.

Income tax assets and liabilities

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Deferred income tax assets	2,429	2,429	2,179	-
Current income tax assets	707	500	707	247
Tax assets	**3,136**	**2,929**	**2,886**	**247**
Deferred income tax liabilities	(676)	(42)	-	-
Current income tax liabilities	(581)	(768)	-	-
Tax liabilities	**(1,257)**	**(810)**	**-**	**-**

Change in net deferred corporate income tax asset / (liability)

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
As at the beginning of the period	2,387	1,403	-	-
Integration of AB Citadele bankas (Lithuania)	-	-	2,179	-
Charge to statement of income	(375)	876	-	-
Charge to statement of comprehensive income	(259)	108	-	-
Net deferred income tax asset at the period end	**1,753**	**2,387**	**2,179**	**-**

Recognised deferred income tax assets and liabilities

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Deferred income and accrued expense	344	392	344	-
Unutilised tax loss carry-forward	3,533	3,673	3,211	-
Unrecognised tax loss	(1,448)	(1,852)	(1,376)	-
Expected distribution of retained earnings	(375)	-	-	-
Other items	(301)	174	-	-
Deferred income tax assets, net	**1,753**	**2,387**	**2,179**	**-**

Reconciliation of the pre-tax profit to the corporate income tax expense

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Profit before corporate income tax	37,833	34,800	39,224	33,079
Corporate income tax (at 20%)	**7,567**	**6,960**	**7,845**	**6,616**
Undistributed earnings taxable on distribution	(8,602)	(5,527)	(7,800)	(6,574)
Effect of tax rates in foreign jurisdictions	153	(31)	12	-
Non-taxable income	(420)	(316)	(241)	-
Non-deductible expense	2,324	76	499	-
Expected distribution of retained earnings	375	-	-	-
Other tax differences, net (incl. changes in unrecognised deferred tax asset)	(68)	(1,208)	(67)	-
Total effective corporate income tax	**1,329**	**(46)**	**248**	**42**

Part of the Group's unutilised tax losses are not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax losses at particular subsidiary's level. The recognisable amount assessment is based on reasonably certain 3 year forecast of the respective subsidiary's ability to utilised tax losses. Most of the recognised deferred tax asset represents unutilised tax loss carry forward in Lithuania.

NOTE 14. CASH AND CASH BALANCES AT CENTRAL BANKS

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Cash	45,190	45,399	45,189	41,697
Balances with the Bank of Latvia	446,527	86,507	446,527	86,507
Balances with other central banks	216,197	273,409	199,739	27,306
Total cash and balances with central banks	**707,914**	**405,315**	**691,455**	**155,510**

Credit institutions should comply with the compulsory reserve requirement calculated based on attracted funding. The Bank's compulsory minimum reserve must be exceeded by a credit institution's average monthly EUR balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and Lithuania and the banking subsidiary in Switzerland. During the reporting period, the Group's was in compliance with this requirement. Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. In the reporting period no amounts due from central banks were overdue.

NOTE 15. DEBT SECURITIES

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

	Group, EUR thousands					
	31/12/2019			31/12/2018		
	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	66,691	89,429	156,120	75,606	68,214	143,820
AA/Aa	111,325	106,277	217,602	99,532	82,792	182,324
A	169,597	545,489	715,086	175,617	377,917	553,534
BBB/Baa	50,182	62,346	112,528	49,738	57,712	107,450
Lower ratings or unrated	266	2,029	2,295	247	1,855	2,102
Total debt securities	**398,061**	**805,570**	**1,203,631**	**400,740**	**588,490**	**989,230**
Including general government	*164,761*	*491,501*	*656,262*	*154,098*	*334,028*	*488,126*
Including credit institutions	*106,280*	*135,237*	*241,517*	*111,872*	*118,402*	*230,274*
Including classified in stage 1	*398,061*	*805,570*	*1,203,631*	*400,740*	*586,625*	*987,365*

	Bank, EUR thousands					
	31/12/2019			31/12/2018		
	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	26,284	74,235	100,519	50,979	58,159	109,138
AA/Aa	55,375	92,197	147,572	51,884	70,603	122,487
A	141,593	523,372	664,965	134,989	358,678	493,667
BBB/Baa	2,941	49,441	52,382	9,174	42,691	51,865
Lower ratings or unrated	-	2,029	2,029	-	1,854	1,854
Total debt securities	**226,193**	**741,274**	**967,467**	**247,026**	**531,985**	**779,011**
Including general government	*137,229*	*468,479*	*605,708*	*135,108*	*319,559*	*454,667*
Including credit institutions	*42,122*	*121,610*	*163,732*	*61,776*	*107,628*	*169,404*
Including classified in stage 1	*226,193*	*741,274*	*967,467*	*247,026*	*530,120*	*777,146*

Debt securities by country of issuer

	Group, EUR thousands					
	31/12/2019			31/12/2018		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	291,654	7,377	299,031	251,772	6,776	258,548
Lithuania	222,723	6,813	229,536	151,868	3,928	155,796
Netherlands	12,690	97,554	110,244	12,892	81,948	94,840
United States	14,387	81,960	96,347	10,425	81,788	92,213
Germany	15,889	31,056	46,945	12,714	23,201	35,915
Canada	6,701	39,759	46,460	5,112	37,408	42,520
Finland	11,632	27,130	38,762	14,550	11,571	26,121
Japan	36,096	2,659	38,755	-	3,160	3,160
United Kingdom	3,709	30,864	34,573	2,623	26,473	29,096
Estonia	10,008	13,434	23,442	-	11,862	11,862
France	3,159	16,723	19,882	3,832	21,151	24,983
Multilateral development banks	-	39,221	39,221	-	42,243	42,243
Other countries	27,614	152,819	180,433	22,338	149,595	171,933
Total debt securities	**656,262**	**547,369**	**1,203,631**	**488,126**	**501,104**	**989,230**

	Bank, EUR thousands					
	31/12/2019			31/12/2018		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	287,598	5,918	293,516	247,176	5,797	252,973
Lithuania	220,452	5,412	225,864	150,929	2,874	153,803
Netherlands	8,920	64,732	73,652	9,130	58,885	68,015
United States	10,792	54,887	65,679	8,672	37,980	46,652
Finland	9,431	26,680	36,111	11,324	11,571	22,895
Japan	36,096	-	36,096	-	-	-
Canada	2,070	28,255	30,325	2,149	27,673	29,822
Estonia	10,008	11,616	21,624	-	10,385	10,385
Multilateral development banks	-	27,188	27,188	-	31,267	31,267
Other countries	20,341	137,071	157,412	25,287	137,912	163,199
Total debt securities	**605,708**	**361,759**	**967,467**	**454,667**	**324,344**	**779,011**

All fixed income securities as of 31 December 2019 and 31 December 2018 are listed. Further, no payments on the above instruments are past due. Total exposure to any single country within “Other countries” group is smaller than with any of the above disclosed countries.

NOTE 16. LOANS TO PUBLIC

Loans by customer profile, industry profile and product type

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Financial and non-financial corporations				
Real estate purchase and management	239,530	211,631	277,196	211,295
Transport and communications	116,141	137,788	44,781	66,661
Manufacturing	131,880	123,346	107,298	64,754
Trade	109,673	109,612	85,501	54,904
Agriculture and forestry	75,474	77,799	54,698	55,458
Construction	38,712	40,912	27,567	21,073
Financial intermediation	39,237	32,321	240,287	206,274
Electricity, gas and water supply	41,229	27,148	38,748	18,606
Hotels, restaurants	47,760	22,475	45,510	16,763
Other industries	53,396	35,667	28,964	15,748
Total financial and non-financial corporations	**893,032**	**818,699**	**950,550**	**731,536**
Households				
Card lending	65,391	59,628	65,391	55,481
Mortgage loans	501,581	437,183	501,581	374,549
Finance leases	39,532	35,136	-	-
Credit for consumption	87,919	74,086	87,919	47,897
Other lending	28,963	37,003	28,055	13,228
Total households	**723,386**	**643,036**	**682,946**	**491,155**
General government	**13,240**	**751**	**13,161**	**-**
Total gross loans to public	**1,629,658**	**1,462,486**	**1,646,657**	**1,222,691**
Impairment allowance and provisions	(56,912)	(66,794)	(52,554)	(54,575)
Total net loans to public	**1,572,746**	**1,395,692**	**1,594,103**	**1,168,116**

Loans by overdue days and impairment stage

	Group, EUR thousands									
	31/12/2019					31/12/2018				
	Gross amount			Expected credit loss allowance	Net carrying amount	Gross amount			Expected credit loss allowance	Net carrying amount
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
Loans to public										
Not past due	1,373,569	123,569	22,148	(21,908)	1,497,378	1,087,871	194,983	74,788	(31,568)	1,326,074
Past due <=30 days	37,752	9,404	2,622	(2,733)	47,045	33,523	7,312	5,722	(3,151)	43,406
Past due >30 and ≤90 days	-	7,120	2,867	(2,648)	7,339	-	5,497	3,934	(2,625)	6,806
Past due >90 days	-	-	50,607	(29,623)	20,984	-	-	48,856	(29,450)	19,406
Total loans to public	**1,411,321**	**140,093**	**78,244**	**(56,912)**	**1,572,746**	**1,121,394**	**207,792**	**133,300**	**(66,794)**	**1,395,692**
Guarantees and letters of credit	21,479	-	303	(136)	21,646	21,901	-	504	(211)	22,194
Financial commitments	320,470	8,333	1,005	(4,014)	325,794	320,222	23,185	281	(2,551)	341,137
Total credit exposure to public	**1,753,270**	**148,426**	**79,552**	**(61,062)**	**1,920,186**	**1,463,517**	**230,977**	**134,085**	**(69,556)**	**1,759,023**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers. For details refer to Note 26 (*Off-balance Sheet Items*).

	Bank, EUR thousands									
	31/12/2019					31/12/2018				
	Gross amount			Expected credit loss allowance	Net carrying amount	Gross amount			Expected credit loss allowance	Net carrying amount
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
Loans to public										
Not past due	1,421,143	121,111	19,981	(18,942)	1,543,293	940,103	166,872	54,488	(24,759)	1,136,704
Past due <=30 days	18,688	6,295	2,142	(2,191)	24,934	7,268	5,572	2,713	(1,897)	13,656
Past due >30 and ≤90 days	-	5,268	2,603	(2,356)	5,515	-	2,724	994	(1,592)	2,126
Past due >90 days	-	-	49,426	(29,065)	20,361	-	-	41,957	(26,327)	15,630
Total loans to public	**1,439,831**	**132,674**	**74,152**	**(52,554)**	**1,594,103**	**947,371**	**175,168**	**100,152**	**(54,575)**	**1,168,116**
Guarantees and letters of credit	20,777	-	303	(136)	20,944	17,342	-	478	(208)	17,612
Financial commitments	401,590	8,333	1,005	(3,972)	406,956	333,473	21,588	248	(2,408)	352,901
Total credit exposure to public	**1,862,198**	**141,007**	**75,460**	**(56,662)**	**2,022,003**	**1,298,186**	**196,756**	**100,878**	**(57,191)**	**1,538,629**

Stage 3 loans to public ratio

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Stage 3 loans to public ratio, gross	**4.8%**	**9.1%**	**4.5%**	**8.2%**
Stage 3 loans to public ratio, net	**2.5%**	**6.2%**	**2.4%**	**5.3%**
Stage 3 impairment ratio	**50%**	**35%**	**49%**	**38%**

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 restructured, an 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.

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. For more details on estimation of expected credit loss allowances refer to the latest annual report of the Group.

NOTE 17. LEASES

Finance leases (a part of loans to public) by type of assets financed

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Transport vehicles	161,327	142,723	-	-
Manufacturing equipment	30,231	21,535	-	-
Real estate	2,031	3,216	-	-
Industrial, office and other equipment	10,142	12,780	-	-
Total present value of finance lease payments, excluding impairment	**203,731**	**180,254**	**-**	**-**
Impairment allowance	(4,344)	(4,063)	-	-
Net present value of finance lease payments	**199,387**	**176,191**	**-**	**-**

Reconciliation of the gross investment in the finance leases and the present value of minimum lease payments receivable

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Gross investment in finance leases receivable:				
within 1 year	83,653	41,029	-	-
later than 1 year and no later than in 5 years	139,021	157,399	-	-
later than in 5 years	347	1,087	-	
Total gross investment in finance leases	**223,021**	**199,515**	**-**	**-**
Unearned finance income receivable:				
within 1 year	(7,388)	(3,667)	-	-
later than 1 year and no later than in 5 years	(11,895)	(15,432)	-	-
later than in 5 years	(7)	(162)	-	-
Total	**(19,290)**	**(19,261)**	**-**	**-**
Present value of minimum lease payments receivable:				
within 1 year	76,265	37,362	-	-
later than 1 year and no later than in 5 years	127,126	141,967	-	-
later than in 5 years	340	925	-	-
Total	**203,731**	**180,254**	**-**	**-**

NOTE 18. EQUITY AND OTHER FINANCIAL INSTRUMENTS

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

	Group, EUR thousands							
	31/12/2019				31/12/2018			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Financial assets at fair value through profit or loss	33,538	-	-	33,538	28,068	-	-	28,068
Financial assets at fair value through other comprehensive income	6,434	3,968	1,124	11,526	6,078	2,777	124	8,979
Total non-fixed income securities, net	**39,972**	**3,968**	**1,124**	**45,064**	**34,146**	**2,777**	**124**	**37,047**
Including unit-linked insurance plan assets	*24,816*	*-*	*-*	*24,816*	*21,517*	*-*	*-*	*21,517*

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are related to 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 31 December 2019 the Bank and the Group has investments in mutual investment funds with carrying amount of EUR 6.4 million (2018: EUR 6.1 million) and EUR 21.6 million (2018: EUR 20.1 million) which are managed by IPAS CBL Asset Management. Further, EUR 12.6 million (2018: EUR 11.9 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							
	31/12/2019				31/12/2018			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Financial assets at fair value through other comprehensive income	6,434	3,968	1,124	11,526	6,078	2,751	124	8,953
Total non-fixed income securities, net	**6,434**	**3,968**	**1,124**	**11,526**	**6,078**	**2,751**	**124**	**8,953**

NOTE 19. INVESTMENTS IN SUBSIDIARIES

Changes in investments in subsidiaries of the Bank

	EUR thousands	
	2019	2018
Balance at the beginning of the period, net	**71,614**	**64,725**
Integration of AB Citadele bankas, Lithuania (*Note 2*)	(43,838)	-
Equity investments in the existing subsidiaries	2,679	-
Sale or disposal of subsidiary	-	(39)
Impairment, net	3,706	6,928
Balance at the end of the period, net	**34,161**	**71,614**
Gross investment in subsidiaries as of		
the beginning of the period	*112,516*	*113,388*
the end of the period	*71,357*	*112,516*

The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 with an intention to transform AB Citadele bankas (Lithuania) from subsidiary to branch. The decision was taken to ensure increased operational efficiency across the Group and allow Citadele to maximize its client offerings and service output across the Baltics. In 2019 all assets, liabilities and business of AB Citadele bankas (Lithuania) was integrated in the Lithuanian branch of AS Citadele banka. In 2019 the Group operates in Lithuania as the Lithuanian branch of AS Citadele banka.

On 5 April 2019 SIA RPG Interjers was merged with SIA Citadeles moduļi and ceased to operate as a separate entity. Post-merger all assets, liabilities and operations of SIA RPG Interjers were transferred to SIA Citadeles moduļi.

Group companies Calenia Investments Limited and OOO Mizush Asset Management Ukraina are in liquidation as they had no ongoing business operations. Group company SIA Hortus RE was liquidated on 26 February 2020.

In the reporting period share capital of subsidiaries SIA Hortus Land, SIA Hortus Residential and SIA Hortus RE were increased by EUR 2.7 million. Due to expected losses on current operations an additional impairment of EUR 1.2 million on these investments was recognised in the reporting period.

In the reporting period valuation of SIA Citadele Līzings un Faktorings and SIA Citadeles moduļi was reassessed. In total EUR 4.9 million release of impairment in the investments in these subsidiaries was recognised as a result of an improved profitability of SIA Citadele Līzings un Faktorings and a higher shareholder's wealth accumulated by SIA Citadeles moduļi.

Carrying value of the investment in SIA Citadeles moduļi is estimated as a residual interest in the assets of the entity after deducting all of its liabilities. The major asset of the entity is the headquarters building of the Group. The valued of the building is derived from the value-in-use discounted cash flows after adjustments for capital expenditure. The property in the Group's consolidated accounts is presented as tangible asset and carried at amortised cost. Key inputs of the model are 6.5% (2018: 7.0%) expected yield, and future net cash flows generated by the property. Sensitivity scenarios: if the expected yield was +/-100 basis points than the carrying value EUR +7.5/-5.5 million (2018: EUR +7.2/-5.4 million), if undiscounted shareholders cash flows were +/-10% than the carrying value EUR +/-4.1 million (2018: EUR +/-4.5 million).

Carrying value of the investment in SIA Citadele Līzings un Faktorings 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 a managements buffer. Other key inputs of the model are 12.0% (2018: 12.0%) discount rate and future profitability of the operations of the entity. Sensitivity scenarios: if discount rate was +/-100 basis points than the carrying value EUR +/-0.1 million (2018: EUR +1.1/-0.9 million), if net profits were +/-10% than the carrying value EUR +/-0.1 million (2018: EUR +/-1.3 million).

Consolidation Group 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 31/12/2019	Carrying value EUR thousands 31/12/2018
AS Citadele banka	40103303559	Latvia, Riga, Republikas laukums 2A	BNK	MAS	-	-	-	-
AB Citadele bankas (merged in 2019)	112021619	-	-	-	-	-	-	43,837
AP Anlage & Privatbank AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	BNK	MS	100	100	13,805	13,805
SIA Citadele Līzings un Faktorings	50003760921	Latvia, Riga, Republikas laukums 2A	LIZ	MS	100	100	6,921	4,325
OU Citadele Leasing & Factoring	10925733	Estonia, Tallinn 10152, Narva mnt. 63/1	LIZ	MS	100	100	445	445
UAB Citadele faktoringas ir lizingas	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LIZ	MS	100	100	2,149	2,149
IPAS CBL Asset Management	40003577500	Latvia, Riga, Republikas laukums 2A	IPS	MS	100	100	5,906	5,906
AS CBL Atklātais Pensiju Fonds	40003397312	Latvia, Riga, Republikas laukums 2A	PFO	MS	100	100	646	646
AAS CBL Life	40003786859	Latvia, Riga, Republikas laukums 2A	APS	MMS	100	100	-	-
SIA Citadeles moduļi	40003397543	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	2,836	501
SIA Hortus Land	40103460961	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	-	-
SIA Hortus Residential	40103460622	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	804	-
SIA Hortus RE (in liquidation as of 31/12/2019)	40103752416	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	649	-
				Total investments in subsidiaries			34,161	71,614

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 31/12/2019	Carrying value EUR thousands 31/12/2018
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, 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, MAS – parent company.

NOTE 20. TANGIBLE AND INTANGIBLE ASSETS

	EUR thousands 31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Land and buildings	31,308	44,232	2,955	881
Investment properties	10,522	-	-	-
IT and other equipment	4,126	3,694	3,661	3,237
Leasehold improvements	663	598	643	549
Transport vehicles	243	292	161	134
Right-of-use assets	3,087	-	10,811	-
Prepayments for property and equipment	40	77	-	16
Total tangible assets	**49,989**	**48,893**	**18,231**	**4,817**
Software	4,499	4,242	4,384	4,039
Other intangible assets	149	177	146	164
Prepayments for intangible assets	50	449	41	448
Total intangible assets	**4,698**	**4,868**	**4,571**	**4,651**
Total tangible and intangible assets	**54,687**	**53,761**	**22,802**	**9,468**

Based on a comprehensive re-assessment of properties, the Group has identified a part of a property that is held for long-term rental yields, and that is not occupied by the Group. The corresponding part of the property and accumulated depreciation has been re-classified as investment properties. The recoverable value of the investment properties is higher than their carrying amount.

Changes in tangible and intangible assets of the Group

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2017	**660**	**70,799**	**912**	**-**	**-**	**28,832**	**19,166**	**1,341**	**121,710**
Additions	339	640	24	-	-	1,430	3,473	88	5,994
Disposals	-	(248)	(88)	-	-	(5,070)	(780)	(7)	(6,193)
As at 31 December 2018	**999**	**71,191**	**848**	**-**	**-**	**25,192**	**21,859**	**1,422**	**121,511**
Initial application (IFRS 16)	-	-	-	3,716	-	-	-	-	3,716
Additions	280	168	102	857	-	1,807	2,268	6	5,488
Disposals and write-offs	(111)	-	(188)	(1,486)	-	(3,755)	(229)	(221)	(5,990)
Transfers	-	(18,273)	-	-	18,273	-	856	(856)	-
As at 31 December 2019	**1,168**	**53,086**	**762**	**3,087**	**18,273**	**23,244**	**24,754**	**351**	**124,725**
Accumulated depreciation									
As at 31 December 2017	**241**	**24,402**	**448**	**-**	**-**	**24,355**	**16,454**	**994**	**66,894**
Charge for the year	160	2,561	141	-	-	1,590	1,732	32	6,216
Reversal due to disposals	-	(4)	(78)	-	-	(5,029)	(768)	(2)	(5,881)
As at 31 December 2018	**401**	**26,959**	**511**	**-**	**-**	**20,916**	**17,418**	**1,024**	**67,229**
Charge for the year	215	1,890	131	1,486	680	1,362	1,892	34	7,690
Reversal due to disposals	(111)	-	(123)	(1,486)	-	(3,160)	(24)	-	(4,904)
Transfers	-	(7,071)	-	-	7,071	-	856	(856)	-
As at 31 December 2019	**505**	**21,778**	**519**	**-**	**7,751**	**19,118**	**20,142**	**202**	**70,015**
Impairment allowance									
As at 31 December 2017	**-**	**-**	**(45)**	**-**	**-**	**(516)**	**(204)**	**(225)**	**(990)**
Net reversal and write-offs	-	-	-	-	-	(66)	5	4	(57)
As at 31 December 2018	**-**	**-**	**(45)**	**-**	**-**	**(582)**	**(199)**	**(221)**	**(1,047)**
Net reversal and write-offs	-	-	45	-	-	582	86	221	934
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**(113)**	**-**	**(113)**
As at 31 December 2017	**419**	**46,397**	**419**	**-**	**-**	**3,961**	**2,508**	**122**	**53,826**
As at 31 December 2018	**598**	**44,232**	**292**	**-**	**-**	**3,694**	**4,242**	**177**	**53,235**
As at 31 December 2019	**663**	**31,308**	**243**	**3,087**	**10,522**	**4,126**	**4,499**	**149**	**54,597**

Changes in tangible and intangible assets of the Bank

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2017	**533**	**1,239**	**494**	**-**	**-**	**20,006**	**17,530**	**194**	**39,996**
Additions	338	30	25	-	-	1,097	3,310	86	4,886
Disposals	-	-	(64)	-	-	(4,633)	(225)	-	(4,922)
As at 31 December 2018	**871**	**1,269**	**455**	**-**	**-**	**16,470**	**20,615**	**280**	**39,960**
Initial application (IFRS 16)	-	-	-	11,227	-	-	-	-	11,227
Integration of AB Citadele bankas (*Note 2*)	-	2,578	93	-	-	841	1,394	221	5,127
Additions	280	159	94	3,513	-	1,618	2,130	6	7,800
Disposals and write-offs	(111)	-	(89)	(3,929)	-	(3,692)	(200)	(221)	(8,242)
As at 31 December 2019	**1,040**	**4,006**	**553**	**10,811**	**-**	**15,237**	**23,939**	**286**	**55,872**
Accumulated depreciation									
As at 31 December 2017	**192**	**363**	**318**	**-**	**-**	**16,407**	**15,216**	**95**	**32,591**
Charge for the year	130	25	67	-	-	1,447	1,585	21	3,275
Reversal due to disposals	-	-	(64)	-	-	(4,621)	(225)	-	(4,910)
As at 31 December 2018	**322**	**388**	**321**	**-**	**-**	**13,233**	**16,576**	**116**	**30,956**
Charge for the year	186	62	77	3,929	-	1,209	1,784	24	7,271
Integration of AB Citadele bankas (*Note 2*)	-	601	38	-	-	237	1,195	-	2,071
Reversal due to disposals	(111)	-	(44)	(3,929)	-	(3,103)	-	-	(7,187)
As at 31 December 2019	**397**	**1,051**	**392**	**-**	**-**	**11,576**	**19,555**	**140**	**33,111**
As at 31 December 2017	**341**	**876**	**176**	**-**	**-**	**3,599**	**2,314**	**99**	**7,405**
As at 31 December 2018	**549**	**881**	**134**	**-**	**-**	**3,237**	**4,039**	**164**	**9,004**
As at 31 December 2019	**643**	**2,955**	**161**	**10,811**	**-**	**3,661**	**4,384**	**146**	**22,761**

NOTE 21. OTHER ASSETS

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Money in transit	18,373	9,789	18,373	8,803
Repossessed assets	4,682	9,203	-	3,357
Prepayments	2,483	2,887	1,862	1,865
Other assets	5,812	15,442	3,654	12,800
Total gross other assets	**31,350**	**37,321**	**23,889**	**26,825**
Impairment allowance	(977)	(1,717)	(689)	(1,226)
Total net other assets	**30,373**	**35,604**	**23,200**	**25,599**

As at 31 December 2019 and 2018 most of the impairment allowance for other assets relate to fully impaired overdue debt collection expenditure compensation receivable; net carrying amount of these assets is nil. As at 31 December 2019, the Group had no unimpaired delayed other assets (2018: EUR nil).

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customers cannot otherwise meet their payment obligations and other loan work-out measures have been unsuccessful. Collateral obtained is recognised within other assets and are held for sale in near future. Total net carrying value of the collateral obtained during the reporting period and still held at the end of the reporting period is EUR 2.4 million (2018: EUR 3.4 million). Other repossessed collaterals held at the end of the reporting period are from earlier periods. As at period end EUR 2.9 million of repossessed assets have been reclassified to non-current assets held for sale as the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification.

NOTE 22. DEPOSITS AND BORROWINGS FROM CUSTOMERS

Deposits and borrowings by profile of the customer

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Households	1,930,156	1,517,055	1,788,830	1,145,694
Non-financial corporations	1,087,395	967,640	918,231	666,398
Financial corporations	212,404	110,436	223,990	104,122
General government	46,344	43,750	46,344	18,428
Other	13,235	6,161	13,235	3,215
Total deposits from customers	**3,289,534**	**2,645,042**	**2,990,630**	**1,937,857**

Deposits and borrowings from customers by contractual maturity

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Demand deposits	2,494,276	2,017,551	2,264,946	1,562,750
Term deposits due within:				
less than 1 month	44,595	62,979	36,403	34,738
more than 1 month and less than 3 months	64,647	91,098	55,691	43,832
more than 3 months and less than 6 months	105,842	89,446	96,669	45,396
more than 6 months and less than 12 months	304,512	169,517	295,119	98,925
more than 1 year and less than 5 years	187,445	145,619	168,693	88,734
more than 5 years	88,217	68,832	73,109	63,482
Total term deposits	795,258	627,491	725,684	375,107
Total deposits from customers	**3,289,534**	**2,645,042**	**2,990,630**	**1,937,857**

Deposits and borrowings from customers by categories

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
At amortised cost	3,251,634	2,611,050	2,990,630	1,937,857
At fair value through profit or loss	37,900	33,992	-	-
Total deposits from customers	**3,289,534**	**2,645,042**	**2,990,630**	**1,937,857**
Including unit-linked insurance plan liabilities	*24,916*	*21,614*	-	-

All of the Group deposits from customers classified at fair value through profit or loss relate to the Group's life insurance business. It is the deposit component of the insurance plans. 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 23. 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 31/12/2019	Amortised cost, EUR thousands 31/12/2018
LV0000880011	EUR	5.50%	24/11/2027	20,000	20,064	20,058
LV0000802221	EUR	6.25%	06/12/2026	40,000	39,980	39,952
					60,044	**60,010**

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 33 (*Risk Management*).

Profile of the bondholders as of the last coupon payment date

ISIN code of the issued bond	Last coupon payment date	Number of bondholders	Legal and professional investors: Number	Legal and professional investors: EUR th.	Legal and professional investors: %	Private individuals: Number	Private individuals: EUR th.	Private individuals: %
LV0000880011	24/11/2019	72	40	16,900	85%	32	3,100	15%
LV0000802221	06/12/2019	185	89	32,050	80%	96	7,950	20%

NOTE 24. OTHER LIABILITIES

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Accrued expense	16,274	16,415	13,727	12,171
Insurance reserves	16,108	8,213	-	-
Lease liabilities	2,937	-	10,702	-
Other liabilities	9,574	12,858	6,103	8,835
Total other liabilities	**44,893**	**37,486**	**30,532**	**21,006**

Insurance liabilities mostly comprise estimated present value of future cash outflows from defined benefit annuity pension products sold to customers by AAS CBL Life. The annuity products are subject to terms, conditions and limitations. Estimated cash outflows are conditional to life longevity assumptions and defined benefit payment structure which in most cases comprises risk mitigating larger defined payments in the near future and substantially smaller defined payments further in the future. Expected undiscounted defined benefits payable in the next five years from the report date are EUR 13.7 million, in the years six to ten EUR 1.5 million and after that EUR 0.9 million.

NOTE 25. SHARE CAPITAL

As of 31 December 2019, the Bank's registered and paid-in share capital was EUR 156,555,796 (2018: EUR 156,555,796). The Bank has one class ordinary shares. All ordinary shares as of 31 December 2019 and 31 December 2018 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

	31/12/2019		31/12/2018	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	35,082,302	35,082,302	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	13,864,142	13,864,142	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.[4]	13,864,142	13,864,142	13,864,142	13,864,142
Amolino Holdings Inc.[5]	13,863,987	13,863,987	13,863,987	13,863,987
Shuco LLC[6]	10,998,979	10,998,979	10,998,979	10,998,979
Other shareholders	14,146,136	14,146,136	14,146,136	14,146,136
Total	**156,555,796**	**156,555,796**	**156,555,796**	**156,555,796**

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

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

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. For more information on the long-term equity-based incentive plan refer to Note 9 (*Staff Costs*).

	2019 Group	2018 Group	2019 Bank	2018 Bank
Profit for the period, EUR thousands	36,504	34,846	38,976	33,037
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	**0.23**	**0.22**	**0.25**	**0.21**
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	460	85	460	85
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	**157,016**	**156,641**	**157,016**	**156,641**
Profit for the period, EUR thousands	36,504	34,846	38,976	33,037
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	157,016	156,641	157,016	156,641
Diluted earnings per share in EUR	**0.23**	**0.22**	**0.25**	**0.21**

NOTE 26. OFF-BALANCE SHEET ITEMS

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

Contingent liabilities and financial commitments outstanding

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Contingent liabilities:				
Outstanding guarantees	21,525	21,970	20,822	17,385
Outstanding letters of credit with public	257	435	258	435
Letters of credit with credit institutions	1,027	-	1,027	-
Total contingent liabilities	**22,809**	**22,405**	**22,107**	**17,820**
Provisions for credit risk	(136)	(211)	(136)	(208)
Maximum credit risk exposure for guarantees and letters of credit	**22,673**	**22,194**	**21,971**	**17,612**
Financial commitments:				
Card commitments	132,087	112,863	132,095	103,905
Unutilised credit lines and overdraft facilities	100,747	141,731	196,562	179,535
Loans granted, not fully drawn down	72,271	82,604	72,271	71,869
Factoring commitments	14,703	6,490	-	-
Other commitments	10,442	428	10,000	-
Total financial commitments	**330,250**	**344,116**	**410,928**	**355,309**
Provisions for financial commitments	(4,014)	(2,551)	(3,972)	(2,408)
Maximum credit risk exposure for financial commitments	**326,236**	**341,565**	**406,956**	**352,901**

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 at a certain conditions. 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.

Notional amounts and fair values of derivatives of the Group

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2019	31/12/2018	31/12/2019		31/12/2018	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	219,591	184,680	1	(40)	611	(1,470)
Forwards	6,489	-	959	(488)	-	-
Total foreign exchange contracts	**226,080**	**184,680**	**960**	**(528)**	**611**	**(1,470)**
Derivatives	**226,080**	**184,680**	**960**	**(528)**	**611**	**(1,470)**

Notional amounts and fair values of derivatives of the Bank

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2019	31/12/2018	31/12/2019		31/12/2018	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	219,591	207,483	1	(40)	614	(1,504)
Forwards	6,489	-	959	(488)	-	-
Total foreign exchange contracts	**226,080**	**207,483**	**960**	**(528)**	**614**	**(1,504)**
Derivatives	**226,080**	**207,483**	**960**	**(528)**	**614**	**(1,504)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with a private individual or a company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2019, more than 83% (2018: 24%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2019, none (2018: nil) of the payments receivable arising out of derivative transactions were past due.

NOTE 27. ASSETS UNDER MANAGEMENT

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

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Fixed income securities:				
Corporate bonds	149,065	98,321	-	-
Government bonds	65,532	66,831	-	-
Credit institution bonds	21,336	18,345	-	-
Other financial institution bonds	14,422	13,970	-	-
Total investments in fixed income securities	**250,355**	**197,467**	**-**	**-**
Other investments:				
Investment funds	407,398	336,017	-	-
Deposits with credit institutions	36,309	43,714	-	997
Compensations for distribution on behalf of deposit guarantee fund	30,657	74,236	30,657	74,236
Shares	37,227	26,593	-	-
Real estate	4,884	4,219	-	-
Loans	722	801	722	801
Other	104,541	103,006	-	-
Total other investments	**621,738**	**588,586**	**31,379**	**76,034**
Total assets under management	**872,093**	**786,053**	**31,379**	**76,034**

Customer profile on whose behalf the funds are managed

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Pension plans	570,021	453,748	-	-
Insurance companies, investment and pension funds	131,214	118,926	-	-
Other companies and government	74,352	122,238	31,379	76,034
Private individuals	96,506	91,141	-	-
Total liabilities under management	**872,093**	**786,053**	**31,379**	**76,034**

NOTE 28. FINANCIAL ASSETS PLEDGED

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Loans to credit institutions	359	2,353	-	1,588
Debt securities	1,804	1,976	-	-
Loans to customers and other assets	7,834	8,486	7,834	8,306
Total financial assets pledged	**9,997**	**12,815**	**7,834**	**9,894**
Total liabilities secured by pledged assets	**-**	**-**	**-**	**-**

All pledged amounts consist of placements to secure various Bank's and Group's transactions in the ordinary course of business. As at the period end the Bank and the Group held EUR 19.7 million of securities in the collateral account of the Bank of Latvia (2018: none). These securities were not encumbered and were free for transfer out of the collateral account at any time or to serve as collateral if the Bank elected so.

NOTE 29. CASH AND CASH EQUIVALENTS

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Cash and cash balances with central banks	707,914	405,315	691,455	155,510
Loans on demand to credit institutions	92,781	95,890	68,306	87,105
Demand deposits from central banks and credit institutions	(1,637)	(1,220)	(5,391)	(4,054)
Total cash and cash equivalents	**799,058**	**499,985**	**754,370**	**238,561**

NOTE 30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Cash and 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 rates is the sum of money market rates as of the end of the reporting period and credit margins, which are adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 17.5 million (2018: EUR 14.2 million).

Debt securities

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

Equity instruments and other financial instruments at fair value

Investments in mutual investment funds (presented as other financial instruments at fair value) are valued using unadjusted quoted prices in active markets. Equity instruments include Citadele's equity interest in Visa Inc. which has been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount of 50%. If the applied liquidity discount was decreased by 1000bp, the estimated fair value would increase by EUR 0.8 million as of 31 December 2019 (2018: EUR 0.6 million). The Level 3 presented preference stocks in Visa Inc. are part of consideration received for the sale of Citadele's share in Visa Europe to Visa Inc. In the reporting period the Group and the Bank has acquired an unquoted equity instrument of a Latvian company. 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 includes part which is carried at amortised cost and part which is carried at fair value. The entire portfolio of deposits and borrowing from customers which is carried at fair value is deposit part of the life insurance contracts.

The fair value of deposits and borrowings from customers repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at the period-end. If all the assumed discount rates would change by 10%, the fair value of the non-subordinated non-life insurance deposit portfolio would change by EUR 0.26 million (2018: EUR 0.13 million).

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other life insurance deposits carried at fair value through profit or loss is calculated by discounting expected cash flows using current effective deposit rates. If the assumed discount rates would increase by 10%, the fair value of the portfolio would decrease by EUR 11 thousand (2018: EUR 19 thousand).

Debt securities issued

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

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

Fair values of financial assets and liabilities of the Group on 31 December 2019

			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	398,061	398,061	398,061	-	-
Equity instruments	5,092	5,092	-	-	5,092
Other financial instruments	39,972	39,972	39,972	-	-
Derivatives	960	960	-	960	-
Financial assets not measured at fair value:					
Cash and balances at central banks	707,914	707,914	-	-	-
Loans to credit institutions	121,395	121,395	-	-	-
Debt securities	805,570	811,386	811,386	-	-
Loans to public	1,572,746	1,582,813	-	-	1,582,813
Total assets	**3,651,710**	**3,667,593**	**1,249,419**	**960**	**1,587,905**
Financial liabilities measured at fair value:					
Derivatives	528	528	-	528	-
Deposits and borrowings from customers	37,900	37,900	24,916	-	12,984
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	1,637	1,637	-	-	-
Deposits and borrowings from customers	3,251,634	3,255,798	-	-	3,255,798
Debt securities issued	60,044	60,597	-	60,597	-
Total liabilities	**3,351,743**	**3,356,460**	**24,916**	**61,125**	**3,268,782**

Fair values of financial assets and liabilities of the Group on 31 December 2018

			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	400,739	400,739	400,739	-	-
Equity instruments	2,901	2,901	-	-	2,901
Other financial instruments	34,146	34,146	34,146	-	-
Derivatives	611	611	-	611	-
Financial assets not measured at fair value:					
Cash and balances at central banks	405,315	405,315	-	-	-
Loans to credit institutions	131,902	131,902	-	-	-
Debt securities	588,491	587,697	587,697	-	-
Loans to public	1,395,692	1,394,055	-	-	1,394,055
Total assets	**2,959,797**	**2,957,366**	**1,022,582**	**611**	**1,396,956**
Financial liabilities measured at fair value:					
Derivatives	1,470	1,470	-	1,470	-
Deposits and borrowings from customers	33,992	33,992	21,614	-	12,378
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	7,277	7,277	-	-	-
Deposits and borrowings from customers	2,611,050	2,612,243	-	-	2,612,243
Debt securities issued	60,010	60,383	-	60,383	-
Total liabilities	**2,713,799**	**2,715,365**	**21,614**	**61,853**	**2,624,621**

Fair values of financial assets and liabilities of the Bank on 31 December 2019

	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	226,193	226,193	226,193	-	-
Equity instruments	5,092	5,092	-	-	5,092
Other financial instruments	6,434	6,434	6,434	-	-
Derivatives	960	960	-	960	-
Financial assets not measured at fair value:					
Cash and balances at central banks	691,455	691,455	-	-	-
Loans to credit institutions	96,021	96,021	-	-	-
Debt securities	741,274	745,437	745,437	-	-
Loans to public	1,594,103	1,604,170	-	-	1,604,170
Total assets	**3,361,532**	**3,375,762**	**978,064**	**960**	**1,609,262**
Derivatives measured at fair value	528	528	-	528	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	39,287	39,287	-	-	-
Deposits and borrowings from customers	2,990,630	2,994,825	-	-	2,994,825
Debt securities issued	60,044	60,597	-	60,597	-
Total liabilities	**3,090,489**	**3,095,237**	**-**	**61,125**	**2,994,825**

Fair values of financial assets and liabilities of the Bank on 31 December 2018

	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	247,025	247,025	247,025	-	-
Equity instruments	2,875	2,875	-	-	2,875
Other financial instruments	6,078	6,078	6,078	-	-
Derivatives	614	614	-	614	-
Financial assets not measured at fair value:					
Cash and balances at central banks	155,510	155,510	-	-	-
Loans to credit institutions	110,851	110,851	-	-	-
Debt securities	531,986	531,042	531,042	-	-
Loans to public	1,168,116	1,162,831	-	-	1,162,831
Total assets	**2,223,055**	**2,216,826**	**784,145**	**614**	**1,165,706**
Derivatives measured at fair value	1,504	1,504	-	1,504	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	39,170	39,170	-	-	-
Deposits and borrowings from customers	1,937,857	1,939,218	-	-	1,939,218
Debt securities issued	60,010	60,383	-	60,383	-
Total liabilities	**2,038,541**	**2,040,275**	**-**	**61,887**	**1,939,218**

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

	EUR thousands 2019 Group	2018 Group	2019 Bank	2018 Bank
As of the beginning of the period, net	**2,901**	**2,444**	**2,875**	**2,428**
Other comprehensive income				
Revaluation gain in other comprehensive income	*1,191*	*457*	*1,191*	*447*
New exposures	1,000	-	1,000	-
Integration of AB Citadele bankas (Lithuania)	-	-	26	-
As of the end of the period, net	**5,092**	**2,901**	**5,092**	**2,875**

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

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

	EUR thousands	
	2019 Group	2018 Group
Balance as at the beginning of the period	**12,378**	**12,104**
Premiums received	3,754	3,845
Commissions and risk charges	(333)	(299)
Paid to policyholders	(3,013)	(3,443)
Other	196	168
Currency revaluation result	2	3
Balance as at the end of the period	**12,984**	**12,378**

In the year ended 31 December 2019 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR -50 thousand in the net financial income line of the statement of income (2018: EUR 14 thousand). The amount of change in 2019 in the fair value of the financial liabilities that is attributable to changes in the credit risk of the liabilities measured at fair value is EUR 59 thousand (2018: EUR -67 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk; therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is not significant and, therefore, not further disclosed in detail in these financial statements.

NOTE 31. LITIGATIONS AND CLAIMS

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

During 2018, the FCMC conducted on-site audit of Citadele's AML/CFT compliance with the requirements of applicable laws and regulations. As of today, Citadele Group and FCMC are in a regulatory dialog on results of the on-site AML audit performed by FCMC in 2018 regarding certain shortcomings identified by the FCMC, certain legacy customers as well as certain aspects on cross-border application of Latvian AML law. Citadele and FCMC may enter into an administrative agreement that would include agreement between Citadele and FCMC on the relevant remediation plan as well as possible fine. The management of Citadele are certain that if there would be a fine, the amount will not have any material effect on Citadele's financial position.

For Citadele, it has always been a priority to maintain the highest standards of corporate governance, compliance and risk management, hence we invest in new technologies, processes and employee training to strengthen our capabilities to be in line with the best practice and market regulatory requirements.

NOTE 32. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group and the Bank and their related companies are stated in one line. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which were related parties at that time.

Assets and liabilities from transactions with related parties

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Credit exposures to related parties, net				
Loans to public and credit institutions				
Management	437	125	374	56
Consolidated subsidiaries	-	-	248,014	244,351
Investments in subsidiaries	-	-	34,161	71,614
Derivatives with subsidiaries	-	-	-	6
Right-of-use and other assets	1	-	8,266	169
Financial commitments and guarantees outstanding	98	308	95,765	47,060
Credit exposures to related parties, net	**536**	**433**	**386,580**	**363,256**
Liabilities to related parties				
Deposits and borrowings from customers and credit institutions				
Management	917	794	818	419
Consolidated subsidiaries	-	-	50,520	43,703
Derivatives with subsidiaries	-	-	-	34
Other liabilities (including lease liabilities) and provisions for expected credit losses	-	-	8,173	230
Liabilities to related parties	**917**	**794**	**59,511**	**44,386**

As at 31 December 2019 no assets with consolidated subsidiaries were credit impaired. The recognised expected credit losses on non-credit impaired loans from consolidated subsidiaries as at 31 December 2019 was EUR 401 thousand (2018: EUR 625 thousand).

In 2019 a release of EUR 224 thousand on allowances for expected credit losses for loans from consolidated subsidiaries was recognised (2018: EUR 272 thousand additional impairment loss allowance recognised). The ultimate recoverability of the loans issued to subsidiaries depends on the performance of the underlying business of the respective subsidiaries. For information on investments in subsidiaries refer to Note 19 (*Investments in Subsidiaries*).

Income and expense from transactions with related parties

	EUR thousands			
	2019 Group	2018 Group	2019 Bank	2018 Bank
Interest income				
Management	12	6	10	4
Consolidated subsidiaries	-	-	4,924	4,746
Interest expense				
Management	-	(1)	-	-
Subordinated liabilities to the shareholder (EBRD)	-	(161)	-	(161)
Consolidated subsidiaries	-	-	(1,003)	(634)
Fee and commission income	8	6	1,027	443
Fee and commission expense	(3)	(3)	(6)	(109)
Net financial income	-	-	(519)	(593)
Dividends received from consolidated subsidiaries	-	-	3,305	2,457
All other income	-	-	2,525	1,992

For information on management's remuneration refer to Note 9 (*Staff Costs*). During the reporting period the Group's and the Bank's other administrative expense with related parties amounted to EUR 2.3 million and EUR 5.4 million, respectively (2018: EUR 2.1 million and EUR 5.5 million). This mostly relates to rent and utility fees paid to the Group's companies and Advisory Services Agreement fee. The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2.0 million per annum for the services provided to the Bank. These advisory services include business plan development, strategic analysis, capital allocation, risk advisory, operating efficiency, human resource management, and other services.

NOTE 33. RISK MANAGEMENT

Risk management polices

The Group considers risk management to be an essential component of its management process. The Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. In order to assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of risk committees represent 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;
- Risk limit system and strict controls are essential risk management elements. Control over risk levels and compliance with the imposed limits is achieved by the existence of structured risk limit systems for all material risks.

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

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

Credit risk

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

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

In relation to the acquisition of corporate bonds, the Group always analyses the business profile and financial performance of the issuer, taking into consideration the credit ratings assigned to it by international rating agencies, as well as market-based indicators.

Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

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

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

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

Loan to value of loans to public

Estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, EUR thousands							
	31/12/2019				31/12/2018			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	872,225	1,836,451	297,631	95,849	813,379	1,781,952	202,359	87,031
Credit lines	60,821	172,478	31,743	14,098	79,688	218,458	43,515	24,689
Finance leases	197,346	333,492	2,041	2,029	173,208	222,882	2,983	2,895
Card lending	160	395	77,577	14,209	165	286	64,359	11,821
Factoring	10,977	11,239	2,153	2,144	1,413	1,929	6,488	-
Other loans	-	-	20,072	-	-	-	8,135	-
Total net loans to public	**1,141,529**	**2,354,055**	**431,217**	**128,329**	**1,067,853**	**2,225,507**	**327,839**	**126,436**
Including Stage 3 classified exposures	*32,286*	*77,715*	*7,175*	*4,521*	*65,018*	*160,152*	*21,297*	*16,193*

	Bank, EUR thousands							
	31/12/2019				31/12/2018			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	864,797	1,823,951	290,919	89,146	640,997	1,313,900	150,881	68,611
Credit lines	60,821	172,478	31,743	14,098	47,826	107,159	35,087	22,651
Card lending	160	395	77,577	14,209	161	278	60,371	11,821
Other loans	-	-	20,072	-	-	-	7,955	-
Loans to subsidiaries	-	-	248,014	43,794	-	-	224,838	45,008
Total net loans to public	**925,778**	**1,996,824**	**668,325**	**161,247**	**688,984**	**1,421,337**	**479,132**	**148,091**
Including Stage 3 classified exposures	*31,940*	*76,604*	*5,597*	*2,943*	*49,797*	*112,827*	*11,847*	*7,947*

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. For loans to the leasing subsidiaries, all of which are 100% owned and controlled by the Bank, no formal tangible collateral is required; the financing is used to originate finance leases to clients. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Loans to credit institutions by credit rating grade

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Investment grade:				
AA/Aa	10,149	28,980	6,981	6,254
A	92,688	93,799	82,122	82,117
BBB/Baa	6,209	2,289	103	2,264
Other lower ratings	1,261	423	1,261	423
Not rated Baltic registered credit institutions	4,957	3,013	56	210
Citadele Group's banks	-	-	-	19,523
Other not rated credit institutions	6,131	3,398	5,498	60
Total loans to credit institutions, net	**121,395**	**131,902**	**96,021**	**110,851**
Letters of credit with credit institutions (Note 26)	*1,027*	-	*1,027*	-

The above balances represent the maximum credit risk exposure from loans to credit institutions to the Group and the Bank respectively. As at 31 December 2019 and 31 December 2018, none of the loans to credit institutions was past due.

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

	Group as of 31/12/2019, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	486,754	96,512	108,189	-	16,459	707,914
Loans to credit institutions	7,057	-	-	16,361	97,977	121,395
Debt securities	299,030	229,536	23,443	351,617	300,005	1,203,631
Loans to public	948,091	418,995	152,514	17,680	35,466	1,572,746
Equity instruments	1,124	-	-	135	3,833	5,092
Other financial instruments	21,561	-	-	18,121	290	39,972
Derivatives	168	-	-	788	4	960
Other assets	80,040	7,361	2,913	419	325	91,058
Total assets	**1,843,825**	**752,404**	**287,059**	**405,121**	**454,359**	**3,742,768**
Liabilities						
Deposits from credit institutions and central banks	2	-	-	1,059	576	1,637
Deposits and borrowings from customers	2,222,445	429,600	79,464	217,417	340,608	3,289,534
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	288	-	-	165	75	528
Other liabilities	38,878	4,662	4,435	12	2,313	50,300
Total liabilities	**2,321,657**	**434,262**	**83,899**	**218,653**	**343,572**	**3,402,043**
Off-balance sheet items						
Contingent liabilities	15,778	1,688	2,209	221	2,913	22,809
Financial commitments	262,681	52,593	4,008	10,122	846	330,250

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). EUR 16.5 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2018: EUR 29.9 million). From Group's loans to credit institutions presented as "Other countries" EUR 9.7 million are with Swiss credit institutions (2018: EUR 37.1 million), EUR 54.2 million are with Japanese credit institutions (2018: EUR 50.3 million) and EUR 22.2 million with United States registered credit institutions (2018: EUR 23.6 million). Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

	Group as of 31/12/2018, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	126,568	219,955	28,942	-	29,850	405,315
Loans to credit institutions	2,584	429	-	13,429	115,460	131,902
Debt securities	258,548	155,796	11,862	290,799	272,225	989,230
Loans to public	831,355	382,866	148,039	8,985	24,447	1,395,692
Equity instruments	124	-	-	130	2,647	2,901
Other financial instruments	20,095	-	-	13,770	281	34,146
Derivatives	428	-	-	116	67	611
Other assets	76,063	6,112	2,422	6,656	1,041	92,294
Total assets	**1,315,765**	**765,158**	**191,265**	**333,885**	**446,018**	**3,052,091**
Liabilities						
Deposits from credit institutions and central banks	6,381	512	-	93	291	7,277
Deposits and borrowings from customers	1,570,226	429,839	107,289	163,981	373,707	2,645,042
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	315	-	-	1,086	69	1,470
Other liabilities	34,383	4,422	763	9	1,915	41,492
Total liabilities	**1,671,315**	**434,773**	**108,052**	**165,169**	**375,982**	**2,755,291**
Off-balance sheet items						
Contingent liabilities	14,481	3,685	1,948	336	1,955	22,405
Financial commitments	306,853	29,705	6,375	160	1,023	344,116

	Bank as of 31/12/2019, EUR thousands					
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**Other countries**	**Total**
Assets						
Cash and cash balances at central banks	486,754	96,512	108,189	-	-	691,455
Loans to credit institutions	56	-	-	7,692	88,273	96,021
Debt securities	293,515	225,864	21,624	205,863	220,601	967,467
Loans to public	985,514	417,571	147,477	17,294	26,247	1,594,103
Equity instruments	1,124	-	-	135	3,833	5,092
Other financial instruments	6,434	-	-	-	-	6,434
Derivatives	168	-	-	788	4	960
Other assets	60,317	8,698	3,015	397	13,484	85,911
Total assets	**1,833,882**	**748,645**	**280,305**	**232,169**	**352,442**	**3,447,443**
Liabilities						
Deposits from credit institutions and central banks	2	-	-	1,059	38,226	39,287
Deposits and borrowings from customers	2,194,959	429,613	78,284	138,557	149,217	2,990,630
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	288	-	-	165	75	528
Other liabilities	27,155	3,962	3,507	12	4	34,640
Total liabilities	**2,282,448**	**433,575**	**81,791**	**139,793**	**187,522**	**3,125,129**
Off-balance sheet items						
Contingent liabilities	15,757	1,688	2,209	-	2,453	22,107
Financial commitments	295,871	85,976	18,555	10,122	404	410,928

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). From Bank's loans to credit institutions presented as "Other countries" EUR 54.2 million are with Japanese credit institutions (2018: Japanese credit institutions EUR 50.3 million and Swiss credit institutions EUR 21.1 million) and EUR 22.2 million with United States registered credit institutions (2018: EUR 23.6 million).

	Bank as of 31/12/2018, EUR thousands					
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**Other countries**	**Total**
Assets						
Cash and cash balances at central banks	126,568	-	28,942	-	-	155,510
Loans to credit institutions	152	58	-	11,187	99,454	110,851
Debt securities	252,973	153,802	10,385	181,191	180,660	779,011
Loans to public	872,629	118,762	144,504	8,286	23,935	1,168,116
Equity instruments	124	-	-	103	2,648	2,875
Other financial instruments	6,078	-	-	-	-	6,078
Derivatives	428	4	-	116	66	614
Other assets	37,394	45,988	2,325	6,656	14,565	106,928
Total assets	**1,296,346**	**318,614**	**186,156**	**207,539**	**321,328**	**2,329,983**
Liabilities						
Deposits from credit institutions and central banks	6,381	2,162	-	93	30,534	39,170
Deposits and borrowings from customers	1,544,700	18,164	107,424	71,200	196,369	1,937,857
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	315	34	-	1,086	69	1,504
Other liabilities	22,864	22	508	9	219	23,622
Total liabilities	**1,634,270**	**20,382**	**107,932**	**72,388**	**227,191**	**2,062,163**
Off-balance sheet items						
Contingent liabilities	14,460	-	1,948	1,412	-	17,820
Financial commitments	322,067	20,261	12,227	160	594	355,309

Market risk

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

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

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

Interest rate risk

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

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

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

The following table represents the impact of a parallel change in yield curve by 100 basis points on the Group's and the Bank's profit before tax (over 12-month period) and revaluation reserve in equity arising from securities accounted at fair value. Scenarios incorporate zero floor interest rate if such a condition exists in the loan agreement. Customer deposit rates are assumed to be constrained by a zero lower bound. Group's figures are estimated from entities that bear significant interest rate risk: AS Citadele banka and AP Anlage & Privatbank AG.

31/12/2019, EUR thousands

	Total for all currencies		**EUR only**		**USD only**	
	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve
Bank						
+100 basis points scenario	2,931	(3,637)	3,516	(3,225)	(563)	(408)
-100 basis points scenario	(1,825)	3,799	(1,787)	3,377	106	418
Group						
+100 basis points scenario	1,556	(6,129)				
-100 basis points scenario	(1,825)	6,291				

31/12/2018, EUR thousands

	Total for all currencies		**EUR only**		**USD only**	
	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve
Bank						
+100 basis points scenario	9,663	(4,000)	9,011	(2,462)	362	(1,526)
-100 basis points scenario	(4,309)	4,173	(3,336)	2,597	(585)	1,563
Group						
+100 basis points scenario	13,380	(5,573)	11,997	(3,724)	725	(1,823)
-100 basis points scenario	(6,079)	5,746	(4,633)	3,859	(956)	1,861

Currency risk

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

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

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

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

In the event of exchange rates for the following currencies in which the Group and the Bank has net open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's total equity (ignoring any tax effect) would amount approximately to the following:

Group, EUR thousands

	31/12/2019			**31/12/2018**		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	54	222	17	14	159	32
5% adverse change	135	554	41	36	396	80

Scenario:	Bank, EUR thousands 31/12/2019 USD	CHF	Other currencies	31/12/2018 USD	CHF	Other currencies
2% adverse change	44	-	8	8	1	26
5% adverse change	111	1	20	20	3	64

Assets, liabilities and off-balance sheet items by currency profile

	Group as of 31/12/2019, EUR thousands EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	686,355	2,629	16,539	860	1,531	707,914
Loans to credit institutions	21,321	35,612	551	1,104	62,807	121,395
Debt securities	866,064	271,219	13,542	6,597	46,209	1,203,631
Loans to public	1,535,674	35,259	-	1,635	178	1,572,746
Equity instruments	1,259	3,833	-	-	-	5,092
Other financial instruments	30,781	8,837	-	354	-	39,972
Derivatives	960	-	-	-	-	960
Other assets	87,726	2,044	617	4	667	91,058
Total assets	**3,230,140**	**359,433**	**31,249**	**10,554**	**111,392**	**3,742,768**
Liabilities						
Deposits from credit institutions and central banks	972	576	-	-	89	1,637
Deposits and borrowings from customers	2,816,550	413,664	7,485	19,636	32,199	3,289,534
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	528	-	-	-	-	528
Other liabilities	47,396	593	2,241	-	70	50,300
Total liabilities	**2,925,490**	**414,833**	**9,726**	**19,636**	**32,358**	**3,402,043**
Equity	337,937	2,785	-	-	3	340,725
Total liabilities and equity	**3,263,427**	**417,618**	**9,726**	**19,636**	**32,361**	**3,742,768**
Net balance sheet position	***(33,287)***	***(58,185)***	***21,523***	***(9,082)***	***79,031***	***-***
Net off-balance sheet foreign exchange contracts	25,373	55,485	(10,437)	9,458	(79,480)	399
Net long/ (short) total position	***(7,914)***	***(2,700)***	***11,086***	***376***	***(449)***	***399***

	Group as of 31/12/2018, EUR thousands EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	369,673	2,614	30,044	948	2,036	405,315
Loans to credit institutions	18,636	40,387	7,256	1,644	63,979	131,902
Debt securities	623,024	338,645	11,891	5,623	10,047	989,230
Loans to public	1,372,144	22,258	-	1,056	234	1,395,692
Equity instruments	254	2,647	-	-	-	2,901
Other financial instruments	27,754	6,100	-	291	1	34,146
Derivatives	561	9	-	21	20	611
Other assets	85,373	5,700	258	157	806	92,294
Total assets	**2,497,419**	**418,360**	**49,449**	**9,740**	**77,123**	**3,052,091**
Liabilities						
Deposits from credit institutions and central banks	1,404	160	-	-	5,713	7,277
Deposits and borrowings from customers	2,147,988	426,948	9,757	21,730	38,619	2,645,042
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	1,406	42	-	10	12	1,470
Other liabilities	37,625	1,796	1,668	243	160	41,492
Total liabilities	**2,248,433**	**428,946**	**11,425**	**21,983**	**44,504**	**2,755,291**
Equity	298,419	(112)	-	(7)	(1,500)	296,800
Total liabilities and equity	**2,546,852**	**428,834**	**11,425**	**21,976**	**43,004**	**3,052,091**
Net balance sheet position	***(49,433)***	***(10,474)***	***38,024***	***(12,236)***	***34,119***	***-***
Net off-balance sheet foreign exchange contracts	38,402	11,187	(30,099)	12,566	(32,845)	(789)
Net long/ (short) total position	***(11,031)***	***713***	***7,925***	***330***	***1,274***	***(789)***

	Bank as of 31/12/2019, EUR thousands					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	686,355	2,629	80	860	1,531	691,455
Loans to credit institutions	10,483	24,059	153	1,008	60,318	96,021
Debt securities	732,625	183,917	-	4,716	46,209	967,467
Loans to public	1,564,238	28,053	-	1,635	177	1,594,103
Equity instruments	1,259	3,833	-	-	-	5,092
Other financial instruments	6,330	104	-	-	-	6,434
Derivatives	960	-	-	-	-	960
Other assets	69,440	1,992	13,806	4	669	85,911
Total assets	**3,071,690**	**244,587**	**14,039**	**8,223**	**108,904**	**3,447,443**
Liabilities						
Deposits from credit institutions and central banks	3,141	33,899	382	304	1,561	39,287
Deposits and borrowings from customers	2,676,033	265,743	3,238	17,369	28,247	2,990,630
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	528	-	-	-	-	528
Other liabilities	34,378	259	-	-	3	34,640
Total liabilities	**2,774,124**	**299,901**	**3,620**	**17,673**	**29,811**	**3,125,129**
Equity	319,916	2,395	-	-	3	322,314
Total liabilities and equity	**3,094,040**	**302,296**	**3,620**	**17,673**	**29,814**	**3,447,443**
Net balance sheet position	***(22,350)***	***(57,709)***	***10,419***	***(9,450)***	***79,090***	***-***
Net off-balance sheet foreign exchange contracts	25,373	55,485	(10,437)	9,458	(79,480)	399
Net long/ (short) total position	***3,023***	***(2,224)***	***(18)***	***8***	***(390)***	***399***

	Bank as of 31/12/2018, EUR thousands					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	150,853	2,271	182	394	1,810	155,510
Loans to credit institutions	2,256	25,723	19,744	1,482	61,646	110,851
Debt securities	515,803	249,698	-	3,463	10,047	779,011
Loans to public	1,145,596	21,230	-	1,056	234	1,168,116
Equity instruments	228	2,647	-	-	-	2,875
Other financial instruments	5,989	89	-	-	-	6,078
Derivatives	564	9	-	21	20	614
Other assets	86,510	5,653	13,806	157	802	106,928
Total assets	**1,907,799**	**307,320**	**33,732**	**6,573**	**74,559**	**2,329,983**
Liabilities						
Deposits from credit institutions and central banks	4,305	25,996	320	708	7,841	39,170
Deposits and borrowings from customers	1,614,624	270,000	2,445	18,158	32,630	1,937,857
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	1,440	42	-	10	12	1,504
Other liabilities	21,673	1,580	5	235	129	23,622
Total liabilities	**1,702,052**	**297,618**	**2,770**	**19,111**	**40,612**	**2,062,163**
Equity	269,523	(200)	-	(4)	(1,499)	267,820
Total liabilities and equity	**1,971,575**	**297,418**	**2,770**	**19,107**	**39,113**	**2,329,983**
Net balance sheet position	***(63,776)***	***9,902***	***30,962***	***(12,534)***	***35,446***	***-***
Net off-balance sheet foreign exchange contracts	*61,214*	*(9,512)*	*(30,898)*	*12,557*	*(34,181)*	*(820)*
Net long/ (short) total position	***(2,562)***	***390***	***64***	***23***	***1,265***	***(820)***

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance.

Liquidity risk

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

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

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

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

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

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 effective from 1 October 2016 in more details defines LCR calculation principles. The minimum LCR requirement is 100%. The Bank and the Group is compliant with LCR requirements.

	EUR thousands			
	31/12/2019 Group	**31/12/2018 Group**	**31/12/2019 Bank**	**31/12/2018 Bank**
1. Liquidity buffer	1,506,948	1,051,389	1,367,784	698,529
2. Net liquidity outflow	421,422	405,419	418,740	308,495
3. Liquidity coverage ratio	**358%**	**259%**	**327%**	**226%**

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as of 31/12/2019, EUR thousands						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and cash balances at central banks	662,725	-	-	-	-	45,189	707,914
Loans to credit institutions	99,233	22,162	-	-	-	-	121,395
Debt securities	85,908	114,652	99,044	87,216	624,558	192,253	1,203,631
Loans to public	89,535	66,543	95,532	196,229	681,935	442,972	1,572,746
Equity instruments	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	-	-	39,972	39,972
Derivatives	635	304	-	21	-	-	960
Other assets	21,197	166	403	147	133	69,012	91,058
Total assets	**959,233**	**203,827**	**194,979**	**283,613**	**1,306,626**	**794,490**	**3,742,768**
Liabilities							
Deposits from credit institutions and central banks	1,637	-	-	-	-	-	1,637
Deposits and borrowings from customers	2,538,873	64,646	105,842	304,511	187,445	88,217	3,289,534
Debt securities issued	-	-	-	-	-	60,044	60,044
Derivatives	309	219	-	-	-	-	528
Lease liabilities	17	252	374	682	1,612	-	2,937
Other liabilities	9,228	1,264	1,082	2,176	12,117	21,496	47,363
Total liabilities	**2,550,064**	**66,381**	**107,298**	**307,369**	**201,174**	**169,757**	**3,402,043**
Equity	-	-	-	-	-	340,725	340,725
Total liabilities and equity	**2,550,064**	**66,381**	**107,298**	**307,369**	**201,174**	**510,482**	**3,742,768**
Net balance sheet position – long/ (short)	(1,590,831)	137,446	87,681	(23,756)	1,105,452	284,008	-
Off-balance sheet items							
Contingent liabilities	22,809	-	-	-	-	-	22,809
Financial commitments	330,250	-	-	-	-	-	330,250

Liabilities and commitments are allocated to the earliest period in which the Group may be contractually required to settle the liabilities or the customer may draw down undrawn loan commitments. Issued financial guarantee contracts are allocated to the earliest period in which the guarantee could be called. Assets are allocated to the earliest period in which the Group may contractually require to settle receivables.

Financial liabilities by contractual undiscounted cash flows

	Group as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	194	2,584	1,457	4,855	29,174	38,264	37,900
Financial liabilities measured at amortised cost*	2,540,332	62,142	106,466	303,107	335,837	3,347,884	3,313,315
Off-balance sheet items							
Contingent liabilities	22,809	-	-	-	-	22,809	22,809
Financial commitments	330,250	-	-	-	-	330,250	330,250

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	405,315	-	-	-	-	-	405,315
Loans to credit institutions	102,701	29,201	-	-	-	-	131,902
Debt securities	8,652	103,727	50,462	111,339	632,494	82,556	989,230
Loans to public	43,409	59,935	89,795	199,766	632,502	370,285	1,395,692
Equity instruments	-	-	-	-	-	2,901	2,901
Other financial instruments	-	-	-	-	-	34,146	34,146
Derivatives	472	139	-	-	-	-	611
Other assets	23,590	414	106	493	172	67,519	92,294
Total assets	**584,139**	**193,416**	**140,363**	**311,598**	**1,265,168**	**557,407**	**3,052,091**
Liabilities							
Deposits from credit institutions and central banks	6,876	401	-	-	-	-	7,277
Deposits and borrowings from customers	2,080,549	91,128	89,454	169,407	145,647	68,857	2,645,042
Debt securities issued	-	-	-	-	-	60,010	60,010
Derivatives	973	497	-	-	-	-	1,470
Other liabilities	14,533	1,068	628	508	525	24,230	41,492
Total liabilities	**2,102,931**	**93,094**	**90,082**	**169,915**	**146,172**	**153,097**	**2,755,291**
Equity	-	-	-	-	-	296,800	296,800
Total liabilities and equity	**2,102,931**	**93,094**	**90,082**	**169,915**	**146,172**	**449,897**	**3,052,091**
Net balance sheet position – long/ (short)	(1,518,792)	100,322	50,281	141,683	1,118,996	107,510	-
Off-balance sheet items							
Contingent liabilities	22,405	-	-	-	-	-	22,405
Financial commitments	344,116	-	-	-	-	-	344,116

Financial liabilities by contractual undiscounted cash flows

	Group as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	552	837	3,209	4,579	25,225	34,402	33,992
Financial liabilities measured at amortised cost*	2,087,017	90,976	87,875	167,327	281,620	2,714,815	2,678,337
Off-balance sheet items							
Contingent liabilities	22,405	-	-	-	-	22,405	22,405
Financial commitments	344,116	-	-	-	-	344,116	344,116

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	646,266	-	-	-	-	45,189	691,455
Loans to credit institutions	73,859	22,162	-	-	-	-	96,021
Debt securities	73,780	100,225	85,545	61,402	498,228	148,287	967,467
Loans to public	65,995	47,253	279,845	165,198	558,580	477,232	1,594,103
Equity instruments	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	-	-	6,434	6,434
Derivatives	635	304	-	21	-	-	960
Other assets	20,291	-	4	-	4	65,612	85,911
Total assets	**880,826**	**169,944**	**365,394**	**226,621**	**1,056,812**	**747,846**	**3,447,443**
Liabilities							
Deposits from credit institutions and central banks	14,065	6,373	7,717	4,553	6,579	-	39,287
Deposits and borrowings from customers	2,301,349	55,691	96,669	295,119	168,693	73,109	2,990,630
Debt securities issued	-	-	-	-	-	60,044	60,044
Derivatives	309	219	-	-	-	-	528
Lease liabilities	163	661	987	1,926	6,965	-	10,702
Other liabilities	5,172	-	-	-	-	18,766	23,938
Total liabilities	**2,321,058**	**62,944**	**105,373**	**301,598**	**182,237**	**151,919**	**3,125,129**
Equity	-	-	-	-	-	322,314	322,314
Total liabilities and equity	**2,321,058**	**62,944**	**105,373**	**301,598**	**182,237**	**474,233**	**3,447,443**
Net balance sheet position – long/ (short)	(1,440,232)	107,000	260,021	(74,977)	874,575	273,613	-
Off-balance sheet items							
Contingent liabilities	22,107	-	-	-	-	-	22,107
Financial commitments	410,928	-	-	-	-	-	410,928

Liabilities and commitments are allocated to the earliest period in which the Group may be contractually required to settle the liabilities or the customer may draw down undrawn loan commitments. Issued financial guarantee contracts are allocated to the earliest period in which the guarantee could be called. Assets are allocated to the earliest period in which the Group may contractually require to settle receivables.

Financial liabilities by contractual undiscounted cash flows

	Bank as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities measured at amortised cost*	2,315,435	62,144	106,465	303,108	337,384	3,124,536	3,089,961
Off-balance sheet items							
Contingent liabilities	22,107	-	-	-	-	22,107	22,107
Financial commitments	410,928	-	-	-	-	410,928	410,928

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	155,510	-	-	-	-	-	155,510
Loans to credit institutions	89,076	21,775	-	-	-	-	110,851
Debt securities	2,133	91,650	37,576	81,850	518,236	47,566	779,011
Loans to public	31,482	212,476	58,884	136,774	389,144	339,356	1,168,116
Equity instruments	-	-	-	-	-	2,875	2,875
Other financial instruments	-	-	-	-	-	6,078	6,078
Derivatives	475	139	-	-	-	-	614
Other assets	19,186	3	11	4	2	87,722	106,928
Total assets	**297,862**	**326,043**	**96,471**	**218,628**	**907,382**	**483,597**	**2,329,983**
Liabilities							
Deposits from credit institutions and central banks	16,470	13,125	3,493	5,177	905	-	39,170
Deposits and borrowings from customers	1,597,487	43,832	45,396	98,925	88,734	63,483	1,937,857
Debt securities issued	-	-	-	-	-	60,010	60,010
Derivatives	1,007	497	-	-	-	-	1,504
Other liabilities	7,781	-	-	-	-	15,841	23,622
Total liabilities	**1,622,745**	**57,454**	**48,889**	**104,102**	**89,639**	**139,334**	**2,062,163**
Equity	-	-	-	-	-	267,820	267,820
Total liabilities and equity	**1,622,745**	**57,454**	**48,889**	**104,102**	**89,639**	**407,154**	**2,329,983**
Net balance sheet position – long/ (short)	(1,324,883)	268,589	47,582	114,526	817,743	76,443	-
Off-balance sheet items							
Contingent liabilities	17,820	-	-	-	-	-	17,820
Financial commitments	355,309	-	-	-	-	-	355,309

Financial liabilities by contractual undiscounted cash flows

	Bank as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities measured at amortised cost*	1,613,997	57,060	50,290	106,230	240,245	2,067,822	2,037,037
Off-balance sheet items							
Contingent liabilities	17,820	-	-	-	-	17,820	17,820
Financial commitments	355,309	-	-	-	-	355,309	355,309

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

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

	Group as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	355	209	-	-	-	-	564
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(25,826)	(47,921)	-	(17,584)	-	-	(91,331)
Inflow	25,813	47,850	-	17,803	-	-	91,466

	Group as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(711)	(249)	-	-	-	-	(960)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(25,571)	(38,377)	-	-	-	-	(63,948)
Inflow	25,797	38,319	-	-	-	-	64,116

	Bank as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	355	209	-	-	-	-	564
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(25,826)	(47,921)	-	(17,584)	-	-	(91,331)
Inflow	25,813	47,850	-	17,803	-	-	91,466

	Bank as of 31/12/2018, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(711)	(249)	-	-	-	-	(960)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(48,396)	(38,377)	-	-	-	-	(86,773)
Inflow	48,591	38,319	-	-	-	-	86,910

Comparison of contractual undiscounted cash flows and carrying amount of derivatives

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Contractual undiscounted cash flows of derivatives	699	(792)	699	(823)
Carrying value of derivatives, net	432	(859)	432	(890)

Anti-money laundering, counter terrorism financing, counter proliferation financing and sanctions compliance policy

The Group has adopted Money Laundering (ML)/Terrorism and Proliferation Financing (TF/PF) Risk Management Strategy, Anti-Money Laundering and Counter Terrorism and Proliferation Financing Policy and Sanctions compliance Policy to have an effective and comprehensive anti-money laundering (AML) and combating terrorist un proliferation financing (CTF/CPF) internal control system and to ensure compliance with sanctions imposed by international organizations and national authorities. The Group regularly reviews its AML/CTF/CPF and sanctions compliance policies and procedures with an aim to strengthen them and to update in line with changes in external regulatory requirements and international best practice. Internal control system of AML/CTF/CPF and Sanctions compliance of the Group is regularly reviewed by independent external and internal experts to ensure that the Group complies with applicable AML/CTF/CPF and Sanctions compliance requirements. The experts where appropriate provide recommendations on how to strengthen and improve AML/CTF/CPF and Sanctions compliance internal control systems. The recommendations are diligently evaluated and implemented.

The Group performs ML/TF/PF and Sanctions Risk Assessment on a regular basis to evaluate ML/TF/PF and Sanctions compliance risk of the Group. The assessment among others includes identification and assessment of the inherent ML/TF/PF and Sanctions compliance risk and effectiveness assessment of the existing AML/CTF/CPF and Sanctions compliance controls.

The Group has dedicated Group's Chief Compliance Officer (Member of the Management Board responsible for compliance), Money Laundering Reporting Officer, Sanctions Officer and a special team with a duty of overseeing the Group policies, procedures and processes implemented to preventing money laundering, terrorist and proliferation financing and sanctions violations.

Know Your Customer, including customer risk scoring, customer due diligence, customer enhanced due diligence practices, on-going customer transactions monitoring, effective international and national sanctions screening is the priority of the Group. A sound risk culture across the Group and risk aware employees, besides implemented industry's best practice processes and systems, is the backbone of ML/TF/PF risk management. Each employee of the Group has a good knowledge of customers and their business partners and has a full understanding of the substance of transactions, thus is able to timely detect suspicious customer activity. Under the Sanctions compliance policy, it is strictly forbidden to knowingly and intentionally participate in activities whose purpose or effect is to evade the restrictions imposed by the sanctions, thus preventing the Group from been used to circumvent the sanctions. The Group enforces sanctions established by the United Nations Security Council, the European Union against specific countries and persons, national sanctions and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury. The Group complies with OFAC sanctions in USD and all other currencies.

The Group has established AML/CTF/CPF and Sanctions compliance training program for all its employees. The training program consists of three parts: initial, regular and extraordinary employee training and is tailored to the necessary knowledge level of each function. For employees directly responsible for AML/CTF/CPF and Sanctions compliance, special advanced trainings, workshops and conferences are arranged to enhance their knowledge and skills necessary for their tasks. The Group supports and requires international certification in the AML/CTF/CPF and Sanctions compliance fields for at least the leading specialists involved in the ML/TF/PF risk management function (e.g. CAMS or ICA-certification).

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 refers to the sufficiency of the Group's capital resources to cover credit risks, market risks and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The regulations require Latvian banks 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 2.90% capital requirement (TSCR) for the Group and the Bank is determined to cover pillar 2 risks. The Bank and the Group is required to cover 56% of the TSCR with common equity tier 1 capital (1.62% capital requirement), 75% with tier 1 capital (2.18% capital requirement) and 100% with total capital (2.90% capital requirement).

For the Group and the Bank 2.5% capital conservation buffer applies, limiting dividend pay-out and certain other Tier 1 equity instrument buy-backs if the threshold is not exceeded. Countercyclical buffer norms are calculated at every reporting date based on the factual risk exposure geographical distribution. The FCMC has identified the Bank as "other systemically important institution" (O-SII). The Bank's and the Group's O-SII capital buffer requirement set by the FCMC is 1.5%. These buffer requirements have to be covered by common equity Tier 1 capital.

Since 30 June 2019 the Group and the Bank applies prudential provisioning requirements in line with the FCMC regulations. The Bank has subsidiaries, which are financial institutions, and needs to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As of the period end both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements.

Regulatory capital requirements of the Group on 31 December 2019

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital adequacy ratio
Common equity Tier 1 ratio	4.50%	4.50%	4.50%
Additional Tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Individual TSCR, as determined by the FCMC	1.62%	2.18%	2.90%
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	0.24%	0.24%	0.24%
Capital requirement	**10.36%**	**12.42%**	**15.14%**

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

Capital adequacy ratio (including profits for 2019)

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings	172,070	136,210	160,346	112,117
Regulatory deductions	(8,539)	(7,645)	(7,992)	(4,909)
Other capital components and transitional adjustments, net	15,505	9,573	10,605	3,522
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	60,000	60,000	60,000
Total own funds	**395,592**	**354,694**	**379,515**	**327,286**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,555,638	1,507,401	1,490,030	1,326,277
Total exposure amounts for position, foreign currency open position and commodities risk	16,643	10,483	5,213	850
Total exposure amounts for operational risk	209,649	245,354	171,299	189,900
Total exposure amounts for credit valuation adjustment	544	399	544	399
Total risk exposure amount	**1,782,474**	**1,763,637**	**1,667,086**	**1,517,426**
Total capital adequacy ratio	**22.2%**	**20.1%**	**22.8%**	**21.6%**
Common equity Tier 1 capital ratio	**18.8%**	**16.7%**	**19.2%**	**17.6%**

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

Capital adequacy calculation of the Bank and the Group in accordance with the EU and the FCMC regulations (Basel III framework, Pillar I as implemented by EU and FCMC) permits transitional adjustments. For 2019 and later periods transitional provisions with a diminishing favourable impact apply to IFRS 9 implementation impact. The regulation (EU) 2017/2395 permits specific proportion of IFRS 9 implementation impact to be amortised over a five-year period (starting from 2018) for capital adequacy calculation purposes. 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. In the reporting period the capital adequacy ratio of the Bank decreased as a result of the integration of the Lithuanian operations.

Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments, including profits for 2019)

	EUR thousands			
	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Common equity Tier 1 capital, fully loaded	330,618	288,832	314,321	262,911
Tier 2 capital	60,000	60,000	60,000	60,000
Total own funds, fully loaded	**390,618**	**348,832**	**374,321**	**322,911**
Total risk exposure amount, fully loaded	**1,778,058**	**1,758,524**	**1,662,406**	**1,513,993**
Total capital adequacy ratio, fully loaded	**22.0%**	**19.8%**	**22.5%**	**21.3%**
Common equity Tier 1 capital ratio, fully loaded	**18.6%**	**16.4%**	**18.9%**	**17.4%**

Leverage ratio – fully loaded and transitional (including profits for 2019)

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure with the minimum requirement of 3%. No buffer requirements for O-SII banks apply under the current regulatory framework. 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.

	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
Leverage Ratio – fully phased-in definition of Tier 1 capital	8.7%	9.3%	8.9%	10.9%
Leverage Ratio – transitional definition of Tier 1 capital	8.8%	9.5%	9.0%	11.0%

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

In 2016 the European Commission adopted the regulatory technical standards (RTS) on the criteria for determining the minimum requirement for own funds and eligible liabilities (MREL) under BRRD. In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD, BRRD requires that all institutions must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. The RTS permits resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements. The MREL requirement for each institution is comprised of a number of elements, including the required loss absorbing capacity of the institution, 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 specific eligible liabilities (inter alia issued and fully paid-up, having a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives). The MREL requirement must be met partially with subordinated instruments. MREL eligible subordinated instruments are liabilities subordinated to liabilities excluded from bail-in in accordance with directive 2014/59/EU.

The Single Resolution Board (SRB) has determined the consolidated MREL for Citadele Group at the level of 14.92% of total liabilities and own funds (TLOF), of which 10.78% of TLOF shall be met with subordinated instruments. The MREL was determined by SRB using the financial and supervisory information as of 31 December 2018 and may be updated by SRB in the future based on a more recent financial information of the Group. The MREL target must be reached by 31 March 2022. After the transition period the Group shall comply with MREL at all times on the basis of evolving amounts of TLOF.

Operational risk

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

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

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

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

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

The Group applies following approaches for operational risk management:

- Assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- Determining operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;

- Measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- Conducting scenario analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

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

NOTE 34. EVENTS AFTER THE REPORTING DATE

Acquisition of UniCredit leasing operations in the Baltics

On 10 December 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. The acquisition includes Estonian and Lithuanian branches of SIA UniCredit Leasing and a subsidiary SIA UniCredit Insurance Broker. SIA UniCredit Leasing is one of the leaders in the Baltics, with more than 20 years of experience in the area of leasing, a lease portfolio of more than EUR 850 million, and a demonstrated ability to deliver sustainable business growth. Following the acquisition, Citadele's aggregate leasing portfolio will exceed EUR 1.1 billion, creating a stronger Baltic Leasing offering allowing for economies of scale, synergies and shareholder value. The closing of the acquisition is expected in the first half of 2020, subject to mandatory approvals.

AS Citadele banka plans to issue new subordinated bonds

AS Citadele banka Management Board has approved the plans to launch Citadele's Third Unsecured Subordinated Bonds Programme and issue new subordinated bonds in the amount of up to EUR 30 million. Proceeds from the offer are to be used by Citadele for its general business development, and to strengthen further Citadele Group's capital base.

Change of Chairman of the Management Board

After 18 years in Banking and serving the last 8 years as Chairman of the Management Board, Guntis Belavskis has decided to resign from the bank to pursue outside opportunities in Latvia and abroad. His resignation has been accepted by the Supervisory Board and it has further been agreed that Guntis Belavskis will support the Bank during its transitional period until 1 June 2020. The Management Board changes took place from 2 March 2020.

As from 2 March 2020, Johan Akerblom, Chief Financial Officer of the Bank, has been appointed interim Chairman of the Management Board. Johan Akerblom joined the Bank two years ago and has since then successfully supported the Bank's strategy and financial performance.

Recent events related to Covid-19

In the light of recent events related to Covid-19 the Bank is closely monitoring the situation and taking the appropriate actions necessary in order to ensure that we can properly support our clients and the employees. As future implications still are uncertain, the management is also taking proactive measures to prepare for different scenarios and ensure that the Bank remains resilient.

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Audit of the separate and consolidated financial statements

Our Opinion on the separate and consolidated financial statements

We have audited the accompanying separate financial statements of AS "Citadele banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 15 to 70 of the accompanying Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2019,
- the separate and consolidated income statement and
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2019, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

We are independent of the Bank and 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 separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Key Audit Matters

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

Impairment of loans, and provisions for off-balance sheet items (consolidated and separate financial statements)

Key audit matter	*Our response*
The gross amount of loans in the consolidated financial statements as at 31 December 2019: EUR 1 629.7 million; total allowances for impairment losses as at 31 December 2019: EUR 56.9 million; of which impairment losses on loans recognised in 2019: EUR 7.3 million; the gross amount of off-balance sheet items as at 31 December 2019: EUR 353.1 million; total provisions as at 31 December 2019: EUR 4,2 million; of which provision on these items recognised in 2019: EUR 1.4 million; *The gross amount of loans in the separate financial statements at 31 December 2019: EUR 1 646.7 million; total impairment loss allowances as at 31 December 2019: EUR 52.6 million; of which impairment losses on loans recognised in 2019: EUR 6.7 million. The gross amount of off-balance sheet items as at 31 December 2019: EUR 433.0 million; total provisions as at 31 December 2019: EUR 4.1 million; of which provision on these items recognised in 2019: EUR 1.4 million.* *We refer to the financial statements: Note 3 (j), (p), (z) and (ff), Notes 11, 16, 26 and 33.* 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.	Our audit procedures included, among others: With respect to the Impairment of loans, and provisions for off-balance sheet items in general: • 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; • 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; • assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9; • 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

As required by IFRS 9, the Group calculates impairment allowances and provisions for off-balance sheet items based on expected credit losses. 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 mostly 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 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.

environment for data security and access, assisted by our own IT specialists.

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 statements due to their magnitude and risk characteristics, 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 31 December 2019, by reference to the underlying documentation and through discussion with the Management Board 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 and validation processes, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD));

- 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 performing back-testing of historical default 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.

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 completeness of the financial statements disclosures relating to IFRS 9.

Impairment of investments in subsidiaries (separate financial statements)

Key audit matter	*Our response*
The gross amount of investments in subsidiaries in the separate financial statements as at 31 December 2019: EUR 71.4 million; total impairment allowances recognized as at 31 December 2019: EUR 37.2 million, which includes impairment loss reversal recognised in 2019: EUR 3.7 million; We refer to the financial statements: Note 3 (w) and (ff), and Notes 12 and 19. At the end of each reporting period, the Management Board assesses whether there is any indication that investments in subsidiaries may be impaired, such as, among other things, significant current losses, negative equity, or below-budget	Our procedures included, among others: • evaluating the reasonableness of management's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiaries' performance with the Bank's Finance function officers, and assessing the subsidiaries' strategies and historical profitability against past forecasts and assessing the mathematical accuracy of the impairment models used.

performance. For such investments, the Bank estimates their recoverable amounts by identifying the higher of value-in-use and fair value less cost to sell, using internal models based on discounted cash flows models.

The determination of the recoverable amounts of investments in subsidiaries is a process that requires management to make judgements, including those in respect of future operating cash flows, growth rates and discount rates, and is therefore associated with significant estimation uncertainty.

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

- for investments with identified impairment indicators, with the involvement of our valuation specialists, assessing the Bank's assumptions and estimates, applied to determine the investments' recoverable amounts. Our assessment covered, among other things:
    - evaluating the appropriateness of the impairment models used for the assets in question against the requirements of the relevant financial reporting standards;
    - challenging the reasonableness of the key assumptions applied, such as, primarily, growth rates and discount rates as well as changes in assumptions compared to previous periods leading to partial reversal of impairment allowances;
    - obtaining supporting documentation for the relevant other key inputs in the impairment models such as the most recent financial information on which the estimates were based;
    - evaluating the historic reliability of the Bank's forecasts by comparing actual performance against previous forecasts.
- Also, assisted by our own valuation specialists, performing an independent sensitivity analysis of impairment tests' results to changes in key assumptions, such as, primarily, growth and discount rates and evaluating indications of management bias, if any;
- Considering the adequacy of the Bank's disclosures related to the assumptions and significant judgements used at estimating recoverable amounts of investments in subsidiaries.

of Corporate Governance includes the information required in section 56.2, third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section 56.[2] third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

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

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

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

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

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

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

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

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

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

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

Reporting on Other Information

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

- Key figures as set out on page 2 of the accompanying Annual Report ("Annual Report"),
- the Management Report, as set out on pages 4 to 13 of the Annual Report,
- the Statement of the Management's Responsibility, as set out on page 14 of the Annual Report,
- The Other regulatory disclosures, as set out on pages 80 to 82,
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv,
- Sustainability Report, as set out in a separate statement prepared by the Management Board, available on Bank's website www.citadele.lv

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

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

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

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

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

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

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

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the annual shareholders' meeting on 30 April 2019 to audit the separate and consolidated financial statements of AS "Citadele banka" for the year ended 31 December 2019. Our total uninterrupted period of engagement is 7 years, covering the periods ended 31December 2013 to 31 December 2019.

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 entities in conducting the audit.

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

KPMG Baltics AS
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics AS
Riga, Latvia
13 March 2020

Inga Lipšāne
Latvian Certified Auditor
Certificate No. 112

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. 145 "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	2019 Group	2018 Group Restated	2019 Bank	2018 Bank Restated
1.	Interest income	100,555	97,644	91,126	74,521
2.	Interest expense	(15,914)	(15,066)	(16,013)	(13,052)
3.	Dividend income	43	34	3,349	2,491
4.	Commission and fee income	56,388	57,019	47,406	42,314
5.	Commission and fee expense	(25,467)	(23,640)	(24,836)	(20,475)
6.	Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	974	565	279	157
7.	Gain or loss on financial assets and liabilities measured at fair value through profit or loss, net	503	(220)	-	-
8.	Fair value change in the hedge accounting	-	-	-	-
9.	Gain or loss from foreign exchange trading and revaluation of open positions	6,719	10,056	6,588	8,625
10.	Gain or loss on derecognition of non-financial assets, net	-	-	-	-
11.	Other income	2,298	3,067	3,163	2,424
12.	Other expense	(2,169)	(2,280)	(1,801)	(1,555)
13.	Administrative expense	(75,101)	(79,167)	(64,738)	(60,616)
14.	Amortisation and depreciation charge	(7,690)	(6,216)	(7,271)	(3,275)
15.	Gain or loss on modifications in financial asset contractual cash flows	-	-	-	-
16.	Provisions, net	(1,393)	613	(1,352)	295
17.	Impairment charge and reversals, net	(2,317)	(7,609)	3,395	1,225
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	404	-	(71)	-
21.	**Profit before taxation**	**37,833**	**34,800**	**39,224**	**33,079**
22.	Corporate income tax	(1,329)	46	(248)	(42)
23.	**Net profit / loss for the period**	**36,504**	**34,846**	**38,976**	**33,037**
28.	**Other comprehensive income for the period**	**6,514**	**(856)**	**4,058**	**(897)**

Balance Sheet, regulatory format

	EUR thousands	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
1.	Cash and demand balances with central banks	707,914	405,315	691,455	155,510
2.	Demand deposits due from credit institutions	92,781	97,724	68,306	88,989
3.	Financial assets designated at fair value through profit or loss	34,497	28,679	960	614
4.	Financial assets at fair value through other comprehensive income	409,588	409,719	237,719	255,979
5.	Financial assets at amortised cost	2,406,930	2,018,360	2,363,092	1,721,963
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	-	-	34,161	71,614
9.	Tangible assets	49,989	48,893	18,231	4,817
10.	Intangible assets	4,698	4,868	4,571	4,651
11.	Tax assets	3,136	2,929	2,886	247
12.	Other assets	30,373	35,604	23,200	25,599
13.	Non-current assets and disposal groups classified as held for sale	2,862	-	2,862	-
14.	**Total assets (1.+....+13.)**	**3,742,768**	**3,052,091**	**3,447,443**	**2,329,983**
15.	Due to central banks	6	22	6	10
16.	Demand liabilities to credit institutions	1,631	1,198	5,385	4,672
17.	Financial liabilities designated at fair value through profit or loss	38,428	35,462	528	1,504
18.	Financial liabilities measured at amortised cost	3,311,678	2,677,117	3,084,570	2,032,355
19.	Derivatives – hedge accounting	-	-	-	-
20.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
21.	Provisions	4,150	3,196	4,108	2,616
22.	Tax liabilities	1,257	810	-	-
23.	Other liabilities	44,893	37,486	30,532	21,006
24.	Liabilities included in disposal groups classified as held for sale	-	-	-	-
25.	**Total liabilities (15.+...+24.)**	**3,402,043**	**2,755,291**	**3,125,129**	**2,062,163**
26.	Shareholders' equity	340,725	296,800	322,314	267,820
27.	**Total liabilities and shareholders' equity (25.+26.)**	**3,742,768**	**3,052,091**	**3,447,443**	**2,329,983**
28.	**Memorandum items**				
29.	Contingent liabilities	22,809	22,405	22,107	17,820
30.	Financial commitments	330,250	344,116	410,928	355,309

ROE and ROA ratios

	2019 Group	2018 Group	2019 Bank	2018 Bank
Return on equity (ROE) (%)	11.45%	12.32%	13.21%	13.01%
Return on assets (ROA) (%)	1.07%	1.10%	1.35%	1.36%

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	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
1	**Own funds (1.1.+1.2.)**	**395,592**	**354,694**	**379,515**	**327,286**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	335,592	294,694	319,515	267,286
1.1.1	*Common equity Tier 1 capital*	*335,592*	*294,694*	*319,515*	*267,286*
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.)**	**1,782,474**	**1,763,637**	**1,667,086**	**1,517,426**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,555,638	1,507,401	1,490,030	1,326,277
2.2	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	16,643	10,483	5,213	850
2.4	Total risk exposure amount for operational risk	209,649	245,354	171,299	189,900
2.5	Total risk exposure amount for credit valuation adjustment	544	399	544	399
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)	**18.8%**	**16.7%**	**19.2%**	**17.6%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	255,381	215,331	244,496	199,002
3.3	Tier 1 capital ratio (1.1./2.*100)	**18.8%**	**16.7%**	**19.2%**	**17.6%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	228,644	188,876	219,489	176,241
3.5	Total capital ratio (1./2.*100)	**22.2%**	**20.1%**	**22.8%**	**21.6%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	252,994	213,603	246,148	205,892
4	**Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)**	4.2%	4.1%	4.5%	4.1%
4.1	Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
4.2	Conservation buffer for macroprudential or systemic risk at member state's level	-	-	-	-
4.3	Institution specific countercyclical buffer	0.2%	0.1%	0.2%	0.1%
4.4	Systemic risk buffer	-	-	-	-
4.5	Other systemically important institution buffer	1.5%	1.5%	1.5%	1.5%
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	18.8%	16.7%	19.2%	17.6%
5.3	Tier 1 capital ratio including line 5.1 adjustments	18.8%	16.7%	19.2%	17.6%
5.4	Total capital ratio including line 5.1 adjustments	22.2%	20.1%	22.8%	21.6%

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. The Bank's and the Group's Tier 1 capital includes audited profits for the year ended 31 December 2019.

	EUR thousands	31/12/2019 Group	31/12/2018 Group	31/12/2019 Bank	31/12/2018 Bank
1.A	**Own funds, IFRS 9 transitional provisions not applied**	**390,618**	**348,832**	**374,321**	**322,911**
1.1.A	Tier 1 capital, IFRS 9 transitional provisions not applied	330,618	288,832	314,321	262,911
1.1.1.A	*Common equity Tier 1 capital, IFRS 9 transitional provisions not applied*	*330,618*	*288,832*	*314,321*	*262,911*
2.A	**Total risk exposure amount, IFRS 9 transitional provisions not applied**	**1,778,058**	**1,758,524**	**1,662,406**	**1,513,993**
3.1.A	Common equity Tier 1 capital ratio, IFRS 9 transitional provisions not applied	18.6%	16.4%	18.9%	17.4%
3.3.A	Tier 1 capital ratio, IFRS 9 transitional provisions not applied	18.6%	16.4%	18.9%	17.4%
3.5.A	Total capital ratio, IFRS 9 transitional provisions not applied	22.0%	19.8%	22.5%	21.3%

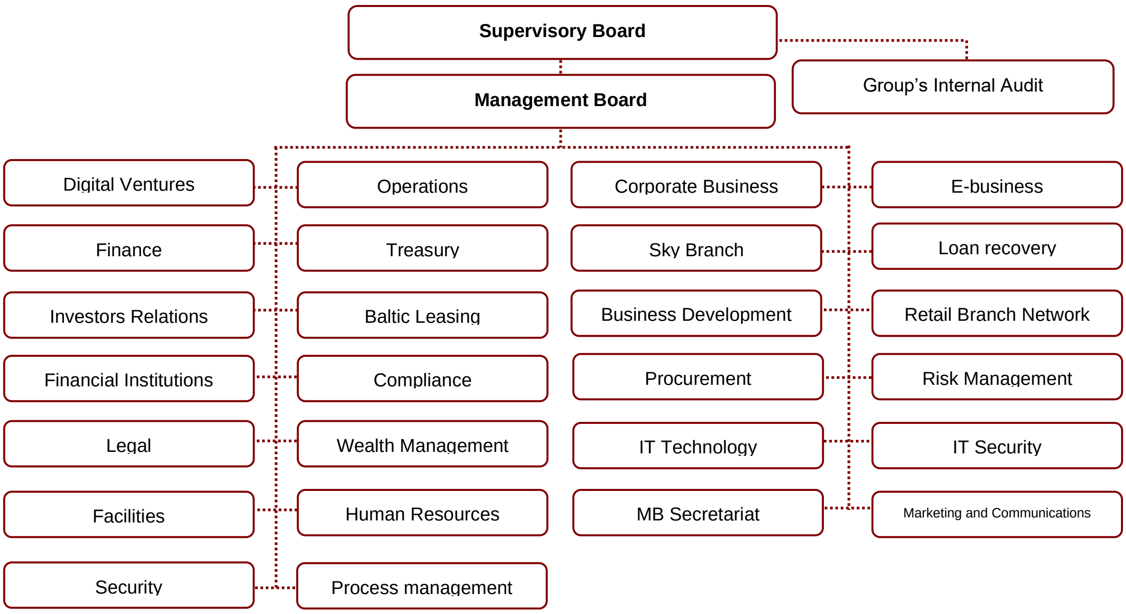
Business Strategy and Objectives

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

Branches

AS Citadele banka has 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. The Lithuanian branch has 7 customer service units in Lithuania. The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 and started to operate on 1 January 2019. 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



QUARTERLY STATEMENTS OF INCOME AND BALANCE SHEETS OF THE GROUP

	Group (restated), EUR thousands				
	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Interest income	25,210	25,799	25,046	24,500	25,081
Interest expense	(4,399)	(3,821)	(3,804)	(3,890)	(3,589)
Net interest income	**20,811**	**21,978**	**21,242**	**20,610**	**21,492**
Fee and commission income	14,580	14,673	14,160	12,975	14,328
Fee and commission expense	(6,651)	(6,793)	(6,632)	(5,391)	(5,588)
Net fee and commission income	**7,929**	**7,880**	**7,528**	**7,584**	**8,740**
Net financial income	2,373	1,932	1,796	2,095	2,125
Net other income / (expense)	419	55	(219)	(83)	(248)
Operating income	**31,532**	**31,845**	**30,347**	**30,206**	**32,109**
Staff costs	(13,168)	(12,983)	(13,368)	(13,800)	(14,253)
Other operating expenses	(6,246)	(5,579)	(5,240)	(4,717)	(6,801)
Depreciation and amortisation	(1,933)	(1,895)	(1,826)	(2,036)	(1,695)
Operating expense	**(21,347)**	**(20,457)**	**(20,434)**	**(20,553)**	**(22,749)**
Profit before impairment	**10,185**	**11,388**	**9,913**	**9,653**	**9,360**
Net credit losses	2,587	(188)	(783)	(1,848)	501
Other impairment losses	(1,415)	118	29	(37)	(101)
Operating profit before non-current assets held for sale	**11,357**	**11,318**	**9,159**	**7,768**	**9,760**
Result from non-current assets held for sale	754	(67)	(153)	(130)	-
Operating profit	**12,111**	**11,251**	**9,006**	**7,638**	**9,760**
Income tax	(662)	(237)	(63)	(367)	383
Net profit	**11,449**	**11,014**	**8,943**	**7,271**	**10,143**

	Group, EUR thousands				
	31/12/2019	30/09/2019	30/06/2019	31/03/2019	31/12/2018
Assets					
Cash and cash balances at central banks	707,914	499,095	332,165	438,099	405,315
Loans to credit institutions	121,395	124,029	117,003	115,593	131,902
Debt securities	1,203,631	1,242,102	1,191,473	1,074,408	989,230
Loans to public	1,572,746	1,513,596	1,488,494	1,435,445	1,395,692
Equity instruments	5,092	4,890	4,686	4,378	2,901
Other financial instruments	39,972	40,027	39,157	37,386	34,146
Derivatives	960	1,894	496	864	611
Tangible assets	49,989	50,428	50,670	52,229	48,893
Intangible assets	4,698	4,789	4,771	4,714	4,868
Tax assets	3,136	3,316	2,682	2,682	2,929
Non-current assets held for sale	2,862	3,093	3,488	3,488	-
Other assets	30,373	30,931	30,652	28,485	35,604
Total assets	**3,742,768**	**3,518,190**	**3,265,737**	**3,197,771**	**3,052,091**
Liabilities					
Deposits from credit institutions and central banks	1,637	7,829	6,261	3,593	7,277
Deposits and borrowings from customers	3,289,534	3,070,949	2,835,888	2,783,565	2,645,042
Debt securities issued	60,044	60,930	60,018	60,911	60,010
Derivatives	528	1,395	522	1,158	1,470
Provisions	4,150	3,486	3,381	3,453	3,196
Tax liabilities	1,257	759	583	500	810
Other liabilities	44,893	41,199	40,082	37,364	37,486
Total liabilities	**3,402,043**	**3,186,547**	**2,946,735**	**2,890,544**	**2,755,291**
Equity					
Share capital	156,556	156,556	156,556	156,556	156,556
Reserves and other capital components	11,455	11,743	10,117	7,285	3,868
Retained earnings	172,714	163,344	152,329	143,386	136,376
Total equity	**340,725**	**331,643**	**319,002**	**307,227**	**296,800**
Total liabilities and equity	**3,742,768**	**3,518,190**	**3,265,737**	**3,197,771**	**3,052,091**
Off-balance sheet items					
Guarantees and letters of credit	22,809	25,314	21,707	20,997	22,405
Financial commitments	330,250	356,945	368,453	349,525	344,116

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.

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.

TSCR – SREP capital requirement.