

Important Notice

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3. you are a person in Latvia or Lithuania, or a qualified investor in the Member State of the EEA other than Latvia and Lithuania and you are neither a person located in the United States, nor a U.S. person and you are not purchasing any of the securities for, or for the account or benefit of, any such person; AND

4. that you consent to delivery of the Base Prospectus by electronic transmission; AND
5. you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with our consent; AND
6. you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither AS "Citadele banka", nor any person who controls any of the foregoing, nor any director, officer, employee nor agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hardcopy version available to you on request from AS "Citadele banka".

The distribution of this Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required to inform themselves about, and to observe, any such restrictions.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the reply function on your e-mail software, will be ignored and rejected.



AS "Citadele banka"

(incorporated with limited liability and registered in Latvia, with registration number 40103303559)

€ 30,000,000

Third Unsecured Subordinated Bonds Programme

Under this € 30,000,000 (thirty million euro) Third Unsecured Subordinated Bonds Programme (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), AS "Citadele banka", a limited company/joint stock company incorporated in, and operating under the laws of, the Republic of Latvia, and registered with the Commercial Register of Latvia under the registration number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +37167010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv ("**Citadele**"), subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia and Lithuania from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity of up to 10 years and with fixed interest rate (the "**Bonds**"). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed €30,000,000.

References herein to "this Base Prospectus" shall, where applicable, be deemed to be references to this Base Prospectus as supplemented or amended from time to time. To the extent not set forth in this Base Prospectus, the specific terms of any Bonds will be included in the relevant final terms (the "**Final Terms**") (a form of which is contained herein) therefore the prospectus relating to Series issued under the Programme consists of this Base Prospectus and the respective Final Terms. The language of this Base Prospectus is English. The offering of the Bonds under the Programme pursuant to the Base Prospectus and the applicable Final Terms shall be hereinafter referred to as the "**Offer**".

The Bonds may be issued in such denominations as may be specified in the relevant Final Terms save that the minimum denomination of each Bond shall be €10,000. The Bonds shall be governed by Latvian law. Each Series may comprise one or more tranches of Bonds (each a "**Tranche**").

This Base Prospectus has been registered with and approved as a base prospectus by the Financial and Capital Market Commission of Latvia (In Latvian - *Finanšu un kapitāla tirgus komisija*) (the "**FCMC**") in its capacity as the competent authority in Latvia for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/ECText (the "**Prospectus Regulation**"), in accordance with the requirements of the Financial Instruments Market Law of the Republic of Latvia, as amended (the "**Latvian Financial Instruments Market Law**"), Prospectus Regulation) and Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (the "**Delegated Regulation**"). The FCMC has approved this Base Prospectus, but it is not liable for the correctness of the information presented therein. Citadele has requested that the FCMC notifies this Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (In Lithuanian - *Lietuvos Bankas*) (the "**Bank of Lithuania**")), to the competent authority in Estonia (Estonian Financial Supervision and Resolution Authority (in Estonian - *Finantsinspeksioon*) (**EFSA**), provide it with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Regulation.

Application will be made to the Nasdaq Riga AS, registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia ("**Nasdaq Riga**") for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as amended from time to time ("**MIFID II**"). Unless the context requires otherwise, references in this Base Prospectus to Bonds being "listed" (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Riga Stock Exchange as may be specified in the applicable Final Terms.

This Base Prospectus has been drawn up and published by Citadele in connection with the public offering in Latvia, Lithuania and Estonia and listing of the Bonds. Except where specified otherwise, capitalised words and expressions in this Base Prospectus have the meaning given to them in the section entitled "*Glossary of Terms*". This Base Prospectus and any supplement thereto will be published on the website of (a) the FCMC (www.fktk.lv) and (b) Citadele (www.citadele.lv) and copies may be obtained at the registered office of the Citadele during normal business hours on any weekday. See the section entitled "*Important Information About This Base Prospectus*" for more information.

The Bonds shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia (the "**Nasdaq CSD**") in book-entry form with the securities settlement system governed by Latvian law (the "**Latvian SSS**"). Investors may hold Bonds through Nasdaq CSD participants participating in Latvian SSS. See the section entitled "*General Terms and Conditions of the Bonds*" for more information.

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Credit Institutions Law of the Republic of Latvia of 1995, as amended (the "Latvian Credit Institutions Law"). The net proceeds from the Bonds will be used by Citadele for the purposes specified in section entitled "*General Terms and Conditions of the Bonds —Reasons for the Offer and Use of Proceeds*" below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended (the "CRR") or any other applicable rules. The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the holders of the Bonds (the "Bondholders") will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the general terms and conditions of the Bonds as described in the section entitled "*General Terms and Conditions of the Bonds*" (the "*General Terms and Conditions of the Bonds*"), the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied. Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds. The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele. See the section entitled "*General Terms and Conditions of the Bonds —Ranking and Subordination*" for more information.

The Bonds may be redeemed prematurely by Citadele on the grounds set forth in this Base Prospectus. See the section entitled "*General Terms and Conditions of the Bonds —Maturity and Redemption*" for more information.

Investing in the Bonds issued under the Programme involves a high degree of risk and may not be suitable for all investors. See section entitled "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. While every care has been taken to ensure that this Base Prospectus presents a fair and complete overview of the risks related to Citadele, the operations of Citadele and its subsidiaries (the "Citadele Group") and to the Bonds, the value of any investment in the Bonds may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Base Prospectus.

This Base Prospectus and any Final Terms do not constitute an offer to sell, or a solicitation of an offer to buy, the Bonds in any jurisdiction in which such offer or solicitation would be unlawful. The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended or the securities laws of any state of the United States or other jurisdiction, and the securities may not be offered, sold or delivered at any time, directly or indirectly, within the United States (which term includes the territories, the possessions, and all other areas subject to the jurisdiction of the United States) or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended). Neither the U.S. Securities and Exchange Commission nor any state securities commission in the United States, nor any other U.S. regulatory authority, has approved or disapproved of the Bonds, or passed upon or endorsed the merits of the offer of the Bonds or determined that this Base Prospectus and any Final Terms are accurate or complete. Any representation to the contrary is a criminal offence in the United States.

This Base Prospectus shall be valid for 12 months after its approval by FCMC for offers to the public. Citadele shall not be obligated to supplement this Base Prospectus in the event of significant new facts, material mistakes or material inaccuracies after the end of the validity period of this Base Prospectus.

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1. Important Information About This Base Prospectus

1.1. General

This Base Prospectus has been approved by the Financial and Capital Market Commission of Latvia (“FCMC”), as competent authority under the Prospectus Regulation and only as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval of this Base Prospectus by FCMC should not be considered as an endorsement of the quality of the Bonds that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds.

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

This Base Prospectus and any Final Terms are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by Citadele that any recipient of this Base Prospectus and any Final Terms should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms, and its purchase of Bonds should be based upon such investigation, as it deems necessary.

This Base Prospectus and any Final Terms are issued in compliance with the Latvian Financial Instruments Market Law and the Prospectus Regulation, for the purpose of giving information with regard to Citadele Group and the Bonds. This Base Prospectus should be read and construed together with any supplement hereto and with any other documents attached herein and with the relevant Final Terms.

In making an investment decision regarding the Bonds, prospective investors must rely on their own examination of Citadele Group and the terms of the Offer, including the merits and risks involved, and prospective investors should rely only on the information contained in this Base Prospectus and any Final Terms. Citadele and Citadele Group has not authorised any person to provide prospective investors with different information or to give any information or to make any representation not contained in this Base Prospectus and any Final Terms. If anyone provides prospective investors with different or inconsistent information or makes any such representation, prospective investors should not rely on such information and representation. Prospective investors should assume that the information appearing in this Base Prospectus and any Final Terms is accurate only as of their date. Citadele Group’s business, financial condition, results of operations, prospects and the information set forth in this Base Prospectus and any Final Terms may have changed since the date hereof. Neither the delivery of this Base Prospectus and any Final Terms nor any offer, sale or delivery of the Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in Citadele Group’s affairs since the date hereof or that the information contained in this Base Prospectus and any Final Terms is correct as of a date after their date.

Citadele may have included its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Base Prospectus and any Final Terms, which has not been verified by an independent third party. Market information that may be included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. Whilst Citadele believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it generally reflects the industry and the markets in which Citadele operates, there is no assurance that Citadele’s own estimates, assessments, adjustments or judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

Prospective investors should not consider any information in this Base Prospectus and any Final Terms to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing and holding of the Bonds. None of Citadele, or any of its respective affiliates or advisers, makes any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser under appropriate investment or similar laws.

Citadele reserves the right to reject any offer to purchase the Bonds, in whole or in part, for any reason and to sell to any prospective investor less than full amount of the Bonds sought by such investor (other than those offers, if any, set out in “*General Terms and Conditions of the Offer —Allotment —Guaranteed Allocations*”).

The Base Prospectus and any Final Terms do not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Bonds under this Base Prospectus.

1.2. Responsibility Statement

Citadele, represented by the members of its Management Board (being, at the date of this Base Prospectus, Mr. Johan Akerblom, Mr. Slavomir Mizak, Mr. Valters Ābele, Mr. Kaspars Jansons, Mr. Vladislavs Mironovs, Mr. Uldis Upenieks, Mr. Vaidas Žagūnis) accepts responsibility for the information contained in this Base Prospectus, and having taken all reasonable care to ensure that such is the case, Citadele and its Management Board confirm that the information contained in this Base Prospectus is, to the best of Citadele’s knowledge and the knowledge of the members of the Management Board, in accordance with the facts and contains no omissions likely to affect its import.

Riga, March 2, 2020

Management Board of AS “Citadele banka”:

<hr/> Johan Åkerblom Chairman of the Management Board, Chief Executive Officer, Chief Financial Officer	<hr/> Valters Ābele Member of the Management Board, Chief Risk Officer	<hr/> Slavomir Mizak Member of the Management Board, Chief Technology Officer	<hr/> Vladislavs Mironovs Member of the Management Board, Chief Commercial Officer Retail
<hr/> Uldis Upenieks Member of the Management Board, Chief Compliance Officer	<hr/> Kaspars Jansons Member of the Management Board, Chief Operational Officer	<hr/> Vaidas Žagūnis Member of the Management Board, Chief Corporate Commercial Officer	

Any disputes relating to or arising from this Base Prospectus and/or the Final Terms will be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

1.3. Applicable Law

This Base Prospectus has been drawn up by Citadele in accordance with and is governed by Latvian law, in particular, the Latvian Financial Instruments Market Law, Prospectus Regulation and Delegated Regulation, in particular the Annexes 6 and 14 of the Delegated Regulation. The Base Prospectus is comprised of a securities note of the Bonds drawn up in accordance with Annex 14 of the Delegated Regulation, and the registration document of Citadele drawn up in accordance with Annex 6 of the Delegated Regulation. Citadele will, as deemed necessary, supplement the Base Prospectus with updated information pursuant to the Latvian Financial Instruments Market Law. Any Final Terms will be drawn up by Citadele in accordance with and are governed by Latvian law and Prospectus Regulation.

1.4. Registration and Approval of the Base Prospectus

This Prospectus has been approved by the FCMC, as competent authority under the Prospectus Regulation, on [●] March 2020 under registration number [●]. The FCMC only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be considered as an endorsement of Citadele and the quality of the Bonds that are the subject of this Prospectus.

1.5. Use of the Base Prospectus

This Base Prospectus is prepared solely for the purposes of the Offer of the Bonds issued under the Programme and admission to listing and trading of the Bonds on the Baltic Bond List of the Nasdaq Riga Stock Exchange. Citadele has not consented to the use of the Base Prospectus for subsequent resale or final placement of the Bonds by financial intermediaries.

No public offering of the Bonds is conducted in any jurisdiction other than Latvia, Lithuania and Estonia (where the public offering of the Bonds to institutional and retail investors takes place) therefore the dissemination of this Base Prospectus in other countries may be restricted or prohibited by law. This Base Prospectus may not be used for any other purpose than for making the decision of participating in the Offer or investing into the Bonds. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Base Prospectus without express written permission from the Citadele.

1.6. Documents on Display

Copies of the following documents during validity of this Base Prospectus, unless applicable laws and regulations require otherwise, will be available for inspection free of charge on Citadele's website: www.citadele.lv and at the registered office of the Citadele during normal business hours on any weekday:

- this Base Prospectus; and
- the Final Terms, when issued; and
- Citadele's Articles of Association; and
- Citadele's audited consolidated financial statements as of and for the year ended in 31 December 2017 (prepared according to IFRS); and
- Citadele's audited consolidated financial statements as of and for the year ended in 31 December 2018 (prepared according to IFRS); and
- Citadele's audited consolidated interim financial statements as of and for the six-month period ended 30 June 2019; and
- Citadele's unaudited consolidated financial statements as of and for the year ended in 31 December 2019 (prepared according to IFRS); and
- Certain other additional documents and information related to this Base Prospectus, if any.

The registered office of Citadele is at Republikas laukums 2A, Riga, LV-1010, Latvia. The delivery of the printed version of the aforementioned documents is limited to jurisdictions in which the offer of the Bonds to the public is made.

1.7. Presentation of Information

References to "Citadele Group" and "Citadele"

In this Base Prospectus, references to "Citadele Group" mean Citadele and its subsidiaries as listed in the section entitled "*Overview and Business description — Structure of Citadele Group*", unless the context requires otherwise. References to "Citadele" or "Issuer" are to Citadele only.

Additional Definitions

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

Rounding and Percentages

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

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

Third Party Information and Statement by Experts and Declarations of Any Interest

2017 Audited Consolidated Financial Statements, 2018 Audited Consolidated Financial Statements and Audited Consolidated Interim Financial Statements for the six months ended 30 June 2019 attached to this Base Prospectus contain auditor's reports. See the section entitled "*Financial and Trend Information — Independent Auditors*" for more information on auditors. 2019 Audited Consolidated Financial Statements will be published on 16 March 2020.

Citadele has derived certain information in this Base Prospectus, including certain information and statistics concerning the Latvian banking market and its competitors, from private and publicly available information, including principally annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Latvian Government agencies. The main sources for such data used in this Base Prospectus are:

- European Commission Eurostat (ec.europa.eu/eurostat);
- Central Statistical Bureau of Latvia (www.csb.gov.lv);
- Latvian Financial and Capital Market Commission (www.fktk.lv);
- International Monetary Fund (www.imf.org);
- Investment and Development Agency of Latvia (www.liaa.gov.lv);
- Finance Latvia Association (www.financelatvia.eu).

Where third-party information is set out, it has been sourced from official and industry sources and other sources which Citadele believes to be reliable. Such information, data and statistics have been accurately reproduced and, as far as Citadele is aware and is able to ascertain from relevant publicly available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, information provided by different third parties may not necessarily be comparable. Prospective investors are advised to use such information with caution.

Websites

The contents of (i) Citadele's or Citadele Group's websites or any websites directly or indirectly linked to Citadele's or Citadele Group's websites and (ii) the contents of the websites listed above, do not form part of this Base Prospectus.

Currency Presentation and Exchange Rate Information

Solely for the convenience of the reader, references in this Base Prospectus to "U.S. dollars" and "U.S.\$" or "USD" are to the currency of the United States; and references to "Euro" and "EUR" or "€" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on the Functioning of the European Union. References to "Swiss Francs" and "CHF" are to the currency of Switzerland. Unless otherwise indicated, financial and statistical data included in this Base Prospectus are expressed in Euro. 2017 Audited Consolidated Financial Statements, 2018 Audited Consolidated Financial Statements, 2019 Audited Consolidated Interim Financial Statements for the six months and 2019 unaudited Consolidated Interim Financial Statements for 12 months are presented in Euro, which has been Citadele's functional and presentation currency since.

1.8. Financial Information

The consolidated financial information of Citadele Group and the financial information of Citadele set forth herein has, unless otherwise indicated, been derived from Citadele's audited consolidated financial statements as of and for the year ended 31 December 2017 (the „**2017 Audited Consolidated Financial Statements**”), Citadele's audited consolidated financial statements as of and for the year ended 31 December 2018 (the „**2018 Audited Consolidated Financial Statements**”), Citadele's audited consolidated interim financial statements as of and for the six months ended 30 June 2019 (the „**2019 Audited Consolidated Interim Financial Statements for the six months**”) and unaudited Interim Report For the 12 months ended 31 December 2019 (the „**2019 unaudited Consolidated Interim Financial Statements for 12 months**”) (all prepared according to International Financial Reporting Standards (“IFRS”), as adopted by the European Union (the “EU”)) as set forth in the Schedules to this Base Prospectus. References in this Base Prospectus to financial information for the years 2017, 2018 or 2019 refer to financial information as of or for the years ended 31 December 2017, 2018 and 2019, respectively, and references to financial information for the first half of 2019 refer to financial information as of or for the six months ended 30 June 2019.

1.9. Forward-Looking Statements

Certain statements in this Base Prospectus are not historical facts and are forward-looking statements which are based on the Citadele's Management Board's views and understanding of the Citadele Group and its operating environment and on the assumptions made based on the factors known to the Citadele's Management Board as of the date of this Base Prospectus. Forward-looking statements are identified by words such as "believe", "anticipate", "predict", "expect", "estimate", "intend", "plan", "will", "would", "may", "might", "could", "consider" or "likely" and variations of such words or any other similar expressions and statements, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements may appear, without limitation, under the headings "Risk Factors", "Corporate governance" and "Overview and Business Description". Citadele may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of Citadele's or Citadele Group's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance of Citadele or Citadele Group or the industries and markets in which it operates; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by Citadele Group from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Citadele operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, Citadele does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except as required by law, the rules of the FCMC or the Nasdaq Riga. Citadele does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The section entitled "*Risk Factors*" includes risks, uncertainties and other important factors, which may affect Citadele's and Citadele Group's business operations, financial position and/or business result. The risk factors described in the Base Prospectus do not necessarily include all risks and new risks may surface. If one or more of the risk factors described in this Base Prospectus or any other risk factors or uncertainties would materialise or any of the assumptions made would turn out to be erroneous, the Citadele's and Citadele Group's actual business result and/or financial position may differ materially from that anticipated, believed, estimated or expected.

1.10. Advisors

Legal Adviser to Citadele:

POGA.LEGAL

Attorney-at-law Edijs Poga Law Office
Republikas laukums 2A, Riga, 5th floor, 5.2.31 office
LV-1010, Latvia, www.poga.legal

Financial Adviser to Citadele:

 **REDGATE**
CAPITAL

Redgate Capital AS
Pärnu road 10, 4th floor, Tallinn 10148, Estonia
www.redgatecapital.eu

Advisors to Citadele are not liable for the correctness of the information presented and any representations made in this Base Prospectus and any Final Terms.

2. Notice to Investors and Restrictions on Distribution

General

This Base Prospectus and any Final Terms have been prepared by Citadele for use in connection with the Offer in Latvia, Lithuania and Estonia and the listing of the Bonds on the Baltic Bond List of Nasdaq Riga Stock Exchange. This Base Prospectus does not apply to any subsequent resale or final placement of the Bonds by financial intermediaries. This Base Prospectus has been approved by the FCMC and for the purposes of passporting the Offer to Lithuania notified to the Bank of Lithuania and Estonia notified to Estonian Financial Supervision and Resolution Authority with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Regulation.

The distribution of this Base Prospectus, any Final Terms and the offer and sale of the Bonds may be restricted by law in certain other countries and jurisdictions. The offer of the Bonds to the public will be made only in Latvia, Lithuania and Estonia; there will be no public offer of the Bonds in any other jurisdiction. Any person residing outside Latvia and Lithuania may receive this Base Prospectus and any Final Terms only within the limits of applicable special provisions or restrictions. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Base Prospectus and any Final Terms nor any other offering material or advertisement in connection with the Bonds may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Base Prospectus and any Final Terms come should inform themselves about and observe any restrictions on the distribution of this Base Prospectus and any Final Terms and the offer and sale of the Bonds offered in the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Citadele and any of its respective affiliates or advisers are not making an offer to sell the Bonds or a solicitation of an offer to buy any of the Bonds to any person in any jurisdiction except where such an offer or solicitation is permitted. Accordingly, this Base Prospectus and any Final Terms do not constitute an offer to subscribe for or buy any of the Bonds offered in the Offer to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Citadele or its representatives or advisers do not accept any legal responsibility whatsoever for any such violations, for any violation by any person, whether or not a prospective investor, of any such restrictions and whether or not such a person is aware of such restrictions. Prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Bonds or possess or distribute this Base Prospectus and any Final Terms. Prospective investors must obtain any consent, approval or permission required for their purchase, offer or sale of the Bonds under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers or sales.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds, or distribution of this Base Prospectus, any Final Terms or any supplementary prospectus or any amendment or supplement thereto in connection with the proposed resale of the Bonds or any other offering material in any country or jurisdiction where action for that purpose is required.

This Base Prospectus and any Final Terms may not be distributed or published and, unless specifically otherwise stated in this Base Prospectus, the Bonds may not be, directly or indirectly, offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws, including, if applicable, the United States of America. Citadele reserves the right at its sole discretion to reject subscription to the Bonds, which it believes would cause the violation or breach of any law, rule or regulation for the time being in force.

European Economic Area

This Base Prospectus has been prepared on the basis that any offer of the Bonds (other than the offer of the Bonds in Latvia, Lithuania and Estonia) will be made pursuant to an exemption under Article 1(4) of the Prospectus Regulation, from the requirement to produce a prospectus for offers of the Bonds. Accordingly, any person making or intending to make an offer within the EEA of the Bonds which are the subject of an offering contemplated by the relevant Final Terms (other than the offer of the Bonds in Latvia, Lithuania and Estonia) may only do so in circumstances in which no obligation arises for Citadele to publish a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to

Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Citadele has not authorised, nor does it authorise, the making of any offer of the Bonds in circumstances in which an obligation arises for Citadele to publish or supplement a prospectus for such offer.

In relation to each Member State of the EEA (each, a “**Relevant Member State**”), an offer of any Bonds which are the subject of the Offer contemplated herein to the public in that Relevant Member State may not be made, except in the cases of Latvia, Lithuania and Estonia, and except that Citadele may make an offer to the public of the Bonds in that Relevant Member State under the following exemptions under the Prospectus Regulation:

- (a) to any legal entity which is a qualified investor as defined under the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons per Member State (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of Citadele for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation, subject to obtaining the prior consent of Citadele for any such offer,

provided that no such offer of Bonds shall result in a requirement for the publication by Citadele of a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression “an offer to the public” in relation to any Bonds in any Relevant Member State shall have the meaning set out in Article 2(d) of the Prospectus Regulation. In the case of any Bonds being offered to a financial intermediary, as that term is used in Article 5(1) of the Prospectus Regulation, such financial intermediary will be deemed to have represented and agreed that the Bonds acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Bonds to the public other than their offer or resale in a Relevant Member State to qualified investors who are not financial intermediaries as so defined or in circumstances in which the prior consent of Citadele has been obtained to each such proposed offer or resale. Citadele and its respective affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements.

Each person in the Relevant Member State (other than Latvia, Lithuania or Estonia) who receives any communication in respect of the Bonds or who acquires any Bonds under the offers contemplated in this Base Prospectus will be deemed to have represented, warranted and agreed to and with Citadele that it is a “qualified investor” within the meaning of Article 2(e) of the Prospectus Regulation; and in the case of any Bonds acquired by it as a financial intermediary as that term is used in Article 5(1) of the Prospectus Regulation, such financial intermediary will also be deemed to have represented, warranted and agreed that the Bonds acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Regulation, or in circumstances in which the prior consent of Citadele has been given to the offer or resale; or where the Bonds have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Bonds to it is not treated under the Prospective Regulation as having been made to such persons. Citadele and its affiliates and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified Citadele of such fact in writing may, with the consent of Citadele, be permitted to subscribe for or purchase the Bonds.

United States

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (WHICH TERM INCLUDES THE TERRITORIES, THE POSSESSIONS, AND ALL OTHER AREAS SUBJECT TO THE JURISDICTION OF THE UNITED STATES) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED).

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFER OF THE BONDS OR DETERMINED IF THIS BASE PROSPECTUS AND ANY FINAL TERMS ARE TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

3. Risk Factors

3.1. Introduction

Investment in the Bonds involves a high degree of risk. Prospective investors should carefully review this Base Prospectus in its entirety and should, in particular, consider, among other things, all risks inherent in making such an investment, including the following risks and uncertainties, before deciding to invest in the Bonds. Prospective investors should be aware that the value of the Bonds and any income derived from them may go down as well as up and that investors may not be able to rely on their initial investment. If any of the following risks materialise, Citadele Group's business, prospects, financial condition, results of operations or cash flows, as well as Citadele's ability to fulfil its obligations under the Bonds could be materially adversely affected. In such a case, the value and the market price of the Bonds could also decline and investors could lose all or part of their investment.

Prospective investors should note that, although the factors described below represent the principal risks inherent in investing in the Bonds, there may be additional risks and uncertainties of which Citadele Group is currently unaware or currently considers immaterial and which may also have a material adverse effect on Citadele Group's business prospects, financial condition, results of operations or cash flows, therefore Citadele does not represent that the statements below regarding the risks of acquiring and/or holding any Bonds are exhaustive. The risk factors described below are not listed in any order of priority with regard to significance or probability.

Most of these risk factors are contingencies which may or may not occur and Citadele is not in a position to assess or express a view on the likelihood of any such contingency occurring. This Base Prospectus is not, and does not purport to be, investment advice or an investment recommendation to invest in the Bonds. Prospective investors should make their own independent review, analysis and evaluations of the risks associated with an investment in the Bonds and whether an investment into the Bonds is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc. Prospective investors should consult with their own professional advisers if they consider it necessary.

3.2. Risks Relating to Citadele Group's Business

Strategic risk

Citadele Group may not successfully implement its business strategy. According to its business strategy, Citadele Group aims to become the leading local bank of choice for individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States. There is no guarantee that Citadele Group will be successful in implementing its business strategy in any regard, and the implementation of all or any part of Citadele Group's business strategy may be less effective, less profitable or less rapid than Citadele Group anticipates. Citadele Group's business strategy is subject to a number of challenges and risks, including that Citadele Group may be unable to:

- become the primary bank of choice for mobile active retail customers in the Baltic States, in particular as a result of a failure by Citadele Group to increase the number of its new and existing customers that use Citadele as their primary bank, develop its current account product into a key "hook" product to attract customers, expand its range of digital services via mobile and online and the quality of its personalized customer service;
- successfully enhance its consumer lending and mortgage product offering to its retail customers via mobile and online in the Baltic States, in particular as a result of a failure by Citadele Group to increase the use of card products among its existing and potential customer base, maintain its existing customer base, market share and revenue levels in the retail lending business, or leverage its IT systems and increase automation in the underwriting process while maintaining existing risk levels;
- successfully develop the SME and Corporate segment in the Baltic States focused on small and medium merchants, in particular as a result of a failure by Citadele Group to increase its product and service penetration in the SME segment, retain client relationships with SMEs that grow into larger, more complex businesses or maintain or grow its revenue levels in the SME and Corporate segment;

- drive revenue growth from its existing SME and Corporate customer base, in particular as result of a failure by Citadele Group to implement new product offerings, improve the effectiveness of its sales and distribution channels and enhance its relationship managers' roles in its customer service process, or maintain its existing customer base, market share and revenue levels in the SME and Corporate segment;
- expand leasing segment in the Baltic States, in particular as a result of a failure by Citadele Group to build competitive "one click" leasing offering, become provider of choice for dealerships and partners, provide best in class customer service to customers, dealers and partners;
- grow local wealth management, asset management and pension product offerings to individual customers inside the Baltic States, in particular as a result of a failure by Citadele to sell its product offerings, asset management and pension operations, or maintain its market share and revenue levels in these segments;
- maintain its prudent liquidity and funding profile and enhance its capital base whilst delivering strong medium-term returns on equity, in particular as a result of a failure by Citadele Group to maintain adequate liquidity, grow its customer deposit base, manage costs associated with its funding base or secure additional sources of liquidity as necessary;
- generate sufficient profits from its operations to enable it to meet the minimum capital requirements imposed by the FCMC;
- successful integration of acquired entities, including Citadele's announced acquisition of Unicredit's Baltic leasing operations.

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

Risk Management strategies, techniques and policies may fail to adequately identify and manage the risks that Citadele faces and the losses that could result from them

Although Citadele Group takes steps to manage the risks to which it is exposed, it may not have adequately identified the risks that it faces or the losses that could result from them. In addition, there may be other risks that Citadele Group has not yet identified, anticipated or been made aware of, and the impact of such risks, including any subsequent losses for Citadele Group, may be far greater than the impacts that Citadele Group has otherwise anticipated. The risk management systems adopted by Citadele Group may not be sufficient to protect it from the risks that it may face or the losses that it might incur now or in the future.

Any change in Citadele Group's approach to risk management, including as a result of identifying new risks, may result in a higher impairment level for certain of Citadele Group's assets, which in turn may affect Citadele Group's profitability. The estimation of impairment levels is inherently uncertain and dependent upon many factors, such as historical loan performance, future economic conditions, the trading performance or future cash flows of the borrower and the value of the underlying collateral, for which there may not be a readily accessible market. Citadele Group relies on quantitative models (including IFRS 9 model) as well as expert judgement to determine estimated impairment allowances. Under requirements of IFRS 9 rules, Citadele Group calculates collective impairment losses based on the probability of default ("PD") for a given loan portfolio and the loss given default ratio ("LGD") for the loan portfolio, which describes the average credit loss incurred if an obligor in the loan portfolio defaults. To determine its PD and LGD estimates, Citadele Group employs a combination of statistical analyses including segment-specific statistics and management judgment. Citadele Group may not have accurately identified impaired loans or estimated the scope of loan impairments across its loan portfolio, which may result in Citadele Group's loan portfolio performing significantly below Citadele Group's expectations. Actual credit losses may materially differ from reported impairment levels due to a number of factors, including factors that are inherently uncertain, such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors.

Any failure by Citadele Group to accurately assess or manage the risks or losses that it faces, or any change in the approach to risk management leading to higher impairments, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele may fail to correctly evaluate the credit risk and collateral value of its security

At the initial lending stage as well as during the life of a loan, Citadele Group's credit risk evaluation and collateral valuation models and processes may not accurately reflect the underlying risk of specific borrowers or the underlying value of their collateral, and the quality of Citadele Group's loan portfolio may deteriorate for reasons that are beyond its knowledge or control. Financial models (which are typically financial representations illustrating likely financial results based on specific financial assumptions) help inform Citadele Group of the value of certain of its assets (such as certain loans, financial instruments, including illiquid financial instruments where market prices are not readily available, goodwill or other intangible assets) and liabilities as well as Citadele's risk exposure. These financial models also generally require Citadele to make assumptions, judgments and estimates which, in many cases, are inherently uncertain, including expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgments and estimates may need to be updated to reflect changing facts, trends and market conditions and may result in a decrease in the value of, and consequently an impairment of, Citadele's assets, an increase in Citadele's liabilities or an increase in Citadele's risk exposure, any of which may have a material adverse effect on Citadele's financial condition, results of operations and prospects. Any failure by Citadele Group to accurately assess the credit quality of its loan portfolio or the value or enforceability of its associated collateral may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Potentially heightened credit risk exposure by lending to retail, SME and micro SME customers

Lending to retail, SME and micro SME customers generally carries a greater risk of credit exposure than lending to larger corporate customers. Loans to these customers are often more difficult to accurately price because these customers are generally less financially stable than larger corporate customers and generally have less available credit history. In particular, the financial condition of some of Citadele Group's retail, SME and micro SME customers is difficult to assess and predict, and some of these borrowers have no or very limited credit history. Financial instability within the Baltic States may affect these customers more significantly than it would affect larger corporate customers. In the case of wider regional or global financial instability (such as a renewed credit crisis or global recession), Citadele Group may suffer higher losses in connection with its retail, SME and micro SME loans due to the greater likelihood of SME or micro SME customers going out of business or retail customers suffering reduced income or becoming unemployed, which may lead to increases in overdue payments and reduce the ability of such customers to service their debts. Any failure by Citadele Group to accurately assess the credit risk and loan performance of its retail, SME and micro SME customers may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Concentration risk

Citadele Group's current loan portfolio is concentrated on certain borrowers and certain sectors of the Latvian economy. Citadele Group's loan portfolio currently has substantial credit exposure to the manufacturing and real estate investment and management sectors in Latvia. As of 31 December 2019, the real estate investment and management sector constituted 27% and the manufacturing sector 15% of Citadele Group's total loan portfolio to customers other than private individuals. In the event of economic developments adversely affecting Citadele Group's customers in those sectors, or if any such customers were to move or reduce their business with Citadele Group or were to experience financial difficulties or other difficulties servicing their loan obligations, the performance of Citadele Group's loan portfolio may be materially and adversely affected, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Furthermore, Citadele's exposure to the leasing sector will significantly increase after the completion of the acquisition of Unicredit's Baltic leasing operations, which includes a lease portfolio of more than EUR 850 million. Following the acquisition, Citadele's aggregate net leasing loans will exceed EUR 1.1 billion. As a result, Citadele will become one of the three largest players in the Latvian leasing market. The closing of the acquisition is expected in Q1 2020, subject to mandatory approvals.

Citadele Group's securities portfolio is concentrated in Latvian and Lithuanian government bonds and its value may decrease. As of 31 December 2019, 24% and 19% of Citadele Group's securities portfolio consisted of Latvian and Lithuanian government bonds, respectively. As a result of this concentration, Citadele Group's securities portfolio is particularly exposed to any default by the Latvian or Lithuanian states, including certain of its branches, departments and local municipalities. In addition, the default of a government of another Member State of the EU would also likely have a significant impact on the fiscal and political situation of the EU and the economic performance of the Eurozone, which may have a significant impact on Citadele Group's fixed income

portfolio. Similarly, any credit default by any other country to which Citadele Group has a direct credit exposure may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. While the vast majority of the securities in Citadele Group's securities portfolio have investment-grade credit ratings, such securities may fall in value or become less liquid as a result of the financial performance of their respective issuers, downgrade or loss of its credit rating or as a result of market conditions in general. Although Citadele Group assesses the fair value of its securities portfolio through the use of valuation techniques, including quoted market prices, observable market data and other data, there can be no assurance that the fair values that Citadele Group determines for its securities portfolio accurately reflect the underlying value of such instruments. In addition, the fair values of Citadele Group's securities portfolio may change rapidly and unexpectedly based on movements in markets to which Citadele Group's securities portfolio is exposed, even if Citadele Group believes that the underlying value of the securities has not changed. Any decrease in the value, liquidity or fair values of Citadele Group's securities portfolio may require Citadele Group to acquire additional sources of liquidity or capital and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Liquidity Risk and Dependence on Access to Funding resources

Citadele Group's business is subject to liquidity risk and may be materially and adversely affected by events beyond its control, including regional or global economic or macroeconomic events or events that cause harm to Citadele Group's reputation, including a significant and unexpected withdrawal of customer deposits.

The Group's strategy is to be funded predominantly by customer deposits. Customer deposits currently represent, and are expected to continue to represent, the predominant source of Citadele Group's liquidity, and Citadele Group is substantially dependent on its ability to attract and retain customer deposits at favourable interest rates in order to provide sufficient liquidity for its operations. Citadele Group may be unable to attract and retain customer deposits at the same volume or cost that it currently enjoys. The interest rates that Citadele Group offers on customer deposits are not only affected by current market interest rates, but are also dependent on Citadele Group's short-term and long-term liquidity targets, as well as its market position and the level of competition in the markets where it operates. In addition, recent low interest rates on customer deposits in the Eurozone have led to an increase in Citadele Group's demand deposits and a corresponding decrease in its fixed-term deposits, which has heightened the potential volatility of Citadele Group's customer deposit base. If money market interest rates set by central banks reach significantly negative levels, Citadele Group may be forced to pass this cost on to its customers. This may result in customers withdrawing funds which may have an adverse effect on Citadele Group's funding position.

Citadele regularly stresses the potential outflows it may face under different scenarios. The Group regularly runs internal liquidity adequacy assessment process (ILAAP) evaluating current and expected liquidity and funding needs. However, high deposit outflows often occur suddenly, and Citadele Group may not be able to foresee, predict or adequately manage the impact of such events. If Citadele Group is unable to attract or retain sufficient customer deposits to meet its funding needs, Citadele Group may need to seek alternative sources of funding, such as the interbank or capital markets, which, if they are available at all, may be more expensive and result in decreased interest margins and profitability for Citadele Group. Citadele Group does not currently have any funding lines available from other. While Citadele Group may seek to issue new debt or seek new subordinated loans in future, there is no guarantee that it will be able to do so at favourable interest rates or at all. Citadele Group's ability to raise funds may be limited by numerous factors, including general economic and macroeconomic conditions, the availability of funding in the capital markets generally or from Citadele's shareholders, investor confidence in Citadele Group, sentiment towards the Latvian economy or the economies of the other Baltic States, and the credit rating of Citadele and the financial condition, performance and prospects of Citadele Group.

Any reduction in available liquidity for Citadele's customers, failure by Citadele Group to attract and retain sufficient customer deposits or to access additional sources of funding at favourable interest rates may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Operational risk

Citadele Group is exposed to the risk of fraud committed by its customers, as well as fraud or misconduct committed by employees. Such fraud or misconduct may arise or persist as a result of the failure or inadequacy of Citadele Group's risk management or corporate governance procedures or the failure of third party outsourcing contractors to identify or prevent such fraud or misconduct.

The scope of the operational risks associated with Citadele Group's employees is broad and may include risks that Citadele Group is unable to identify or mitigate in advance. Such risks include the risk of financial losses resulting from employees' lack of knowledge, appropriate training or violation of laws, rules and regulations or any other misconduct or fraudulent behaviour. Misconduct and fraud have been seen across the global financial services industry and could involve conduct such as, but not limited to, the improper use or disclosure of confidential information or the violation of laws and regulations concerning financial abuse and money laundering. The occurrence of any type of misconduct or fraud could result in penalties or sanctions being levied against Citadele Group, in addition to the risk that Citadele Group may suffer serious reputational or commercial harm as a result. In addition, there is a risk that key security and transaction documents held by Citadele, including title deeds for secured property, personal guarantees and fully executed transaction documents may be lost, misplaced or destroyed (notwithstanding Citadele Group's best efforts to prevent this).

Any such documents that are lost or destroyed would reduce Citadele's ability to enforce its security or its rights against the relevant counterparty in the relevant court. The measures that Citadele Group has taken to prevent fraud or misconduct by its employees may not always be successful, and Citadele has from time to time encountered isolated incidents of employee misconduct, including in relation to fraud and recklessness by individual employees. In particular, although Citadele Group has recently upgraded its whistle blowing policy, it may not be effective in helping Citadele Group identify and prevent employee misconduct. Any violation of Citadele Group's internal risk management procedures, monitoring systems for foreign exchange transactions and control procedures on bond limits could also result in Citadele Group inadvertently entering into binding transactions that exceed authorised limits. Such events may result in unknown and unmanageable losses. In addition, in the ordinary course of its business, Citadele Group processes a number of transactions manually and in several instances cash transactions do not comply with the four eyes principle (whereby the final performance of a transaction or operation must be approved by at least two independent employees or structural units), which may further increase the risk that human error, employee tampering or manipulation will result in significant losses that may be difficult to detect. There is also a risk that human error may result in data being lost, IT systems downtime being increased, or security for Citadele Group being compromised. The occurrence of fraud or misconduct by Citadele Group's employees may have a material adverse effect on Citadele Group's business, reputation, prospects, financial condition, results of operations or cash flows.

Dependency on Information Technology systems

Citadele Group relies heavily on its information technology ("IT") systems and security to conduct its business and protect its data. Whilst Citadele Group has invested substantial resources in upgrading its IT systems and security, Citadele Group may not be able to successfully maintain or upgrade its IT systems or security, resulting in performance or security issues, including in relation to payment card limits on ATM transactions, unauthorised account overdrafts, OFAC sanctions filters or improper use of personal data. In addition, any maintenance and upgrade programme may be more expensive or more time-consuming than Citadele Group anticipates. Failure to maintain Citadele Group's existing IT systems may place Citadele Group at a competitive disadvantage relative to competing banks and other financial organisations in the Baltic States, may adversely affect the confidence Citadele Group's customers have in its IT systems and may limit Citadele Group's ability to attract and retain new customers or customer deposits, any of which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Any disruption in the functionality or data integrity of Citadele Group's IT systems may impair Citadele Group's decision-making and risk management procedures and business activities and result in additional costs or losses. Citadele Group has from time to time experienced unauthorised transactions as a result of external fraud or inadequacies in its IT systems, and may experience losses in the future from any failure of its controls to detect or contain any future operational risk. Citadele Group's IT systems may also be disrupted by factors beyond its control, such as faults arising from cables or connections upon which Citadele Group's systems are reliant or as a result of attempts by third parties to breach Citadele Group's IT security and infiltrate its IT networks or otherwise adversely affect its online operations, data or functionality, for example, by way of hacking, viruses, malware, denial-of-service attacks and other wrongdoing. In particular, Citadele Group and its clients may be vulnerable to cyber-attacks or other acts of a malicious nature which may compromise the security of its servers, data and systems and disrupt the flow of funds to and from the bank. For example, in October 2015, Citadele Group was the target of a denial-of-service attack launched by a well-known cybercriminal organisation which led to a minor temporary downtime of Citadele Group's systems. Citadele Group also relies upon third-parties for the performance of certain outsourced activities and these third-parties, their employees and their IT systems may fail to perform adequately or may be vulnerable to cyber-attacks which may also compromise the IT security, customer data protection and operations of Citadele Group.

Although Citadele Group has backup and disaster recovery systems in place, if Citadele Group's IT systems fail, whether for a short period of time or due to a longer outage, such as following the occurrence of a natural disaster or other reason, Citadele Group may be unable to continue to serve its customers' needs at the level they are accustomed to or at all. Such failures or shutdowns, whether extended or momentary, may result in Citadele Group incurring substantial additional costs and may result in the loss of a substantial number of Citadele Group's customers. In addition, IT systems failures may result in reputational damage to Citadele Group if customers perceive that Citadele Group's IT systems are less secure or less reliable than those of its competitors. Any failures of Citadele Group's IT systems or outsourced IT systems may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Reputational Risk

Reputational risk can, above all, be attributed to the materialisation of other risks, such as operational, strategic, compliance risks or other. Citadele Group mitigates the reputational risk by carrying out regular risk management trainings as well as by continually improving the Group's risk management framework, thus ensuring a strong risk culture. However, the measures taken by Citadele may prove to be ineffective or insufficient and further, in addition to factors directly attributable to Citadele Group companies and their employees, the reputation of Citadele Group is affected by circumstances beyond the control of Citadele Group, such as information circulating in the media. Any deterioration of Citadele Group's reputation in the eyes of customers, business partners, owners, employees, investors or supervisory authorities may have material adverse effect on Citadele Group's operations, financial condition and results of operations. As of the date of this prospectus, 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. After the date of this Base Prospectus, 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 board of Citadele expects that if there would be a fine, the amount will not have any material effect on Citadele's financial position.

Correspondent account risk

Citadele Group is exposed to certain concentration risks in relation to its use of correspondent bank accounts for certain currencies, particularly U.S. dollars and British pounds, which may adversely affect its operations. Taking in account various AML scandals which raised strong negative impact on country images in Baltic States during last years, many correspondents, like Deutsche Bank, UBS, KBC Bank ceased correspondent account relationships for all credit institutions operating in Latvia, including Citadele Group. Citadele Group, however has successful relationships with Citibank N.A. and Raiffeisen Bank International AG in the field of USD correspondent banking and British pound correspondent account services. If Citibank N.A. and/or Raiffeisen Bank International AG decide to withdraw from the Baltic States and Citadele Group fails to open U.S. dollar and/or British pounds correspondent accounts with other banks, Citadele Group may experience difficulties in processing customer payments in both currencies. In particular, these difficulties may affect Citadele Group's wealth management and corporate segments if customers perceive that Citadele is not able to offer a full spectrum of banking services, including the ability to process payments in key currencies. Any such development may result in loss of majority of fee income from payment transfers as well as part of fees from custody and brokerage services, in inability to serve non-euro payment card settlements that may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be subject to litigation, administrative proceedings or other proceedings

Citadele Group may be subject to litigation by its customers, employees, shareholders or other persons through private actions, administrative proceedings, regulatory actions or other litigation. Whilst Citadele Group has from time to time been subject to litigation, the outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Claimants in these types of actions against Citadele Group may, in particular, seek recovery of large or indeterminate amounts or other remedies, or challenge the actions taken or resolutions adopted by Citadele Group's Management and Supervisory Boards and the General Meeting of Shareholders, which may affect Citadele Group's ability to conduct its business, and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. The cost of defending future actions may be significant. There may also be adverse publicity associated with litigation that could negatively affect the reputation of Citadele Group, regardless of whether the allegations are valid or whether Citadele Group is ultimately found liable. The occurrence of any litigation or similar proceedings or actions may have a

material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Dependency on qualified personnel

To meet commercial challenges and maintain effective operations, Citadele Group must recruit and retain appropriately skilled individuals. Citadele Group's senior management team contributes significant expertise in, and experience with, the industries within which Citadele Group operates, and has allowed Citadele Group to maintain and develop business with many of its key customers. Implementation of Citadele Group's business strategy by its senior management may distract senior management from the day-to-day operation of Citadele Group's business and may result in their inability to devote sufficient attention to maintaining and improving these client relationships. Citadele Group is reliant upon its senior management team for the implementation of its business strategy and its day-to-day operational activities, and any change or disruption in the senior management team may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's ability to continue to attract, retain and motivate qualified and experienced personnel is vital to its business. Attracting and retaining highly professional and motivated employees has been challenging at all times. Citadele Group closely monitors the market in terms of pay to ensure employees are adequately remunerated, but there is ongoing competition for talent. Given the shortage of skilled labour in the Baltic States and the resulting competition and increased salary pressure for skilled labour, Citadele Group may be unable to retain existing personnel or hire new qualified personnel, and Citadele Group may be required to further increase salaries and other benefits offered to experienced banking and management staff, which would increase Citadele Group's personnel costs. Any failure by Citadele Group to retain experienced personnel or hire new qualified personnel may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

3.3. Economic and Market Environment Risks

Changes in Economic Environment

Citadele Group's business is affected by European and global economic conditions and future economic prospects, particularly in Latvia and the other Baltic States in which Citadele Group's revenue is predominantly generated. Weak macroeconomic conditions, recessions, the implementation of austerity measures, along with global financial market turmoil and volatility, similar to the 2008-2009 financial crisis, have in the past affected and may continue to affect Citadele Group's business, financial performance and the activity level and behaviour of Citadele Group's customers as well as the banking sectors in the Baltic States generally. External economic factors have in the past affected and may continue to affect Citadele Group in the future. These include high unemployment levels, reduced consumer and government spending levels, government monetary and fiscal policies, inflation rates, credit spreads, currency exchange rates, market indices, investor sentiment and confidence in the financial markets, reduced consumer confidence, the level and volatility of equity prices, commodity prices and interest rates, real estate prices and changes in customer behaviour. All of these factors are impacted by changes in financial markets and developments in the European and global economies, including in Latvia and the other regions where Citadele Group operates. Furthermore, other factors or events may affect the Baltic, European and global economic conditions, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside Citadele Group's control.

Following the global financial crisis in 2008 and 2009, a number of countries in Europe have experienced increasing debt levels and a lack of economic growth. Lower private consumer spending, lower household purchasing power, high rates of unemployment, reduction of business profitability and increased insolvency of companies and/or households have contributed to slow GDP growth in many European countries. Certain of these factors arising from the global financial crisis (particularly those impacting CIS countries) have resulted in a reduced demand for financial products and services and deterioration in the asset quality of Citadele Group and have negatively influenced the capacity of Citadele Group's customers to repay loans resulting in increased loan impairment charges, in particular prior to 2013. Although the Baltic States have been in a period of economic recovery following the global financial crisis, the rate of growth in these countries, like many others in the EU, has recently slowed, and they remain highly exposed to regional or global financial instability. In addition, due to their relatively small and open economies, the Baltic States remain exposed to regional or global economic or macroeconomic events to a greater extent than many other nations making Baltic states more vulnerable to escalations in trade tensions. Domestically Baltic States shrinking labour force and declining population are factors that could affect potential GDP growth over the medium to long term.

Following the adoption of the Euro by Estonia, Latvia and Lithuania on 1 January 2011, 2014 and 2015, respectively, the Baltic States are currently all members of the Eurozone and are thus affected by economic and macroeconomic developments in the Eurozone.

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

Competition within the banking sectors of the Baltic States

Citadele Group faces significant competition from both foreign and domestic banks in all Baltic States. According to data published by the Finance Latvia association (FLA), as of 30 September 2019, there were 11 banks and 9 branches of foreign banks operating in Latvia. Increased levels of competition in Latvia, Lithuania or Estonia may have a material adverse effect on Citadele Group's market share in the Baltic States and may limit its ability to expand its operations and product offerings to customers. Because there is only a limited pool of high quality borrowers in the Baltic States, Citadele Group may lose market share if its competitors seek to expand and it is unable to effectively compete. Citadele Group may be unable to offer new products or services at the same rate or level of profitability as its competitors, and Citadele Group may be unable to enhance its existing products or services before or in line with its competitors. While Citadele Group does not actively target customers in the low-interest rate segment of these markets and does not engage in so-called "interest rate wars" with other banks, should a competitor lower its interest rates on loans or increase interest rates on savings products, Citadele Group's ability or desire to match such rates, particularly in relation to its corporate loan products, would be limited.

In addition to the competitive threat posed by traditional banks, Citadele Group also faces competition from a number of small, independent financial technology companies not only from the Baltic States, but also from elsewhere. The number of "FinTech" companies has expanded significantly in recent years, as has their product offering, and their aim is to disrupt the incumbent financial system by offering lower-cost, software-focused financial services, particularly in relation to the consumer loans, credit cards, payment transfers and foreign exchange segments of the banking sector.

Any failure by Citadele Group to successfully compete in the Baltic States may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows, and may severely limit Citadele Group's ability to implement its business strategy.

Changes in market interest rates

Market interest rates remain low in most of the countries where Citadele Group operates, particularly in the Eurozone. Changes in market interest rates are influenced by a number of factors outside of Citadele Group's control, including the fiscal and monetary policies of governments and central banks, such as the ECB, and international political and economic conditions. Market interest rates may change in ways that Citadele Group is unable to foresee, predict or adequately manage, and may have a disproportionate or different effect on Citadele Group relative to its competitors. Market interest rates, particularly in the Eurozone, and the trend in the change of such rates have a material impact on Citadele Group's interest income from its loan and securities portfolios. As of 31 December 2019, vast majority of Citadele Group's loan portfolio consists of floating rate loans, whilst majority of Citadele Group's securities portfolio consists of fixed rate instruments. Changes in market interest rates also have a material impact on Citadele Group's interest expense, particularly with respect to the interest rates it pays on its customer deposit base. Because Citadele Group derives the majority of its total income from net interest income, changes in market interest rates may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

An increase in market interest rates may increase the interest expense that Citadele Group is required to pay in order to preserve liquidity by holding cash at the Central Bank or other Monetary financial institutions (MFIs), maintain its customer deposit base, as well as to honour liabilities to other creditors. In addition, an increase in market interest rates would have an immediate negative impact on Citadele's shareholder equity due to the revaluation of Citadele Group's fair valued securities portfolio, as well as a potential future negative impact on Citadele Group's income statement upon the sale of an affected security. The offsetting positive impact of increased interest income from Citadele Group's loan portfolio due to interest rate increases would not take

effect for up to six months in the future for each relevant loan due to delays in interest rate changes on individual loans, which are typically tied to six-month EURIBOR rates. However, the greater the increase in interest rates on loans, the greater the risk that borrowers would be unable to keep up with their increased payments and that increased interest income would be offset by increased default and impairment rates on Citadele Group's loan portfolio. As a result, an increase in interest rates may reduce Citadele Group's net interest margin and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

3.4. Regulatory, Political and Tax Risks

Changes in prudential regulatory environment

Citadele Group, like other financial institutions operating within the European Union, faces increasing risks associated with an uncertain and rapidly changing prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital or other ratios. Whilst Citadele Group is in compliance with existing capital adequacy requirements, there is a risk that more stringent capital adequacy requirements could be introduced in relation to the quality or the quantity of capital required to be held. Effective management of Citadele Group's capital is critical to the success of its commercial operations and the implementation of its business strategy. Citadele's Management Board will set its internal target amount of capital by taking account of their own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory measures, Citadele Group may be required to comply with increased capital ratios, e.g. due to changes in capital buffer requirements or individual assessment made by FCMC on an annual basis.

Besides minimum capital adequacy ratios as set by CRR, Citadele Group currently is exposed to and have to comply with a 2.9% regulatory Pillar 2 requirement, 2.5% capital conservation buffer 1.5% other systemically important institution (OSII) capital buffer, and 0.24% countercyclical capital buffer (as of 30 September 2019), which represents a countercyclical buffer based on Citadele's risk exposure geographical distribution regulatory initiative in respective countries. In order to meet its projected capital adequacy requirements, Citadele Group has assumed that its net profits available for distribution will be included as part of its Common Equity Tier 1 capital. By their very nature, profits may be volatile and unpredictable, and there is no guarantee that Citadele Group will be able to achieve the net profits that it anticipates in the future. Citadele Group may also need to increase its capital level in response to changing market conditions or expectations. If Citadele Group is unable to so increase its capital, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any change that limits Citadele Group's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations, liquidity or cash flows.

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

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

Additionally, the FCMC requires the Bank to comply with liquidity ratio requirements imposed upon several banks in Latvia or those specifically applicable to Citadele. The basic short-term liquidity ratio requirement for banks in Latvia is 30%.

Citadele Group ensures the compliance with Liquidity coverage ratio (LCR) requirement and already meets Net stable funding ratio (NSFR) requirement which is expected to enter into force in May 2021. Citadele Group may be unable to comply with the FCMC's regulatory required liquidity ratios, or may only be able to do so at the expense of disposing of certain of its more profitable but illiquid investments or limiting the frequency or value of its business activities. This may, in turn, have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Currently, Citadele Group's primary regulator is the FCMC, and Citadele Group is not currently regulated directly by the ECB. However, Citadele Group may come within the scope of ECB's regulatory mandate and oversight. This could impose new regulatory restrictions, disclosures and/or information requests upon Citadele Group, and may also lead to increased costs and review of Citadele Group's impairment levels. It may also result in an increase of the time spent by Citadele's management in order to ensure full regulatory compliance. The imposition of any such restrictions, increased costs and/or impairments as well as extra management time may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See *"Corporate governance — Asset Liability and Risk Management —Capital Adequacy Management"* for further information.

Maintaining minimum capital requirements

Citadele Group has previously submitted a report to the FCMC (Latvian regulator) following its internal capital adequacy assessment process ("ICAAP") detailing Citadele Group's plan on how it will continuously meet the minimum capital adequacy requirements, including its Pillar 2 add-on and combined buffer requirement, on a Basel III transitional basis over the forecasted period from 2019 to 2021. The content of this plan has been reviewed by the FCMC and will be one of the key inputs to the Supervisory Review and Evaluation Process (SREP) decision expected at the beginning of 2020. The current Pillar 2 regulatory requirement has been set at 2.9% following the SREP decision as of February 2019. ICAAP forecasts are based on a number of assumptions, including Citadele Group's projected revenue growth and the anticipated expansion of its asset base in line with its business strategy. However, whilst these assumptions, including profit forecast for the future periods, have been prepared as accurately as possible based upon information available at the time they are formed, these assumptions may prove to be inaccurate or incorrect due to factors outside of Citadele Group's control or expectation, which in turn may affect Citadele Group's ability to meet its minimum capital requirements or other prudential requirements under law or regulation. In case regulations related to capital requirements are amended by the FCMC at any point of time in the future, the Citadele Group may need to revise its business strategy, capital plan or both in order to ensure compliance with the aforementioned regulations. Any such revisions may have adverse implications on financial performance of Citadele Group. The investment of capital in projects aimed at growth may affect Citadele Group's overall capital position and may in turn affect its ability to meet the capital requirements imposed by the FCMC. See also *"Changes in prudential regulatory environment"* and *"Strategic risk"*, above. Any failure by Citadele Group to meet its minimum regulatory capital requirements may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

On 23 May 2016 the European Commission adopted the regulatory technical standards ("RTS") on the criteria for determining the minimum requirement for own funds and eligible liabilities ("MREL") under BRRD. In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD, BRRD requires that all institutions meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, with effect from 1 January 2016. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements.

The MREL requirement for each institution will be comprised of a number of elements, including the required loss absorbing capacity of the institution (which will, as a minimum, equate to the institution's capital requirements under CRD IV, including applicable buffers), and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process. Items eligible for inclusion in MREL will include an institution's own funds (within the meaning of CRD IV), along with "eligible liabilities", meaning liabilities which inter alia, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives.

The Single Resolution Board (SRB) determined the consolidated MREL for Citadele Group at the level of 14.92% of total liabilities and own funds (TLOF). The ratio was calculated based on the Group's financial position as of 31 December 2018. The MREL target has to be reached by 31 March 2022 after a transition period of 3 years. The existing target may be updated by the SRB in the future. Citadele will need additional eligible liabilities to comply with MREL requirements and Citadele may have to issue a significant amount of additional MREL eligible liabilities in order to meet the new requirements within the required timeframes, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any failure by the Citadele to comply with MREL requirements also may have a material adverse effect on the Citadele 's business, financial conditions and results of operations.

Measures to comply with anti-money laundering, countering the financing of terrorism and proliferation, anti-bribery and sanctions regulations may not be effective in all material respects

Although Latvia has enacted and fully implemented EU-wide requirements in relation to anti-money laundering ("AML"), and countering the financing of terrorism ("CFT") and proliferation (CPF), anti-bribery and sanctions legislation, extent of compliance with this legislation in the recent years have not been fully consistent across all Latvian financial institutions. Although proportion of international customers served by financial institutions is decreasing and the consequential risk of being used as money laundering vehicles decreases, there is still a perception of Latvia as a jurisdiction having inadequate frameworks for dealing with money laundering and bribery; this perception (whether or not founded) may cause correspondent banks in Western jurisdictions to elect not to deal with certain Latvian banks or to cease operations in the region entirely. Such an occurrence may have a material adverse effect on Citadele Group's ability to process international payments, specifically in U.S. dollars, and in turn on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Although Citadele Group believes that it has introduced all the necessary measures to adequately counteract money laundering and financing of terrorism which are required by law, including know-your-customer procedures and banking system enhancements, Citadele as part of a sector-wide exercise had engaged a U.S. based external auditor in 2016 to perform a review of its AML policies and procedures to ensure that these are as up to date and comprehensive as possible. As a result of this external review, the auditor's assessment for Citadele showed moderate level of AML compliance with international standards, and ranked Citadele best-in-class within the Latvian banking sector. To address the auditor's recommendations and suggestions for specific AML areas, Citadele has made all efforts to implement all recommendations and suggestions of external auditors according to remediation plan developed by Citadele. However, there is no guarantee that recommendations are fully and accurately implemented per the best practices in place in the United States and European Union. Furthermore, in order to ensure ongoing independent testing of AML compliance and as part of a follow-on sector-wide exercise required by the FCMC in 2017, Citadele has engaged U.S. based auditors for consecutive AML audit in 2018 to perform re-evaluation of Citadele compliance with U.S. legal and international regulatory requirements and also address the sufficiency and quality of work performed by Citadele to implement recommendations from the previous review conducted in 2016. Whilst, at the date of this Base Prospectus, no Citadele Group entity has, to the knowledge of Citadele Group's management, been involved in fraud, money laundering, bribery, corruption, financing of terrorism or any other illegal transactions of a similar nature, it is not uncommon for attempts to be made by individuals, including potentially by employees of Citadele Group, to use Citadele and other banks and their subsidiaries to engage in such activities. As such, there have been and may be attempts to launder money or undertake other illegal activities through Citadele or Citadele entities, and Citadele Group's AML, CFT, CPF and other compliance measures may not be effective in preventing such activities, whether as a result of Citadele Group's employees' failure to observe the measures that Citadele Group has put into place, insufficient effectiveness of Citadele's internal control systems and/or as a result of the development of new methods for conducting money laundering activities or for other reasons. As day-to-day enforcement of AML/CFT/CPF and compliance measures is a time- and resource-intensive process, Citadele Group may experience delays in reviewing potential AML/CFT/CPF or compliance issues or in implementing preventive and corrective measures required by applicable legislation. Similarly, whilst Citadele Group introduced a new international sanctions policy in August 2015 which sets out the means by which Citadele Group manages the risk of breaching sanctions together with the enforcement principles which Citadele Group intends to maintain, there can be no guarantee that this policy will be wholly effective in preventing a breach of sanctions by Citadele Group or its employees.

The local regulatory environment, as well as supervisory and enforcement approach in the Baltic States in the areas of AML, CFT and sanctions have become quite strict in the recent years. During 2018 the FCMC has conducted on-site audit of Citadele's AML/CFT compliance with the requirements of applicable laws and regulations, but at the date of this Base Prospectus no final binding decision regarding outcome of such on-site audit has been taken by the FCMC. As of the date of this prospectus, 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. After the date of this Base Prospectus, 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 board of Citadele expects that if there would be a fine, the amount will not have any material effect on Citadele's financial position. Any failure by Citadele Group to fully implement functional AML procedures or to comply with all of the relevant Latvian, EU or other laws or regulations on AML, CFT, CPF anti-bribery and sanctions could subject Citadele Group to significant fines, sanctions and/or can result in harm to Citadele Group's reputation and even business disruption. It cannot be excluded that Citadele Group or its employees may have breached such laws or regulations in the past or that Citadele or its employees may breach such laws or regulations in the future, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Impact from implementation of the final Basel III framework

In December 2017, the Basel committee agreed on a new regulatory framework denoted the 'Final Basel III Framework'. The accord was subsequently supported by the G20 Finance Ministers and Central Bank Governors Meeting. The background for the framework was notably an identified variability in internal capital adequacy models that was not seen as being driven by a corresponding variation in underlying risks facing different banks. In other words, banks might not have enough capital to keep the financial system stable in a crisis because they underestimate potential losses. To address this, the Basel Committee proposed to, e.g., implement floors on the risk weights of banks, providing a minimum capital requirement for different exposures. In this way, the variability of the risk weight estimation is reduced, as it gives a lower bound for the required capital. Based on a mandate from the EU Commission, the European Banking Authority (EBA) provided a first assessment in August 2019 of how the Basel agreement could be implemented in the EU. In their main scenario, EBA estimates that the package would increase minimum capital requirements by some 24% for the EU average, equivalent to a shortfall of core equity (CET1) of EUR 91 bn. EBA also provides some options for implementation that would lead to a lower impact on capital requirements.

This main concept of the package has been translated into numerous different measures, including:

- Input floors and other restrictions that set minimums for the parameter estimates going into the risk-weight functions and restricting the use of the more advanced approaches using own estimates of loss given default
- Output-floors providing a minimum risk weight exposure amount (REA) for banks using internal models set at 72.5 % of the REA calculated using the standardised approaches
- A revised standardised approach for credit risk with the aim of increasing the risk sensitivity of the standardised approach for credit risk. This includes a more granular risk weighting approach for residential real estate exposure (where risk weights now depend on the loan-to-value ratio)
- Revisions of the market risk and credit valuation adjustment (CVA) risk framework. These limit the use of internal models for market risk and entirely remove the possibility to model CVA risk based on internal models. Also, the standardised approaches for market and CVA risk have been revamped
- A new framework for operational risk that replaces approaches based on internal models as well as the original three standardised approaches.

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

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

Legal entities in general (including financial institutions) that are tax resident in respective Baltic state (or which are otherwise liable to local tax), are required to pay certain taxes which are typical of the taxes applicable in EU member states. Citadele Group is subject to, or responsible for, a number of taxes in Latvia, including value added tax, social security contributions, personal income tax (to the extent it is withheld at source as payroll tax or withholding tax applicable to other sources of income of private individuals), corporate income tax, real estate tax, vehicle operation tax and company car tax, as well as other taxes specified in international agreements ratified by the Latvian Parliament from time to time. The tax policy of governments (including

Latvia, the other Baltic States or elsewhere) may change in a manner which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Anticipated revisions to tax legislation or to its interpretation may affect Citadele Group's financial condition in the future.

The new Latvian corporate income tax regime, effective from 1 January 2018, introduced a new framework whereby corporate income tax is payable on dividend pay-outs only (irrespective of profits in the particular period) and certain other expenses considered to be distribution of earnings for tax purposes (e.g. non-business expenses and representative expenses that exceed specific thresholds). Corporate income tax in Lithuania is payable on taxable profits, which may be partially offset by any tax loss carried forward from previous tax periods. Corporate income tax in Estonia is payable on dividend pay-outs, but institution is required to pay-in tax advance. As a result, this new regime has a positive impact on the Group and the Bank in 2018 and 2019 (and subsequent periods) as the corporate income tax expense on undistributed profits decreased substantially under the new tax regime in Latvia. The tax assets in other Group's jurisdictions are unaffected by the changes in the Latvian tax regime.

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

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

Citadele Group is subject to periodic audits by the Latvian, Lithuanian, Estonian and Swiss tax authorities. Statute of limitations in Latvia is three years since the relevant tax payment was due, but transfer prices may be examined for five years. The statute of limitations in Lithuania and Estonia is current and five and three previous tax periods respectively. However, the statute of limitations may be extended if a criminal case has been initiated against the tax payer and it requires determining the damage caused to the State. Citadele Group is unable to predict the timing of these audits, and these audits may discover tax issues or problems of which Citadele Group was previously unaware. Complying with these audits may be difficult, time-consuming and expensive, and may require substantial attention from management. Whilst Citadele Group regularly evaluates its compliance with tax legislation and uncertain tax positions, any adverse outcomes from these audits may result in the imposition of penalties which may have an adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks as a result of regulatory investigations

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

Citadele banka is also subject to number of regular audits by the respective Baltic banking regulators as well as number of external auditors. Although findings, if any, by external auditors are kept within the organization, findings as well as fines (if any) by banking regulator may negatively impact Citadele's reputation and valuation as well as smooth co-operations with foreign correspondent banks. As of date of this prospectus, 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. After the date of this Base Prospectus, 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 board of Citadele expects that if there would be a fine, the amount will not have any material effect on Citadele's financial position.

3.5. Risks Relating to the Bonds, Offer and Listing

The Bonds may not be a suitable investment for all investors

Thus, each potential investor in the Bonds must determine the suitability and appropriateness of that investment in light of his or her own circumstances. A potential investor should not invest in the Bonds unless the investor has the expertise (either alone or with the relevant support from a professional advisor) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio. In particular, each potential investor should consider, either on his or her own or with the help of the investor's financial and other professional advisers, whether the investor:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Base Prospectus, the Final Terms and documents attached to this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Bonds and is familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate either alone or with the relevant support from a financial adviser possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Credit risk

An investment in the Bonds is subject to credit risk, which means that the Citadele may fail to meet its obligations arising from the Bonds in a duly and timely manner. Citadele's ability to meet its obligations arising from the Bonds and the ability of the Bondholders to receive payments arising from the Bonds depend on the financial position and the results of operations of Citadele and Citadele Group, which are subject to other risks as described in this Base Prospectus.

Citadele's obligations under the Bonds are subordinated obligations

The Bonds are subordinated to all unsubordinated claims against the Citadele; however, not to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Citadele, the holders of the Bonds are not entitled to any payments due under the Terms of the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company. The subordination may have adverse effect on the Citadele's ability to meet all its obligations arising from the Bonds. The risk profile of the Bonds for subordination risk is considered as medium.

The Bonds may be redeemed prematurely on the initiative of Citadele

The Bonds may be redeemed prematurely on the initiative of Citadele in certain circumstances as described in section entitled "*General Terms and Conditions of the Bonds*". If this early redemption right is exercised by Citadele, the rate of return from an investment in the Bonds may be lower than initially anticipated and the market value of the Bonds may be higher than the early redemption amount at the moment of redemption. It may not be possible for Bondholders thereafter to reinvest such proceeds at an effective interest rate as high as the interest rate on the Bonds. Bondholders may only be able to do so at a significantly lower rate. The premature redemption of the Bonds may be conditional on Citadele receiving consent to the early redemption from the competent authority (such as FCMC or the EBA if they are in the competence thereof). The decision on granting the consent may involve a certain amount of discretion by the respective competent authority. Therefore early redemption may be beyond the control of Citadele.

The Bonds are subject to bail-in risk

In the event of exercise by the FCMC, the relevant Latvian resolution authority, of its bail-in power in accordance with the BRRD and the CIIFRR Law, the Bonds may become subject to compulsory write-down or

conversion over which neither Citadele nor the Bondholders will have any control. As a result of exercise by the FCMC of its authority to write-down or convert the Bonds, any of the following effects can ensue: (i) the principal amount of or amount payable on maturity of the Bonds may reduce, including a possible reduction to zero; (ii) the Bonds may be converted into ordinary shares of Citadele or other securities of Citadele; (iii) the Bonds may be cancelled, fully or partially; or (iv) all or some of the terms relevant to repayment, redemption, or payment of interest on the Bonds may be amended (including with respect to extension of the term of maturity of the Bonds and/or rescheduling of interest payments). Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent possible, the available resolution tools and actions, including with respect to the bail-in power. The FCMC is not obliged to seek consent by the Bondholders in order to effect the bail-in measures. The exercise of any bail-in power or any proposal of such exercise could materially adversely affect the value of the Bonds and cause the value of investments into the Bonds to deteriorate.

The Bonds do not carry any beneficial interest in the equity or voting rights

An investment into the Bonds is an investment into non-convertible debt instruments, which does not confer any legal or beneficial interest in the equity of Citadele or any part of Citadele Group or rights to receive dividends or other rights which may arise from equity instruments or right to convert the Bonds into such instruments. Investors are being offered the Bonds which do not entitle the Bondholders to any voting rights at the Shareholders Meetings of the Citadele. Only the shareholders of Citadele have voting rights at the Shareholders Meetings of the Citadele. The Bonds carry no such voting rights. Consequently, the Bondholders will not be able to influence any decisions by the Citadele's shareholders, including decisions on the capital structure of Citadele and any other decisions and corporate matters relating to Citadele that could adversely impact the liquidity or price of the Bonds or the Bonds' desirability in the future. The Bonds represent a non-convertible debt obligation of Citadele, granting the Bondholders only such rights as set forth in the section entitled "*General Terms and Conditions of the Bonds*".

Tax Regime Risks

Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the Bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

The Offer may be cancelled

Although Citadele will strive to ensure that the Offer of all Tranches is successful, Citadele cannot provide any assurance that the Offer of all Tranches will be successful and that the investors will receive any Bonds they have subscribed for. Citadele is entitled to cancel the Offer of any Tranche on the terms and conditions described in the section entitled "*Terms and Conditions of the Offer*".

Bond Price and Limited Liquidity of Bonds

Citadele will apply for the listing of the Bonds on the Baltic Bond List of the Nasdaq Riga Stock Exchange; however, although every effort will be made by Citadele to ensure the listing of the Bonds as anticipated by the Citadele, no assurance can be provided that the Bonds will be listed and admitted to trading. If the Bonds are listed on the Baltic Bond List of the Nasdaq Riga Stock Exchange, an active and liquid public trading market for the Bonds may not develop or be sustained after the Offer and Citadele is not under any obligation to sustain such market. The Nasdaq Riga Stock Exchange is substantially less liquid and more volatile than established markets. The relatively small market capitalisation and low liquidity of the Nasdaq Riga Stock Exchange may impair the ability of the bondholders to sell their Bonds on the open market, use them as collateral for other obligations or engage in other transactions requiring the existence of an active market, or could increase the volatility of the price of the Bonds. The value of the Bonds can fluctuate on the securities market due to events and the materialisation of risks related to Citadele, but also because of events outside Citadele's control, such as economic, financial or political events, changes of interest rate levels or currency exchange rates, policy of central banks, changes in the demand or supply of securities of the same type in general or of the Bonds. For instance, if at any point a person holding a large block of Bonds decided to sell such Bonds, the demand on the Nasdaq Riga Stock Exchange may not be sufficient to accommodate such a sale or issue and any sale may take longer than originally expected or a sale may take place at a lower price than expected.

4. General Terms and Conditions of the Offer

4.1. General Description of the Programme

Citadele has established the € 30,000,000 (thirty million euro) Third Unsecured Subordinated Bonds Programme (the “**Programme**”) described in this Base Prospectus under which Citadele, subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia, Lithuania and Estonia from time to time in one or several series (the “**Series**”) non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity of 10 years and with fixed interest rate (the “**Bonds**”). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 30,000,000.

To the extent not set forth in this Base Prospectus, the specific terms of any Bonds will be included in the relevant final terms (the “**Final Terms**”) (a form of which is contained herein) therefore the prospectus relating to Series issued under the Programme consists of this Base Prospectus and the respective Final Terms. Each Series may comprise one or more tranches of Bonds (each a “**Tranche**”). The Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche.

Citadele’s shareholders have authorised issuance, public offering and listing of the Bonds at the meeting of shareholders of Citadele on 20 February 2020 (Meeting minutes No. 1/2020) and authorised the Citadele’s Management Board to approve the characteristics of the Bonds, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof. The Citadele’s Management Board has approved the Base Prospectus at its meeting on 2 March 2020.

The following terms and conditions will apply to the Offer.

4.2. Right to participate in the Offer

The Offer is directed to all natural and legal persons (institutional and retail investors) in Latvia, Lithuania and Estonia, irrespective of whether they qualify as qualified investors within the meaning of Article 2(e) of the Prospectus Regulation, as well as to persons (institutional investors) located in the Member State of the EEA (other than Latvia, Lithuania and Estonia) who are qualified investors within the meaning of Article 2(e) of the Prospectus Regulation in each case pursuant to an exemption under Article 1(4) of the Prospectus Regulation.

4.3. Minimum Investment Amount

The Bonds will be offered for subscription for the following minimum investment amount (the “**Minimum Investment Amount**”): at least 10 (ten) Bonds for any and all investors. The Minimum Investment Amount will also be reflected in the relevant Final Terms.

4.4. Placement account

Initially the Bonds of the respective Tranche will be book-entered in the Latvian SSS distribution account of Citadele with the Nasdaq CSD.

4.5. Offer Period

The offer period for each Tranche, including any and all its extensions as indicated below (the “**Offer Period**”) will be specified in the relevant Final Terms.

Until the end of the applicable Offer Period, Citadele may extend the Offer Period at its sole discretion once or several times. The minimum length of any such extension should be at least 2 Business Days. The notification about extension of the Offer Period will be published on Citadele’s website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Offer Period has been extended, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the Offer Period.

If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

4.6. Submission of Purchase Orders

The investors wishing to purchase the Bonds shall submit their orders to purchase the Bonds (the “**Purchase Orders**”) at any time during the Offer Period to Citadele (fulfilling the functions of the issuing agent) and its agents, which will be specified in the Final Terms. The procedure of submission of the

Purchase Orders will be specified in the Final Terms.

4.7. Purchase Orders and Invalid Purchase orders

The Purchase Order shall indicate the total amount of the Bonds to be purchased by the respective investor based on the applicable Issue Price and Annual Interest Rate at the time of making of the Purchase Order, which shall be at least equal to the Minimum Investment Amount. All Purchase Orders constitute a binding and irrevocable commitment to acquire the allotted Bonds, with the exceptions stated below.

The Purchase Order shall not be considered valid and shall not be processed in case the purchase amount indicated in the Purchase Order is less than the Minimum Investment Amount, the Purchase Order was received after the Offer Period, the Issue Price based on which the Purchase Order was made is lower than the final Issue Price applicable at the end of the Offer Period and/or the Annual Interest Rate based on which the Purchase Order was made is higher than the final Annual Interest Rate applicable at the end of the Offer Period.

Only valid Purchase Orders compliant the requirements of:

- the Minimum Investment Amount,
- reception of the Purchase Order within the Offer Period, and
- the Issue Price based on which the Purchase Order was made being equal or higher than the final Issue Price applicable at the end of the Offer Period and the Annual Interest Rate based on which the Purchase Order was made being equal or lower than the final Annual Interest Rate applicable at the end of the Offer Period

shall be treated as qualifying Purchase Orders (the “**Qualifying Purchase Orders**”).

Citadele does not have any obligation to inform investors about the fact that their Purchase Orders are invalid.

4.8. Cancellation of the Offer

On the next Business Day following the Offer Period Citadele will decide whether to proceed with the Offer of a particular Tranche or cancel it. In case the Offer of a Tranche is cancelled, Citadele will publish an announcement on the Citadele’s web-site www.citadele.lv and submit it to the FCMC. All rights and obligations of the parties in relation to the cancelled Offer will be considered as having been terminated as of the moment when such announcement is made public.

4.9. Allotment

In case Citadele decides to proceed with the Offer of a Tranche, on the next Business Day following the Offer Period the following actions shall be taken:

(a) Establishment of the Qualifying Purchase Orders. Citadele shall at its sole discretion determine which Purchase Orders can be treated as Qualifying Purchase Orders, and the extent of their satisfaction.

(b) Determination of the final aggregate principal amount of the respective Tranche and allotment of the Bonds to the Investors. Upon determination of the Qualifying Purchase Orders, Citadele will establish the exact amount of the Bonds to be allotted with respect to each Qualifying Purchase Order and thus determine the final aggregate principal amount of the respective Tranche. Citadele will at its sole discretion decide upon the final allocation of the Bonds to each investor and Citadele is entitled to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion.

(c) Guaranteed Allocations. Citadele has a general discretion to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion, and no person is guaranteed to receive any number of Bonds.

(d) Announcement of the Final Terms. The Final Terms containing the information about the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates, the aggregate principal amount of the respective Tranche and definitive amount of the Bonds to be issued within the respective Tranche will be published on Citadele’s web-site www.citadele.lv, as well as submitted to the FCMC.

(e) Allotment Notifications. After completion of the allotment with respect to each Qualifying Purchase Order Citadele shall submit an allotment notification (the “**Notification**”) to each investor. The Notification will evidence the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Bonds allotted to the investor, the final Annual Interest Rate, Issue Price and the purchase price payable for the Bonds.

Citadele will send the Notification to each investor through Bloomberg trading system. However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between Citadele and such investor. Furthermore, if an investor has opened a securities account with the Lithuanian branch of Citadele and is acting through Lithuanian branch of Citadele in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between Lithuanian branch of Citadele and such investor.

4.10. Settlement and Delivery

The settlement for the Bonds will be carried out in accordance with the delivery-versus-payment (DvP) principle pursuant to the applicable rules of Nasdaq CSD. The settlement will take place on the Issue Date. All paid up Bonds shall be treated as issued. The Bonds which are not paid up shall be cancelled in accordance with the applicable rules of Nasdaq CSD.

However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the settlement for the Bonds will be carried in accordance with the terms and conditions of the agreements concluded between Citadele and such investor.

No dealing may begin before full completion of the settlement and delivery of the Bonds.

4.11. Information About the Results of the Offer

Information about the results of the Offer of each Tranche (amount of the Bonds issued and aggregate principal amount of the respective Tranche) shall be published on the Citadele's web-site www.citadele.lv, within 3 (three) Business Days after the Issue Date.

5. General Terms and Conditions of the Bonds

5.1. General

The terms and conditions of each Tranche shall consist of these general terms and conditions of the Bonds (the “**General Terms and Conditions of the Bonds**”) and the applicable Final Terms. The General Terms and Conditions of the Bonds shall apply to each Tranche. Specific terms and conditions specified in the applicable Final Terms may be different in respect of each individual Tranche. In order to identify each Series and Tranche, the Final Terms (as defined below) shall stipulate a serial number of a respective Series and a serial number of a respective Tranche.

5.2. Type, Class and ISIN Code

The Bonds are freely transferable non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity of 10 years and with fixed interest rate, which contain unsecured, unguaranteed and subordinated payment obligations of Citadele towards the holders of the Bonds (the “**Bondholders**”).

Under no circumstances shall the Bonds be convertible into ordinary shares of Citadele or other equity instruments of Citadele, except as ordered by the competent authorities in accordance with the requirements of law which, from time to time, may be applicable to Citadele and the Bonds.

Each Tranche will be assigned a separate ISIN (International Security Identification Number) code, which will be different from the ISIN code of the other Tranches. Before commencement of the offering of the Tranche, Nasdaq CSD, upon request of Citadele, will assign to the respective Tranche an ISIN code. Where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the existing Tranche, the Bonds of such further Tranche shall be assigned its own ISIN code, which is different from the ISIN codes assigned to the relevant Tranches of the same Series. The ISIN code of respective Tranche will be specified in the Final Terms.

5.3. Form and Registration

The Bonds are dematerialized debt securities in bearer form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia (the “**Nasdaq CSD**”) in book-entry form with the securities settlement system governed by Latvian law (the “**Latvian SSS**”). Investors may hold Bonds through Nasdaq CSD participants participating in Latvian SSS.

5.4. Currency and Nominal Value

The Bonds will be issued in euro (€). The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall amount to at least EUR 10,000.

5.5. Security

The Bonds constitute direct, unsecured and unguaranteed obligations of Citadele ranking *pari passu* without any preference among themselves.

5.6. Applicable Law and Dispute Resolution

Issue of each Series and their public offering shall be governed by and construed in accordance with the laws of the Republic of Latvia, including the Latvian Financial Instruments Market Law, as well as rules and regulations of the FCMC, Nasdaq CSD and Nasdaq Riga. Any disputes relating to or arising from the above-mentioned will be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

Claims arising from the Bonds shall expire in accordance with the statutory terms of Latvian law.

5.7. Transferability

The Bonds are freely transferrable and disposable without any restrictions. However, transfer of the Bonds is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee. The Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws to be taken by Citadele, including, if applicable, the United States of America. See the section entitled “*Notice to Investors and Restrictions on Distribution*”.

5.8. Rights Attached to the Bonds and limitations to rights

Rights attached to the Bonds

The only rights of the Bondholders arising from the Bonds are the right to the redemption of the Bonds on the Maturity Date (as defined below) and the right to receive interest, subject to the limitations of these rights as described in these General Terms and Conditions of the Bonds. The Bondholders are not entitled to a delay interest or any penalty fees in case of delay in making any payments due under the Bonds by Citadele. The rights arising from the Bonds can be exercised by the Bondholders in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable rules of Latvian law.

No „Change of Control” obligations. There will be no „Change of Control” obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of a „Change of Control”. Consequently, change of control over Citadele by any means will not confer any rights whatsoever to the Bondholders.

No „Negative Pledge” or „Cross-Default” obligations. There will be no „Negative Pledge” or „Cross-Default” obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of „Negative Pledge” or „Cross-Default”.

No Set-off. No Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by Citadele arising under, or in connection with, the Bonds and each Bondholder shall, by virtue of its holding of any Bonds, be deemed to have waived all such rights of set-off, compensation or retention. By its acquisition of the Bonds, each Bondholder and beneficial owner agrees to be bound by these provisions relating to waiver of set-off. All payments made by Citadele in connection with Bonds are calculated and paid without set-off or counter-claims.

No obligations of Citadele regarding its operations. There will be no restrictions on Citadele’s ability to conduct its operations as it deems fit, at its sole discretion. The Bonds do not contain any provisions designed to protect the Bondholders from a reduction in the creditworthiness of Citadele.

Representation of the Bondholders

Within the Programme, the rights of the Bondholders to establish and/or authorize an organization/person to represent the interests of all or a part of the Bondholders are not contemplated, but, on the other hand, these rights are not restricted. The Bondholders should themselves cover all costs/fees of such representative(s).

Meetings of the Bondholders

Save as otherwise provided in respect to the amendments to technical procedures and aspects relating to the Bonds below, if Citadele intends to amend these General Terms and Conditions of the Bonds or the Final Terms of the Tranches of the relevant Series, Citadele shall convene a meeting of the Bondholders or the Bondholders of the relevant Series (as applicable) (the **“Bondholders’ Meeting”**) to decide on amendments of these General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. The following rules shall apply to any Bondholders’ Meeting:

- All expenses in relation to the convening and holding the Bondholders’ Meeting shall be covered by Citadele;
- Notice of the Bondholders’ Meeting shall be published in accordance with the section entitled *“General Terms and Conditions of the Bonds —Notices”* below no later than 10 (ten) Business Days prior to the respective Bondholders’ Meeting. Furthermore, the notice shall specify the time, place and agenda of the respective Bondholders’ Meeting, as well as any action required on the part of the Bondholder that will attend the respective Bondholders’ Meeting. No matters other than those referred to in the notice may be resolved at the respective Bondholders’ Meeting;
- Only those who, according to the information gathered by the Nasdaq CSD in respect of the Bonds, were registered as the Bondholders on the 6th (sixth) Business Day prior to the date of respective Bondholders’ Meeting or proxies authorised by such Bondholders, shall be entitled to vote at the meeting and shall be recorded in the list of the Bondholders participating in the respective Bondholders’ Meeting;

- The Bondholders' Meeting shall be held in Riga, Latvia, and its chairman shall be the Citadele's representative appointed by Citadele;
- Voting rights of the Bondholders shall be determined according to the principal amount of the Bonds held;
- The Bondholders' Meeting shall be held in English with translation into Latvian, unless the Bondholders present in the respective Bondholders' Meeting unanimously decide that the respective Bondholders' Meeting shall be held only in Latvian or English;
- A representative of Citadele and a person authorised to act for Citadele may attend and speak at the Bondholders' Meeting;
- Minutes of the Bondholders' Meeting shall be kept by a representative of Citadele, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by a representative of Citadele as the keeper of the minutes. The minutes shall be attested by one of the persons appointed by the Bondholders' Meeting to attest the minutes by a simple majority vote of the Bondholders present at the respective Bondholders' Meeting. The minutes shall be published in accordance with the section entitled "*General Terms and Conditions of the Bonds —Notices*" below after the Bondholders' Meeting as soon as possible and without any delay. If applicable, new or amended General Terms and Conditions of the Bonds or Final Terms of the Tranches of the relevant Series (as applicable) shall be appended to the minutes. The minutes shall be stored in a secure manner by Citadele;
- The Bondholders' Meeting shall be organised by a representative of Citadele acting as the chairman of the Bondholders' Meeting;
- The Bondholders' Meeting is entitled to adopt decisions that are binding upon all the Bondholders with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds. The meeting of the Bondholders of the relevant Series is entitled to make the decisions that are binding on all the Bondholders of the relevant Series with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds of the respective Series;
- Resolutions passed at the Bondholders' Meeting shall be binding on all Bondholders irrespective of whether they have been present at the Bondholders' Meeting;

Citadele shall have a right at its sole discretion to amend the technical procedures and aspects relating to the Bonds in respect of payments or other similar matters without the consent of the Bondholders or the Bondholders' Meeting, if such amendments are necessitated by the changes in applicable rules of Latvian law or otherwise, if such amendments are not prejudicial to the interests of the Bondholders.

5.9. Ranking and Subordination

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Latvian Credit Institutions Law. The net proceeds from the Bonds will be used by Citadele for the purposes specified in section entitled "*General Terms and Conditions of the Bonds —Reasons for the Offer and Use of Proceeds*" below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of CRR or any other applicable rules.

The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied.

Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds, including the following restrictions stated in the Latvian Credit Institutions Law (in particular, Section 59.⁶):

- In case a credit institution in accordance with the laws and regulations regarding aid for commercial activity receives such an aid, from the moment of granting of such aid until the end of provision of such aid, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan; and
- if the FCMC has determined deposit restrictions for a credit institution, from the day of determination of such restrictions until the day of their revocation, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan.

The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele.

5.10. Interest and Yield

Interest and Yield

The Bonds shall carry interest at a fixed annual interest rate (the "**Annual Interest Rate**") which shall be specified in the Final Terms. The Annual Interest Rate shall be the same for each and every year until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), as the case may be.

Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Annual Interest Rate (the "**Updated Annual Interest Rate**"). The Updated Annual Interest Rate will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Annual Interest Rate has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Annual Interest Rate such as, *inter alia*, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms ("**Interest Payment Dates**") and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Series from the Issue Date (as defined below) until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first. If the Offer Period (as defined below) is extended according to the section entitled "*Terms and Conditions of the Offer — Offer Period*" of this Base Prospectus, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Bonds of the respective Series outstanding from time to time. The first interest period commences on the Issue Date (as defined below) and ends on the first closest Interest Payment Date (the "**First Interest Period**"). Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first.

Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.

When interest is required to be calculated in respect of a period of less than a half year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding

the next following Interest Payment Date.

Interest on the Bonds shall be paid through Nasdaq CSD in accordance with the applicable rules of Nasdaq CSD, as amended or replaced from time to time, to the persons who were registered as the Bondholders at the end of 8 (eight) Business Day prior to the Interest Payment Date.

Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

An expected yield to maturity for the Bonds (the “**Yield to Maturity**”) being offered, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors. The Yield to Maturity is the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

5.11. Maturity and Redemption

Each Series may have a maturity of 10 (ten) years starting from the Issue Date (as defined below). The Bonds shall be repaid in full at their nominal value on the maturity date which will be specified in the Final Terms (the “**Maturity Date**”) or on the Early Redemption Date (as defined below).

If the Offer Period (as defined below) is extended according to the section entitled “*Terms and Conditions of the Offer —Offer Period*” of this Base Prospectus, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors. The principal of the Bonds shall be paid through Nasdaq CSD in accordance with the applicable rules of Nasdaq CSD, as amended or replaced from time to time, to the persons who were registered as the Bondholders at the end of the Business Day immediately preceding the Maturity Date or the Early Redemption Date, as the case may be.

Should the Maturity Date or the Early Redemption Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

Citadele has a right to redeem the Bonds for their nominal value prematurely prior to the Maturity Date as follows:

- at any time after the lapse of 5 years period as from the Issue Date (as defined below) by notifying the Bondholders at least 30 (thirty) days in advance, provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(1) of the CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before the lapse of the 5 year period as from the Issue Date (as defined below), provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(4) of CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before or after the lapse of the 5 year period as from the Issue Date (as defined below), if applicable laws and rules permit such redemption, provided that all the relevant legal requirements have been met.

The decision on granting the consent may involve certain amount of discretion by the competent authority and the early redemption may be therefore beyond the control of Citadele.

If Citadele decides to exercise the right to redeem the Bonds prematurely prior to the Maturity Date as stated above, subject to receiving the necessary consents, Citadele shall specify the date on which the Bonds will be redeemed (the “**Early Redemption Date**”). Early Redemption Date will be announced as described in the section entitled “*General Terms and Conditions of the Bonds —Notices*” below.

The Bondholders are not entitled to claim premature redemption of the Bonds before the Maturity Date under any circumstances. By purchasing the Bonds any investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds, if such a right exists under applicable law.

5.12. Issue Date and Price

The issue date of each Tranche (the “**Issue Date**”) shall be specified in the Final Terms. If the Offer Period (as defined below) is extended according to the section entitled “*Terms and Conditions of the Offer — Offer Period*” of this Base Prospectus, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

The Bonds may be issued at their nominal value or at a discount or a premium to their nominal value (the “**Issue Price**”). The Issue Price shall be specified in the Final Terms. Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the “**Updated Issue Price**”). The Updated Issue Price will be published on Citadele’s website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Issue Price has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Issue Price, the final Issue Price will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Issue Price such as, *inter alia*, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

5.13. Taxation

The tax legislation of the investor’s member state and of the Citadele’s country of incorporation may have an impact on the income received from the Bonds. All payments in respect of the Bonds by Citadele shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”), unless the withholding or deduction of the Taxes is required by laws of the Republic of Latvia. In such case, Citadele shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. Citadele shall not be obligated to gross-up or make any additional compensation to the Bondholders in respect of such withholding or deduction. See Section entitled “*Taxation*” below in Base Prospectus for further information.

5.14. Publication of the Final Terms

The Final Terms of each Tranche will be approved by Citadele’s Management Board. Before the Offer of the respective Tranche commences, the initial Final Terms:

- will be submitted to the FCMC, who will forward them to the Bank of Lithuania (Lietuvos Bankas) and EFSA (Finantsinspekcijai); and
- will be published on Citadele’s website www.citadele.lv.

The Final Terms containing information about the established aggregate principal amount of the respective Tranche and definitive amount of the Bonds to be issued, as well as the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates will be published on the Citadele’s website www.citadele.lv and submitted to the FCMC after allotment of the Bonds to the investors.

5.15. Admission to Listing and Trading

Citadele shall submit an application for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga AS, registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia (the “**Nasdaq Riga**”) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of MiFID.

Unless the context requires otherwise, references in this Base Prospectus to Bonds being “listed” (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Riga Stock Exchange as may be specified in the applicable Final Terms.

Citadele shall use its best efforts to ensure that the respective Tranche remains listed in the official bond list

(Baltic Bond List) of Nasdaq Riga or, if such listing is not possible to obtain or maintain, listed or traded on another regulated market. The Citadele shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the respective Tranche. Citadele will cover all costs which are related to the admission of the respective Tranche to the relevant regulated market.

5.16. Estimated Expenses Charged to the Investors

No expenses or taxes will be charged to the investors by Citadele in respect to the issue of the Bonds. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. Citadele shall have no obligation whatsoever to compensate the Bondholders for any such expenses.

5.17. Underwriting

The Bonds may be subject to underwriting. The Final Terms shall include an indication as to whether any underwriting arrangement is applicable to the particular Tranche.

5.18. Force Majeure

Citadele shall be entitled to postpone the fulfilment of its obligations under the Bonds and this Base Prospectus and any relevant Final Terms, in case the performance is not possible due to continuous existence of any of the following circumstances:

- action of any authorities, war or threat of war, rebellion or civil unrest;
- disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of Citadele and that materially affect operations of Citadele;
- any interruption of or delay in any functions or measures of Citadele as a result of fire or other similar disaster;
- any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of Citadele even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or
- any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of Citadele.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that Citadele shall use all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of its obligations, as soon as reasonably practicable.

5.19. Further Issues

Citadele may, from time to time, without the consent of and notice to the Bondholders, create and issue further bonds whether such further bonds form a single Series with already issued Bonds or not (the Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche) and whether issued within the Programme or not. For the avoidance of doubt, Citadele's right to issue any other notes and securities is not restricted in any way. However, the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 30,000,000.

5.20. Purchases

Citadele or any of its Subsidiaries may at any time purchase the Bonds in any manner and at any price in the secondary market subject to provisions of applicable law. Such Bonds may be held, resold or surrendered by the purchaser through Citadele for cancellation.

5.21. Notices

The Bondholders shall be advised of matters relating to the Bonds through a press release and by a notice published in English and Latvian in the official System for Central Storage of Regulated Information ORICGS (www.oricgs.lv), on the Citadele's website (www.citadele.lv or www.cblgroup.com) and, after the Bonds are admitted to the regulated market, also on the news service of the Nasdaq Riga website or otherwise as prescribed by the applicable rules of Latvian law. Any such notice shall be deemed to have been received by

the Bondholders when published in the manner specified above.

5.22. Interests of Natural and Legal persons in the Offer

In so far as Citadele is aware, no person involved in the Offer has an interest material to the Offer, nor any conflicting interests.

5.23. Reasons for the Offer and Use of Proceeds

Citadele expects to receive net proceeds of up to EUR 30,000,000 from this Offer. The net proceeds from the Offer are to be used by Citadele for its general business development and to strengthen further the regulatory capital structure of Citadele, including use as Citadele's subordinated capital in accordance with the requirements of the CRR and any other applicable rules for Tier 2 capital.

If in respect of any particular Series, there is another particular identified use of proceeds, this will be stated in the relevant Final Terms applicable to the particular Series.

6. Corporate information, Shares and Share Capital

6.1. General Corporate Information

The legal and commercial name of Citadele is AS „Citadele banka”. Citadele is a limited company/joint stock company (in Latvian – *akciju sabiedrība* or AS) incorporated in, and operating under the laws of, the Republic of Latvia, including the Latvian Commercial Law and registered with the Commercial Register of Latvia under the registration number: 40103303559 (date of registration: 30 June, 2010) and its legal address is Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv (information on the website does not form part of this Base Prospectus unless that information is incorporated by reference into this Base Prospectus). Citadele’s legal entity identifier (“LEI”): 2138009Y59EAR7H1UO97.

6.2. Articles of Association

The latest version of the Articles of Association of the Company was adopted by the respective resolution of the General Meeting, dated 28.05.2018. The Articles of Association are available the website of Citadele www.cblgroup.com under Corporate Governance section.

6.3. Share Capital and Shareholders

At the date of this Base Prospectus Citadele has 156,555,796 ordinary shares in issue (no separate classes of shares) with a nominal value of EUR 1 each and carrying one voting right each, such that the total share capital of Citadele equals EUR 156,555,796. All shares are of the same class and they are fully paid up. All shares in Citadele are registered shares in certified (paper) form.

As of the date of this Base Prospectus the shares in Citadele are held in the following proportions:

- 75% plus 1 share by RA Citadele Holdings, LLC and a consortium of 12 co-investors; and
- 25% less 1 share by EBRD.

This description does not purport to be complete and is qualified in its entirety by reference to the Articles of Association and the relevant laws.

Citadele’s Articles of Association provide that any change in Citadele’s share capital requires the approval of at least 75% of the votes represented by shareholders present at a GMS and entitled to vote at such GMS. Furthermore, the Articles of Association provide that the Supervisory Board may only resolve to consider and/or render an opinion on any draft resolution to be submitted to the GMS in relation to an increase in Citadele’s share capital or a change to the type, rights or form of Citadele’s shares if such Supervisory Board resolution is approved by all members of the Supervisory Board present at a Supervisory Board meeting.

The Latvian Commercial Law provides that a shareholder is free to transfer (alienate) its shares, save for where there is a restriction on transfer (alienation) contained in the company’s constitutional document. Citadele’s Articles of Association do not contain any such restriction.

Major Shareholders

RA Citadele Holdings, LLC co-invested with the shareholders in the table below (with the exception of EBRD) (the “**Co-investors**”) such that, in aggregate, RA Citadele Holdings, LLC and the Co-investors own 75% plus one share of Citadele. Each of RA Citadele Holdings, LLC and the Co-investors entered into a co-investment agreement under the terms of which the Co-investors have agreed that RA Citadele Holdings, LLC is able to exert control of Citadele on behalf of all other Co-investors. Each of RA Citadele Holdings, LLC, the Co-investors and the EBRD are party to a shareholders’ agreement in relation to Citadele and further detail on the provisions of this shareholders’ agreement can be found in the section entitled “*Overview and Business Description —Material Agreements*” below.

The following table sets out certain information with respect to the ownership of Citadele's outstanding ordinary shares, as of the date of this Base Prospectus.

Shareholder	Number of shares held	Ownership (%) ⁷
EBRD	39,138,948	25.00 minus one share
RA Citadele Holdings, LLC ¹	35,082,302	22.41 plus one share
Delan S.A.R.L. ²	15,597,160	9.96
EMS LB LLC ³	13,864,142	8.86
NNS Luxembourg Investments S.a.r.l. ⁴	13,864,142	8.86
Amolino Holdings Inc. ⁵	13,863,987	8.86
Shuco LLC ⁶	10,998,979	7.03
Other co-investors	14,146,136	9.02

(1) RA Citadele Holdings, LLC is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins

(2) Delan S.A.R.L is beneficially owned by the Baupost Group, LLC

(3) EMS LB LLC is beneficially owned by Mr Edmond M. Safra

(4) NNS Luxembourg Investments S.a.r.l. is beneficially owned by Mr Nassef O. Sawiris

(5) Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie

(6) Shuco LLC is beneficially owned by Mr Stanley S. Shuman

(7) Calculated by reference to voting interests in Citadele

As of the date of this Base Prospectus, Citadele has implemented LTIP for the members of the Management Board along with LTRP for key employees and the level of dilution to existing shareholders under its terms may be up to 10% of Citadele's issued share capital in a rolling ten years period. Furthermore, in the future Citadele may issue any type of classes of securities with rights, preferences or privileges that are more or less favourable than those attached to the existing shares.

6.4. Citadele's Objects and Purposes

Citadele is registered with the Commercial Register of the Republic of Latvia under registration number 40103303559. The objects and purposes of Citadele are stated in Clause 2 of the Articles of Association which contains a non-exhaustive description of the types of commercial activities which it may undertake, including monetary intermediation, financial leasing, granting other forms of credit, providing financial services other than insurance and pension funding, and securities transactions. However, as these activities do not constitute an exhaustive list beyond which Citadele is constitutionally prevented from undertaking, under the Latvian Commercial Law, Citadele's objects are effectively unlimited.

6.5. Credit Ratings

The credit ratings included in this Base Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"), by Moody's Investors Service Ltd ("**Moody's**"). Moody's is established in the EU and registered under the CRA Regulation. As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. As of the date of this Base Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is Ba1 (placed under review for upgrade).

Each Tranche may, on or after the relevant issue, be assigned a rating specified in the relevant Final Terms by any rating agency which may be appointed from time to time by the Citadele in relation to any issuance of the Bonds or for the remaining duration of the Programme, to the extent that any of them at the relevant time provides ratings in respect of any Tranches. Whether or not each credit rating applied for in relation to relevant Tranche will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. If rated, such ratings will not necessarily be the same as the rating assigned to Citadele.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings are not a guarantee of Citadele Group's future performance.

7. Corporate Governance

7.1. General Corporate governance Information

In general, the corporate governance legislation in Latvia is aligned with EU standards. Corporate governance in Latvia is principally governed by the Latvian Commercial Law. This law outlines the general requirements applicable to all Latvian companies including joint stock companies such as Citadele. The Latvian Commercial Law requires joint stock companies to have a two-tier management system consisting of a supervisory board (council) and a management board, which, together with the general meeting of shareholders, are the principal management institutions.

Citadele's corporate governing bodies are the GMS, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Latvian law and the Articles of Association. The GMS elects the members of the Supervisory Board, which, in turn, is responsible for the supervision of, and appointment of members to, the Management Board. The Management Board, which is an executive body, is responsible for the management of Citadele's day-to-day operations. GMS is responsible for matters including the approval of the company's annual accounts, deciding on how profits are used, amending constitutional documents, changing the company's share capital, issuing and converting securities, appointment and removal of supervisory board members, auditors, controllers and liquidators, as well as other matters.

7.2. Supervisory Board

The Supervisory Board is primarily responsible for representing the interests of shareholders between shareholders' meetings as well as supervising the work of the Management Board. In particular, this role includes: (i) electing and recalling members of the Management Board; (ii) monitoring Citadele's business activities and ensuring compliance with the law, the Articles of Association and the decisions of its shareholders; (iii) examining Citadele's accounts together with the Management Board's proposals for the use of profits, and drawing up Citadele's annual report; (iv) representing Citadele in all legal proceedings brought by Citadele against members of the Management Board or vice versa; (v) approving transactions between Citadele and members of the Management Board, Citadele's auditors or related persons; and (vi) examining in advance all issues to be raised at shareholders' meetings and providing opinions on such issues.

In addition to the duties above, the Supervisory Board is also responsible for supervising the management of Citadele Group's risks, including credit and liquidity risk, as well as approving and monitoring the implementation of Citadele's policies, including its remuneration policies.

The Supervisory Board has the right to request reports on Citadele's operational and financial condition from the Management Board at any time, and is further entitled to inspect Citadele's registers and documents as it sees fit. Members of Citadele's Management Board, Citadele's auditor, procurist, or commercial representative, or members of the management board of any dependent company may not become Supervisory Board members.

The Supervisory Board meets at least quarterly. Citadele's Articles of Association provide that the Supervisory Board is to consist of nine members who are each elected by the GMS for a term of five years. The members of the Supervisory Board elect the chairperson and deputy chairperson from among their number. The business address of each of the members of the Supervisory Board is Citadele's head office, Republikas laukums 2A, Riga LV-1010, Latvia. As of the date of this Base Prospectus, the Supervisory Board comprises the following members:

Timothy Collins, Chairman of the Supervisory Board. Timothy C. 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 \$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, since 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 run 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.

For information regarding the shares of Citadele held by certain members of the Supervisory Board, see “—*Interests in Citadele*” below.

Supervisory Board Committees

Audit Committee

The Audit Committee is responsible for providing support to the Supervisory Board in its supervision of audit issues. This includes reviewing the terms of reference and policies and procedures of the Internal Audit Division and providing recommendations thereon to the Supervisory Board, reviewing the annual audit plan prepared by the Internal Audit Division, reviewing the most significant findings of the Internal Audit Division on a quarterly basis, and reviewing the Internal Audit Division’s annual assessment of its performance according to the audit plan. In addition, the Audit Committee supervises Citadele Group’s relations with external auditors and makes recommendations in relation to their appointment, re-appointment or removal, provides recommendations regarding any issues identified by the FCMC, and provides annual assessments to the Supervisory Board.

According to the decision of the Citadele’s meeting of shareholders the Audit Committee fulfills the duties of Audit Committee as prescribed by Latvian Financial Instruments Market Law thus ensuring a supervision of Citadele audit processes, audit and non-audit services, etc.

The Audit Committee is composed of at least three members (currently eight), and is chaired by a member of the Supervisory Board (at the date of this Base Prospectus, the independent Supervisory Board member, Klāvs Vasks). The Audit Committee meets four times per year, or more frequently if required. As of the date of this Base Prospectus, the Audit Committee comprises the following members:

Name	Position	Date of the last appointment to the committee
Klāvs Vasks	Chairman of the committee	29 November 2018
Lawrence Lavine.....	Deputy chair of the committee	29 November 2018
James L. Balsillie	Member of the committee	29 November 2018
Dhananjaya Dvivedi.....	Member of the committee	29 November 2018
Nicholas Haag	Member of the committee	29 November 2018
Sylvia Gansser-Potts ...	Member of the committee	29 November 2018
Stephen Young.....	Member of the committee (shareholder level)	29 November 2018

Risk and Governance Committee

The Risk and Governance Committee is responsible for providing support to the Supervisory Board by monitoring the levels of risk to which Citadele Group is exposed and the compliance of its operations with permitted levels of risk, as well as ensuring that remuneration schemes take into account liquidity, capital and operational risk. It also checks that risk is sufficiently priced into Citadele Group’s products and services, and provides recommendations regarding any areas identified by the FCMC for improvement.

The Risk and Governance Committee is composed at least three members (currently six), and is chaired by a member of the Supervisory Board (at the date of this Base Prospectus, Elizabeth Critchley). The Risk and

Governance Committee meets four times per year, or more frequently if required. As of the date of this Base Prospectus, the Risk and Governance Committee comprises the following members:

Name	Position	Date of the last appointment to the committee
Elizabeth Critchley	Chairman of the committee	29 November 2018
Timothy Collins	Deputy chair of the committee	29 November 2018
Lawrence Lavine.....	Member of the committee	29 November 2018
Nicholas Haag	Member of the committee	29 November 2018
Karina Saroukhanian .	Member of the committee	29 November 2018
Sylvia Gansser-Potts .	Member of the committee	29 November 2018

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for providing support to the Supervisory Board in the process of selecting prospective members of the Supervisory and Management Boards as well as the Head of Internal Audit. In particular, the committee assists in: (i) ensuring sufficient diversity in the composition of the boards and the Head of Internal Audit position; (ii) reviewing the remuneration policies for Citadele Group; and (iii) assessing the suitability of prospective members of the Supervisory Board or Management Board, or Head of Internal Audit, as applicable. At least once per year it performs an assessment of the organisational structure of the Supervisory and Management Boards, including their size, composition and efficiency, as well periodic assessment of the individual and collective knowledge, skills and expertise of the members of the Supervisory and Management Boards.

The Remuneration and Nomination Committee meets four times per year, or more frequently if required, and is composed of at least three members (currently five) and is chaired by a member of the Supervisory Board (currently Elizabeth Critchley). As of the date of this Base Prospectus, the Remuneration and Nomination Committee comprises the following members:

Name	Position	Date of the last appointment to the committee
Elizabeth Critchley	Chairman of the committee	29 November 2018
Lawrence Lavine.....	Deputy chair of the committee	29 November 2018
Karina Saroukhanian ..	Member of the committee	29 November 2018
Klāvs Vasks	Member of the committee	29 November 2018
Sylvia Gansser-Potts ..	Member of the committee	29 November 2018

Technology Committee

The Technology Committee is responsible for providing support and advice to the Supervisory Board in relation to technology and technological innovation, including in relation to Citadele Group's strategic approach to technical and commercial innovation, the acquisition of technology to ensure ongoing growth, the development of measurement and tracking systems, and proposals to upgrade the Supervisory Board's oversight function. The Technology Committee reports to the Supervisory Board on an annual basis.

The Technology Committee meets four times per year, or more frequently if required and is chaired by a member of the Supervisory Board (currently Dhananjaya Dvivedi). As of the date of this Base Prospectus, the Technology Committee comprises the following members:

Name	Position	Date of the last appointment to the committee
Dhananjaya Dvivedi.....	Chairman of the committee	29 November 2018
Timothy Collins	Deputy chair of the committee	29 November 2018
James L. Balsillie	Member of the committee	29 November 2018
Nicholas Haag	Member of the committee	29 November 2018
Karina Saroukhanian	Member of the committee	29 November 2018

7.3. Management Board

The Management Board is responsible for Citadele's day-to-day management (except functions reserved to the GMS and the Supervisory Board). According to Citadele's Articles of Association and applicable Latvian law, the members of the Management Board are appointed for a five-year period by the Supervisory Board and are

also dismissed by the Supervisory Board. The number of members of the Management Board is determined by Citadele's Articles of Association and currently stands at eight members (however, only seven members have been appointed). The scope of authority of each member of the Management Board is defined by the terms of reference of the Management Board and is reflected in the contract entered into with the board member upon their appointment. The Supervisory Board elects a chairperson of the Management Board from among its number.

The business address of each of the members of the Management Board is Citadele's head office, Republikas laukums 2a, Riga, LV-1010, Latvia. The Management Board meets at least bi-weekly, or as frequently as otherwise required. At the date of this Base Prospectus, the Management Board consists of the following seven members:

Johan Åkerblom, Chief Executive Officer, Chief Financial Officer. Mr. Åkerblom is responsible for day to day management of Citadele operations and the Group's Finance and Treasury functions. 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. Member of the Management Board since 1 February 2018, Chairman of the Management Board, CEO from 2 March, 2020. His term of office expires on 31 January 2023.

Valters Ābele, Chief Risk Officer. Mr. Ābele holds an MBA from the University of Latvia where he studied between 1993 and 1999. He spent part of his studies at Western Michigan University on a US Government-sponsored scholarship programme. He has extensive audit experience, he became an ACCA member and Latvian Certified Auditor in 2004 and worked at both Ernst & Young (2002-2008) and Arthur Andersen (1998-2002) before moving into the banking sector. He now has eleven years of experience in the banking industry, having joined Parex in 2008. Mr. Ābele's is a Risk Director at Citadele and his responsibilities include the risk analysis functions at Citadele and heading the Risk Sector. He was appointed to the management board of Parex in 2008 and joined Citadele's Management Board in 2010. His term of office expires on 30 June 2020.

Vladislavs Mironovs, Chief Commercial Officer Retail. Mr. Mironovs is responsible for Citadele Group's Retail segment and business strategy implementation and business development. He joined Citadele in July 2015 as Head of Strategic projects. His former experience includes various positions in GE Money Bank. The last two years before joining Citadele, he worked as Strategic Initiatives Leader in GE Capital HQ in USA, leading the projects and assisting in developing global strategy around trade finance and multinational clients. Mr. Mironovs held a position of Business Development Manager in GE Capital, UK (2012-2013) and Sales and Marketing Director in GE Money Bank Latvia (2010-2012). Mr. Mironovs holds Executive MBA from Riga Business School. His term of office expires on 16 December 2021.

Uldis Upenieks, Chief Compliance Officer. Mr. Upenieks in Citadele Group is responsible for the Compliance area. He has 20 years experience in the financial sector, of which last 15 years he has worked in the banking sector. Since November 2012 Mr. Upenieks was a Chairman of the Board at "CBL Asset Management". Before that he worked in PrivatBank – as a Board member and as a head of internal audit. Prior to that Mr. Upenieks was responsible for client oversight function (2002-2009), and a vice president and the deputy director of the Risk and Compliance Sector (2009-2011) at Citadele. Mr. Upenieks holds a master's degree in business administration and a bachelor's degree in economics from the Riga Technical University and he has studied at Riga Graduate School of Law. His term of office expires on 31 July 2022.

Slavomir Mizak, Chief Technology Officer. Mr. Mizak is responsible for Citadele Group's IT and technology development. In Citadele Group he has been working since August 1, 2017. Before joining, Mr. Mizak was a member of the Management Board and held a position of the Chief Information Officer and the Chief Operating Officer in Zuno Bank AG (Austria) since 2014. Prior to that, he held positions of the Head of Information Technology and the Head of Information Technology Development in Zuno Bank. Before that he worked as a consultant and manager in the consulting division for financial services sector in Accenture (2002-2009). Mr. Mizak holds a master's degree in Business Administration from the University of Economics in Bratislava. His term of office expires on 31 July 2022.

Kaspars Jansons, Chief Operations Officer. Mr. Jansons is responsible for administrative services and bank operations at AS "Citadele banka" (hereinafter– Citadele). 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. Member of the Management Board since 22 June 2018. His term of office expires on 21 June 2023.

Vaidas Žagūnis, Chief Corporate Commercial Officer. Mr. Žagūnis is responsible for the development and management of the corporate business in the Baltics. Before joining the Bank, he worked for SEB Lithuania as Head of Retail banking, Member of the Management Board, Executive Vice President. Prior to that Vaidas Žagūnis held different managerial positions mainly in SME business area. He has almost 18 years of banking experience. Vaidas Žagūnis holds a Master's Degree in Business Administration from Kaunas University of Technology and also has educated in Massachusetts Institute of Technology (MIT) in United States. Member of the Management Board since 1 March 2020. His term of office expires on 28 February 2025.

Guntis Beļavskis resigned from the Management Board as of 2 March 2020.

For information regarding the shares of Citadele held by certain members of the Management Board, see "*Interests in Citadele*" below.

7.4. Remuneration policy

Citadele's remuneration policy is designed to attract, retain, motivate and develop professional and talented employees so that it can achieve its short-term and long-term goals. Citadele aims to ensure that: (i) remuneration is matched to employees' performance; (ii) there is coordination and consistent application of the remuneration policy across Citadele Group; (iii) remuneration levels are competitive in the labour market; (iv) the remuneration policy does not encourage the assumption of risk above defined levels; (v) the remuneration policy does not limit Citadele's ability to strengthen its equity capital; (vi) in setting remuneration levels, Citadele's values and long-term interests are protected; (vii) the remuneration policy does not conflict with the protection of clients' or investors' interests; and (viii) there are no guaranteed amounts of the variable element of remuneration except in the first year of an individual's employment.

Remuneration for employees performing internal control functions such as risk control, compliance control and internal audit is based on the achievement of defined goals and is not linked to the performance of the sector monitored by those internal control functions. The fixed and variable elements of remuneration are both set as an amount gross of tax. When Citadele's internal regulations prescribe severance pay that exceeds the amount prescribed in the Labour Law of the Republic of Latvia (the "**Latvian Labour Law**"), the Management Board takes into account errors and shortcomings in the employee's service as well as the performance of the employee in making such decisions.

In relation to Citadele as a standalone entity, the fixed element of the remuneration paid to the CEO and Management Board members, together with the Head of Internal Audit Division and employees whose remuneration is equal to or exceeds the remuneration of any of the above, is set by the Supervisory Board. For other employees, the decision is taken by designated employees according to authorisations issued by Citadele's Management Board. In relation to Citadele's subsidiaries, the fixed element of the remuneration paid to members of the subsidiary's supervisory board (if any) is set by the Management Board as a representative of the (direct or indirect) shareholder of the subsidiary. The fixed element paid to the members of the subsidiary's management board is set by the subsidiary's supervisory board if any, and if none, by the Management Board. For other employees of subsidiary companies, the fixed element of remuneration is set by designated employees according to authorisations issued by the relevant subsidiary.

For employees other than management or supervisory board members of Citadele or its subsidiaries, the fixed element of remuneration is set as a time salary (i.e., calculated according to the actual time worked irrespective of the amount of work done) or as a piecework salary (i.e., calculated according to the amount of work done irrespective of the time within which it has been done). The monthly fixed remuneration paid to management or supervisory board members of Citadele or its subsidiaries is determined according to the agreement on performance of duties entered into between that individual and Citadele.

The Management Board defines and regularly reviews employees' salaries and total remuneration level in line with market analysis and results of compensation surveys of financial institutions, which are conducted by external organisations.

The variable part of remuneration paid by Citadele is set by the Supervisory Board for Management Board members, by the Management Board for staff whose role has an impact on Citadele's risk profile, and for other staff by designated employees according to authorisations issued by Citadele. In relation to Citadele's subsidiaries, the Management Board sets the variable element for the subsidiary's supervisory board and management board members; the subsidiary's management board sets the variable element for the

subsidiary's staff whose role has an impact on its risk profile; and the subsidiary's HR department sets the variable remuneration for all other employees of the subsidiary.

Employee performance is assessed during annual performance management cycle, where individual performance evaluated against goals established at the beginning of the year. Annual goals set up as a combination of financial targets, qualitative metrics, and individual soft skill metrics.

Where the financial performance of Citadele is weak or negative by reference to the objectives of the Management Board as indicated in annual goals agreed with the Supervisory Board, the disbursement of the variable element of remuneration (including the deferred portion) is reduced.

The remuneration policy is reviewed annually by the Supervisory Board, based on the proposals of the Management Board. The Internal Audit Division monitors implementation of the policy.

The table below sets out the aggregate calculated remuneration for members of the Management and Supervisory Boards, as of 31 December 2019:

EUR	Fixed remuneration	Variable remuneration	Additional benefits in kind	Total
Management Board	1 645 836.82	260 480.60	–	1 906 317.42
Supervisory Board	238 088.93	–	–	238 088.93

Citadele's Supervisory Board and shareholders have adopted a long term incentive plan ("LTIP") which is offered to the members of the Management Board along with several other senior employees and a long term retention programme ("LTRP") which is offered to the key employees of Citadele Group. The members of the Management Board and several other senior employees shall receive personnel options awards under the LTIP and such awards are subject to the satisfaction of predetermined performance targets and may have a vesting period of up to five years. The total variable pay (comprised of cash bonuses and awards under the LTIP) paid to the Management Board in any year shall not exceed 200% of their fixed remuneration. Key employees receive personnel options awards under the LTRP subject to the satisfaction of predetermined performance targets and have a vesting period of up to one year. The total variable pay (comprised of cash bonuses and awards under the LTRP) paid to the key employees in any year shall not exceed 100% of their fixed remuneration. All such personnel options give rights to obtain shares of Citadele upon their exercise according to their terms and conditions. In order to ensure satisfaction of the personnel options awards under both programmes – LTIP and LTRP – the shareholders of Citadele have approved conditional share capital of Citadele the total amount of which at the date of this Base Prospectus is 1 848 776 (one million eight hundred forty-eight thousand seven hundred seventy six euro).

Under the terms of their service contract with Citadele Group, no member of the Management or Supervisory Board is entitled to any additional benefits upon termination of their employment, save for what is stated above and any market standard notice periods or severance payments for the Management Board members in certain situations where no negligence or wrongful acts have been committed.

7.5. Conflicts of Interest

There are no conflicts of interest or potential conflicts of interest between any duties owed by members of the Supervisory Board or the Management Board to Citadele and their private interests and/or other duties other than the management loans indicated below or as described in the "Interests in Citadele" paragraph below.

Interests in Citadele

The table below sets out, as of the date of this Base Prospectus, the number of shares in Citadele held directly or indirectly by members of the Supervisory Board (no Supervisory Board member holds any options in Citadele):

Supervisory Board member	Number of ordinary shares held	Ownership (%)	Entity through which shares are held
Timothy Collins	35 082 302	22.41 plus one share	RA Citadele Holdings, LLC
James L. Balsillie	13 863 987	8.86	Amolino Holdings Inc
Dhananjaya Dvivedi	1 381 440	0.88	Shareholding is held in his personal capacity

*David Shuman is deemed to have an interest in Citadele through the interest held by his father.

As of the date of this Base Prospectus, certain members of the Management Board directly hold personnel options giving rights to obtain shares of Citadele according to the terms and conditions of such options that have been allocated to them within the LTIP as described in the section entitled „*Corporate Governance — Remuneration policy*” above.

Management Loans

As of 31 December 2019, there was EUR 437 thousand in loans and EUR 98 thousand in other financial commitments and guarantees in place between Citadele and members of the Management Board and Supervisory Board, their close relatives and companies in which they have a controlling interest.

Further information in relation to the Management and Supervisory Board members

At the date of this Base Prospectus, none of the members of the Supervisory Board or the Management Board, for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Related Party Transactions

Latvian law requires that related-party transactions comply with the “arm’s length” principle. This dictates that the conditions agreed between two associated persons in their commercial or financial relations must not differ from those that would be agreed between independent persons engaging in similar transactions under similar circumstances.

The Latvian Commercial Law sets out restrictions applicable to transactions between joint stock companies and the shareholders having direct decisive influence over the company, members of the management or supervisory boards and other related persons and companies. In most cases, the prior approval of such transactions by a supervisory board or general meeting of shareholders is necessary. There are a number of exceptions provided in the Groups of Companies Law of the Republic of Latvia (the “**Latvian Groups of Companies Law**”) regarding transactions between companies in the same group which allow transactions between a parent company and its subsidiary to be exempted from the “arm’s length” principle in order to allow unimpeded transfers of assets within a group, provided that certain legal requirements are met. As Citadele has not entered into a group of companies agreement, these exemptions do not currently apply.

In the ordinary course of its business, Citadele may, from time to time, enter into transactions with related parties. Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities in which shareholders have significant influence.

Citadele conducts all transactions with related parties on an arm’s length basis and on market terms, including in the case of the advisory services provided by Ripplewood Advisors LLC where an assessment has been performed concluding that the services agreement constitutes a transaction conducted on arm’s length basis. On 28 September 2017, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele’s management. See section entitled “*Overview and Business Description —Material Agreements —Advisory services agreement*” below. Transactions between Citadele and related parties (as defined by applicable banking regulations) are subject to the laws and regulations promulgated by the Latvian Parliament, the Cabinet of Ministers and the FCMC, which set certain limits for both single transaction related party exposure and aggregate transaction related party exposure.

In connection with the Offer, any affiliate of Citadele acting as an investor for its own account, may take up the Bonds offered in the Offer and in that capacity may retain, purchase or sell the Bonds for its own account and may offer or sell such Bonds otherwise than in connection with the Offer. None of Citadele’s affiliates intend to

disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

For information regarding loans and other financial commitments and guarantees in place between Citadele and members of Management, see “—*Management Loans*” above.

7.6. Corporate Governance Rules

Companies in Latvia typically adopt their own corporate governance practices in addition to those prescribed by law, and these are reflected in the internal bylaws of the company. Citadele is subject to, and complies with, the corporate governance rules imposed by the EBA, European Commission and other legislative bodies, and Latvian legislation. In addition to this, Citadele has implemented a rigorous set of procedures and committees to mitigate risk and adhere to a high standard of corporate governance.

According to the Latvian Financial Instruments Market Law, a joint-stock company with its bonds traded on the regulated market has an obligation to prepare a corporate governance report on an annual basis. The Nasdaq Riga has issued Principles of Corporate Governance and recommendations on their implementation, which take into account the requirements for companies as set out in Latvian legislation as well as the recommendations of the EU and OECD. These rules are based on the principle of “comply or explain” and follow governance principles in effect in other European countries.

7.7. Asset, Liability and Risk Management

Citadele Group considers risk management to be an essential component of its management process. Citadele Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. The Supervisory and Management Boards have focused upon incrementally improving the risk management structure and intend to continue to do so in the future to ensure that Citadele Group’s operations remain sustainable and comply with all legal, regulatory and best practice governance requirements.

In order to assess and monitor complex risk exposures, Citadele Group applies a wide range of risk management tools in conjunction with risk committees, which include as its members a variety of employees across Citadele Group’s various operations, in order to balance business and risk orientation across Citadele Group.

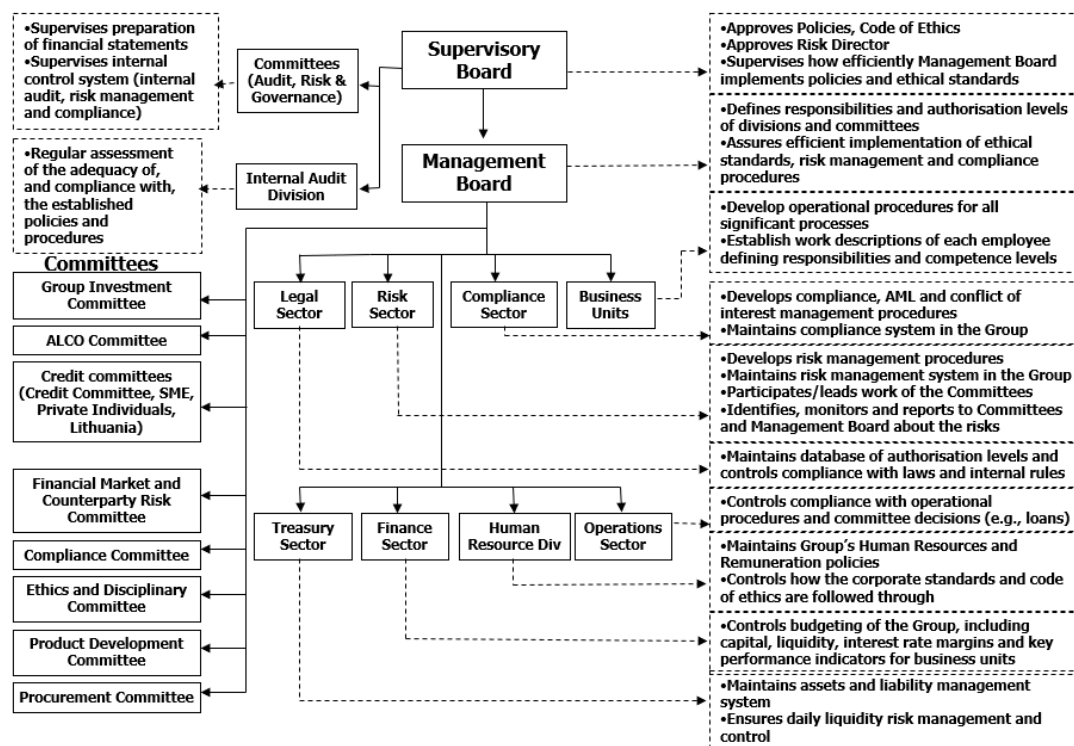
Citadele Group’s risk management principles include: (a) centralised risk management throughout Citadele Group (a “hub and spoke” mechanism in which risk management criteria, guidance and direction is set centrally and executed locally using on the ground knowledge); (b) highly developed anti-money laundering (“**AML**”) and know-your-client (“**KYC**”) procedures, which are processed by dedicated and highly experienced teams, separated from the other functions of Citadele Group, and rely on specifically designed IT systems, which capture and mitigate the risks involved; and (c) maintenance of good relationships and a strong track record with its regulators through ongoing and transparent dialogue and engagement across the seniority spectrum.

Citadele Group believes that it has a conservative risk tolerance across the organisational hierarchy and aims to ensure that it maintains a low overall risk exposure, a diversified asset portfolio, limited risks in financial markets and low levels of operational risk. Exposures that are not acceptable are avoided, limited or hedged. Citadele Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise.

Citadele Group’s risk management is based fundamentally on the supervision of each and every employee and accepting responsibility for the nature of the transaction which each such employee carries out. The control over risk levels and compliance with the imposed limits are achieved by the existence of structured risk limit systems.

Pursuant to Latvian legislation, Citadele Group is required to have a Risk Director function. As of the date of this Base Prospectus, the Risk Director for Citadele Group is the Chief Risk Officer, Valters Ābele. The Risk Director is responsible for performing an overall risk control function, including oversight of the risk management strategy. The Risk Director has the ability to veto all decisions taken by members of the Management Board (but not the decisions of the GMS or the Supervisory Board), and these decisions are then referred to the Supervisory Board for final determination. The Risk Director coordinates the operation of Citadele Group’s structural units related to risk management.

Risk management structure



Credit Risk Management is performed pursuant to the Credit Risk Management Policy approved by the Supervisory Board. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk. The Credit Risk Management Policy sets the following principles:

- Citadele Group provides products and enters into transactions which carry a degree of risk due to dependence on customer creditworthiness, which, according to Citadele Group's assessment, have acceptable probability of occurrence. The assessment of a customer's creditworthiness is supported by the evaluation of customer's ability to repay the loan and provide collateral to mitigate or eliminate the risk of losses to Citadele Group;
- Citadele Group assumes risks which it believes can be assessed and managed. Citadele Group believes that it does not assume unacceptably high levels of risk; and
- Citadele Group assumes risks in economic fields and geographic regions in relation to which it has sufficient knowledge. Citadele Group constantly monitors different industry sectors, particularly those in which it has a significant concentration of customers, in order to be able to assess such sector risks and potential development trends.

Credit risk management is based on an adequate assessment of a credit risk and the decision-making in relation to such risk. In cases when significant risk is to be taken, the credit risk analysis is performed. The credit risk analysis consists of assessment of the customer's creditworthiness, pledged collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates and an analysis of its current and forecasted financial situation, as well as an analysis of the members of its management bodies. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, regular income, debt service to income and income against liabilities analysis, as well as an analysis of other relevant factors. Following the issuance of the relevant loan, the customer's financial situation and reliability in meeting its contractual obligations are regularly evaluated by Citadele Group in order to identify potentially problematic exposures and take the necessary steps to manage such risks.

As part of the credit risk management process, the Management Board has also approved the introduction of a set of concentration limits based on, among others, (i) individual counterparty groups; (ii) geography; (iii) industry, (iv) related party status, (v) intragroup exposures.

Market Risk Management. Citadele Group recognises two major types of market risk: position risk and foreign exchange risk. Position risk is the risk that Citadele Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in interest rates, asset values and other factors. General interest rate risk and specific interest rate risk are the main risks which arise from fair valued bond portfolio held by Citadele Group for investment and liquidity purposes. Foreign exchange risk is a risk of loss arising from fluctuations in currency exchange rates. Market risk is assessed and limits are set by the Group Investment Committee and the FMCRC, and the decisions of these committees are approved by the Management Board.

Citadele Group manages market risk by developing investment guidelines for every significant portfolio, which restrict, among other things, the duration and credit quality profile of investments, as well as by setting individual limits for issuers and financial instruments, to keep limit volumes closely linked to the results of risk assessments. To assess position risk Citadele Group uses sensitivity stress testing. Furthermore, Citadele Group takes steps to minimise the percentage of its capital which could be affected by different shock scenarios.

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

Interest Rate Risk Management. Interest rate risk is related to the possible negative impact of interest rate changes on Citadele Group's income and economic value. Citadele Group is exposed to interest rate risk in its borrowing, lending and deposit taking activities, as well as management of its securities portfolio. Interest rate risk management is carried out in accordance with the Interest Rate Risk Management Policy and is monitored and reported by the Risk Sector, while management is performed by the Treasury Sector. Interest rate risk is managed by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of changes in economic value and net interest income under different scenarios. Based on the market analysis (including the interest rates set by its competitors) and Citadele Group's financing structure, ALCO sets the interest rates for customer deposits.

Liquidity Risk Management. 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. Citadele Group manages its liquidity risk in accordance with its Liquidity Risk Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are taken by ALCO. Risk Sector conducts an annual internal assessment of liquidity adequacy at the Group level and submits ILAAP report with conclusions to the Management and Supervisory Boards.

Liquidity risk for Citadele Group is assessed in each currency in which Citadele Group has performed a significant amount of transactions. Liquidity risk limits are reviewed at least once a year and also when there are major changes to Citadele Group's operations or external factors affecting its operations. Liquidity crisis management plan 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 Citadele Group with risk tolerances defined for the simulated outcomes. Furthermore, Citadele 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 two years. Citadele Group regularly analyses liquidity term structure and sets corresponding risk tolerances considering customer behaviour, while paying attention also to contractual maturities of its assets and liabilities.

The FCMC sets individual liquidity ratio requirements based upon cash and cash equivalent assets available within 30 days span and current liabilities of the bank due in the next 30 days. Citadele's individual liquidity ratio requirement stayed at 40% for the last 3-year period after it was reduced to 30% in February 2019. Citadele was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III Liquidity Coverage Ratio (LCR) with a phase-in period ended

up in 2018. The corresponding minimum levels to be maintained from year 2018 and thereafter are 100%. Another liquidity indicator – the Net Stable Funding Ratio (NSFR) – is announced to be set at 100%, effective starting from May 2021. Citadele has always ensured full compliance with LCR and already meets the planned NSFR level.

The following table sets out Citadele's liquidity ratio, LCRs and NSFRs as of the dates indicated. Unless otherwise noted, the information presented is for Citadele Group.

Liquidity Ratios	31 Dec 2017 <i>(audited)</i>	31 Dec 2018 <i>(audited)</i>	30 June 2019 <i>(audited)</i>	31 Dec 2019 <i>(unaudited)</i>
Net Stable Funding Ratio ⁽¹⁾	146%	138%	141%	166%
Liquidity Coverage Ratio ⁽²⁾	318%	259%	257%	358%
Liquidity ratio	62%	47%	46%	58%

(1) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding.

(2) Liquidity Coverage Ratio represents Citadele Group's unencumbered high quality liquid assets that can be liquidated easily and quickly in private markets as a percentage of its net cash outflows in a 30 calendar day liquidity stress test scenario.

Operational Risk Management. Citadele Group has adopted the Basel Committee on Banking Supervision's definition of operational risk, being the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk (such as risk of penalty fees or sanctions applied by external institutions, losses inflicted as a result of litigation and the risk of other similar adverse events), but excludes strategic risk and reputational risk.

Operational risk management is integral to all business activities and are applicable to all employees and members of Citadele Group. The operational risk management framework at Citadele Group assumes that all of Citadele Group's products, operations, processes and systems have a specific operational risk and that certain of these risks cannot always be qualified or quantified accurately.

Operational risk at Citadele Group is managed using comprehensive framework of combination of internal regulations and tools for identification, analysis, mitigation, control and reporting of operational risk. Some of the key tools for managing operational risk are: segregation of functions and responsibilities, documentation of the assignment of authorities, separation of duties within the decision-making process, internal regulations, use of a "four-eyes" principle controls in internal processes, as well as centralised operational risk loss event reporting and management system.

Operational risk management measures are coordinated by the Operational Risk Management Department within the Risk Sector, a separate structural sub-unit which is not related to business transactions. Operational Risk Management Department is responsible for maintenance and development of the operational risk management framework, development and encouragement of high level risk awareness among employees within Citadele Group, provides regular operational risk reports to the Supervisory Board and the Management Board. Operational Risk Management Department is second line of defence function and reports to the Chief Risk Officer.

The goal of operational risk management framework in Citadele Group 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 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. Citadele Group endeavours to avoid operational risk loss events with high impact and frequency, with total operational risk losses below the limits as set in the Group's Risk Appetite Framework, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring.

Compliance Risk Management, Anti-Money Laundering and Anti-Bribery and Corruption. Citadele Group considers compliance to be an indispensable cultural value of Citadele Group, and its implementation starts from the very top tiers of management. Citadele Group believes that it identifies implements and complies with the requirements stated in applicable compliance laws, regulations, guidelines and standards in. Citadele Group effectively and efficiently implements solutions to ensure compliance with applicable laws and regulations, which are embedded in Citadele Group's internal regulations and are binding on the Citadele Group's employees.

In Latvia, compliance risk is identified by: (i) the Legal Sector and the Compliance sector tracking changes to relevant laws and regulations as well as adoption of new ones, which are reflected in Citadele Group's internal regulations; (ii) active involvement in the committees of the Finance Latvia Association and the workshops and

seminars held by the supervisory authorities; and (iii) assessing Citadele Group's internal regulations, customer complaints and reports of compliance breaches by employees. The same concept applies to foreign branches of the Citadele banka as well as its domestic and foreign subsidiaries.

Compliance risk management is carried out through identification, assessment, monitoring and reporting of compliance risk. Citadele Group's compliance policies are applicable to all Citadele Group companies and the compliance department heads at each member of Citadele Group are responsible for the implementation and performance of the compliance department in line with Citadele Group's group-wide policies as well as laws and regulations which are applicable to that Citadele entity. The compliance department heads at each member of Citadele Group are also responsible for reporting to Citadele's Group AML Division and/or Compliance Division.

The compliance function is performed by Chief Compliance Officer who is the Member of the Management Board. Separate structural units at Citadele Group: the Group's AML Division and Compliance Division of the Compliance Sector are acting under the authority of the Chief Compliance Officer.

The sub-units of the Compliance sector are in charge of the anti-money laundering and counter-terrorist financing function, including: (i) the identification, documentation, assessment, management and control of risks related to money laundering and terrorist financing, as well as reporting on such risk; (ii) producing detailed explanations of, and monitoring the implementation of, the relevant control mechanisms in relation to terrorist-financing and money-laundering risk; (iii) monitoring clients and client transactions within the client due diligence framework; (iv) assessing suspicious and unusual transactions identified by Citadele Group employees, and reporting these transactions to the authorities if required; (v) deciding on the acceptance or termination of business relationships based on the above; (vi) ensuring compliance with sanctions by introducing frameworks for monitoring clients and their transactions; and (vii) monitoring risks related to payment card acceptance and issuance.

The Compliance Division, meanwhile, is responsible for: (i) the supervision and implementation of new internal policies and procedures to ensure compliance with binding laws and regulations in the field of Personal Data Protection, Anti-Bribery and Corruption, Ethics, Automatic Exchange of Financial Account Information (FATCA/CRS), Payment Services Compliance, Capital Markets Compliance, Compliance with Consumer Rights, Compliance of New Products; (ii) the development and documentation of procedures to ensure Citadele Group's employees follow compliance laws and regulations; (iii) the monitoring of compliance with Citadele Group's internal regulations; (iv) the assessment of the impact of potential changes in law and regulations which could affect Citadele Group's operations; and (v) the provision of advice, support and training to Citadele Group employees.

The responsibility for risk management in relation to money laundering and terrorist financing lies with the Chief Compliance Officer, the Management Board member together with the Money Laundering and Reporting Officer and AML Division within the Compliance Sector. The Compliance Committee in turn oversees control over the fulfilment of Citadele Group's AML, Counter-Terrorism and Counter-Proliferation Financing and Sanctions Compliance policies and programmes.

Citadele Group implements strict due diligence procedures when taking on new customers to be fully satisfied as to their identity, source of funds and economic rationale for opening an account. Enhanced due diligence ("EDD") measures are adopted in case of high risk indicia found as well as expected deposits from non-resident legal entities and individuals, regardless of their jurisdiction. This EDD includes, amongst other measures, matching client data with the sanction lists, checking the origin of funds, identifying the underlying beneficiary and ascertaining whether the expected transactions are in line with the client's profile. Citadele Group also monitors existing customers. It achieves this through the use of a fully automated AML client transaction monitoring system "Financial Crime Risk Management", which is provided by Fiserv. This system generates alerts if the client transactions are not carried out in accordance with the declared client activity as well as on the basis of other criteria, for instance, when transactions involve large amounts exceeding a certain threshold, or on the detection of unusual behaviour, thus triggering immediate additional EDD with respect to the client. An additional function of the T24 system (in combination with sanctions screening system Compliance Link) is used to screen online customer transactions against OFAC, UN, EU and local FIU sanctions lists and internally blacklisted persons. All customer data are screened against information in the Accuity database, which is also used for PEP identification purposes. Details of the customer EDD process and the customer monitoring process is documented and traceable in Citadele's IT systems. This includes Citadele's decisions regarding reporting suspicious activity or sending unusual transaction reports to the Financial Intelligence Unit and the State Revenue Service of the Republic of Latvia, as well as decisions to terminate relationships with clients due to non-compliance with Citadele's AML procedures.

Citadele Group defines corruption as the abuse of public or private office for personal gain. This relates to any behaviour in which individuals in the public or private sectors improperly and unlawfully enrich themselves or those close to them, or induce others to do so, by misusing their position. Citadele Group is committed to the prevention of corruption and aims to ensure that its reputation and integrity are maintained at all times. Citadele Group's anti-corruption function is performed by the Compliance Division with input from other units of Citadele Group which have particular anti-bribery functions, such as the Security Department and the AML Division, which deals with monitoring transactions internally, and the HR department, which is involved in certain ethical decision making.

Citadele Group does its best to ensure that its clients are not involved in money laundering, criminal activity or financing terrorism or financing of proliferation of weapons of mass destruction.

Changes to risk management that are known or anticipated to come into effect in the future. Citadele Group has developed and implemented scoring models for credit cards and consumer loans for private individuals, as well as for micro SME loans. Currently, the aforementioned scoring models are under ongoing improvement process to ensure development of more sophisticated and enhanced customer evaluation technics.

Capital Adequacy 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. 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 the countercyclical capital buffer for the Bank is 0.51%; other capital requirements and buffers for the Bank are the same as for the Group. Citadele's capital adequacy calculation in accordance with FCMC regulations is disclosed as set out below.

Capital adequacy ratio (including profits for 2019)

EUR millions	31 Dec 2017	31 Dec 2018	30 June 2019	31 Dec 2019
Common equity Tier 1 capital				
Paid up capital instruments	156.6	156.6	156.6	156.6
Retained earnings*	106.4	136.2	151.9	174.2
Regulatory deductions	(4.1)	(7.6)	(4.7)	(8.5)
Other capital components and transitional adjustments, net	2.7	9.6	9.1	15.5
Tier 2 capital				
Eligible part of subordinated liabilities	60.0	60.0	60.0	60.0
Total own funds	321.5	354.7	372.9	397.8
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1 496.2	1 507.4	1 663.2	1 557.8
Total exposure amounts for position, foreign currency open position and commodities risk	7.9	10.5	11.0	16.6
Total exposure amounts for operational risk	236.1	245.4	214.8	209.6
Total exposure amounts for credit valuation adjustment	1.1	0.4	0.4	0.5
Total risk exposure amount	1 741.3	1 763.6	1 889.4	1 784.6
Total capital adequacy ratio	18.4%	20.1%	19.7%	22.3%
Common equity Tier 1 capital ratio	15.0%	16.7%	16.6%	18.9%

* The Bank's and the Group's Tier 1 capital includes full 2019 profits, inclusion of which is subject to the annual audit. If only audited 6 month interim profits were included, total regulatory own funds for the Group and the Bank would be EUR 375.5 million and EUR 359.4 million, total capital adequacy ratio would be 21.0% and 21.5%, and CET 1 ratio would be 17.7% and 17.9% respectively. H1 - * The regulatory own funds include audited interim profits, inclusion of which is subject to FCMC's approval. If no interim profits were included total regulatory own funds for the Group and the Bank would be EUR 357.0 million and EUR 338.4 million, total capital adequacy ratio 18.9% and 18.7%, and CET 1 ratio 15.7% and 15.4% respectively.

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 millions	31 Dec 2017	31 Dec 2018	30 June 2019	31 Dec 2019
Common equity Tier 1 capital, fully loaded	261.7	288.8	307.9	332.8
Tier 2 capital	60.0	60.0	60.0	60.0
Total own funds, fully loaded	321.7	348.8	367.9	392.8
Total risk exposure amount, fully loaded	1 741.3	1 758.5	1 885.0	1 780.2
Total capital adequacy ratio, fully loaded	18.5%	19.8%	19.5%	22.1%
Common equity Tier 1 capital ratio, fully loaded	15.0%	16.4%	16.3%	18.7%

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

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 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.

8. Overview and Business Description

8.1. Overview

Citadele Group is a leading universal banking group and the largest non-Nordic owned universal bank in Latvia. As of 30 September 2019, Citadele has the third highest number of customers (above 371,000), the third highest number of internet banking customers (approx. 182,000 active users) and the third largest network of branch offices in Latvia, according to the Finance Latvia association. Furthermore, as of the same date, Citadele had a total market share in Latvia of 11.8% in total loans, 17.0% in deposits and 14.7% in total assets, according to data published by the FLA.

Citadele Group offers a wide range of banking products to its private, SME and corporate customer base. It also provides wealth management, asset management, life insurance, pension and leasing and factoring products. Citadele has won numerous local and international awards for its business, customer service and innovative technology applications. As of 30 December 2019, Citadele Group had 1,370 FTEs. Its distribution network comprised 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 with 7 customer service units in Lithuania. AS Citadele banka is the parent company of the Group, which has subsidiary bank in Switzerland and several subsidiaries which include financial services companies. The Group's main market is Baltics (Latvia, Lithuania and Estonia). The Group has online and mobile banking platform, which is available in Latvia, Lithuania and Estonia.

In Latvia, Citadele Group operates through three main segments according to customer profile:

- the Retail and SME segment provides a wide range of daily banking products and services, current and deposit accounts, debit and credit cards, mortgages and consumer loans to private individuals, as well as card acquiring services for small merchants, short and long term credit facilities to legal entities with an annual turnover of up to EUR 7 million;
- the Corporate segment serves corporate customers with an annual turnover in excess of EUR 5 million, a loan exposure of more than EUR 1 million, or total assets comprising more than EUR 5 million. Core products include business development loans, short term credit lines, trade finance products, card acquiring services and general deposit and cash management services; and
- the Wealth Management segment provides a wide range of private banking and wealth management services to high net-worth local and international customers through dedicated relationship managers.

During the financial period under review in this Base Prospectus, Citadele Group's principal activities, including the main categories of products and services offered, have remained consistent.

In addition to its operations in Latvia, Citadele Group has banking, leasing and wealth management operations in Lithuania and Estonia and offers private banking and wealth management services through its subsidiary in Switzerland.

Citadele Group's strategy, which was adopted following the acquisition of the majority stake in Citadele by the investment consortium led by RA Citadele Holdings, LLC, is aimed at strengthening Citadele Group's market position in the domestic Baltic market by becoming the primary banking partner for its existing and new customers. Management believes that this strategy will deliver greater customer engagement and will increase Citadele Group's revenue-earning potential. Citadele Group intends to maintain all of its existing business lines, whilst focusing more specifically on growing the proportion of retail and SME segment in its overall balance sheet mix. Citadele is also working on strengthening its current private banking and wealth management proposition by further integrating with the Retail and Corporate business.

Citadele's head office is located at Republikas laukums 2A, Riga, LV-1010, Latvia, and its telephone number is +371 6701 0000.

8.2. History and Development

Citadele was registered in Latvia as a joint stock company on 30 June 2010 and commenced operations on 1 August 2010.

AS Parex Banka ("**Parex**"), which was one of the first commercial banks in Latvia, was founded in 1992 and was the second largest bank in Latvia in 2008, with total assets of EUR 4.9 billion and significant market shares in lending and deposits. During 2008, Parex suffered consolidated losses of EUR 185 million, leading to a 65% decline in shareholders' equity and a resulting capital adequacy ratio calculated at the time for the Parex group of 3.3%. Parex was, therefore, no longer able to meet its regulatory solvency requirements. Parex sought

Latvian state assistance in early November 2008. On 10 November 2008, Latvia notified the European Commission (the “EC”) of a package of measures in favour of Parex, designed to support the stability of the financial system, which was approved by the EC on 24 November 2008. As a result, Parex was nationalised through the acquisition by the Latvian Government (acting through the Latvian Privatisation Agency) of the entire ownership interests of its former shareholders. In April 2009, the EBRD concluded a share purchase agreement whereby it acquired from the Latvian Privatisation Agency 25% plus one share of the share capital of Parex. On 1 August 2010, Parex’s assets that were less than 60 days in arrears (the “legacy loan portfolio”), as well as liabilities related to traditional banking operations were split up and then transferred into a newly established “good bank” named Citadele, which would focus on traditional banking operations. The EBRD obtained a shareholding of 25% plus one share in Citadele. The remaining non-performing assets were retained by Parex (which was rebranded as “Reverta” in 2012 and has been liquidated).

In order to enable the EC to provide restructuring aid to Citadele and Parex in a manner that did not distort the Latvian market, Latvia provided commitments to the EC designed to limit the competitive impact of a state-owned bank operating in the Latvian market. In addition, a requirement was imposed by the EC that Citadele must be sold back into private ownership as soon as practicable. A full auction and tender process was held by the Latvian Privatisation Agency during 2014 for the sale of its stake, i.e. 75% less one share of the share capital of Citadele. Following the completion of the auction and tender process, RA Citadele Holdings, LLC and a number of persons co-investing alongside RA Citadele Holdings, LLC, were selected as the preferred bidder. A sale and purchase agreement was entered into among the parties on 5 November 2014 and a customary set of warranties was provided by the Latvian Privatisation Agency to RA Citadele Holdings, LLC and its co-investors.

Following the closing of the sale on 20 April 2015, all ordinary shares of Citadele held by the Latvian Privatisation Agency were acquired by RA Citadele Holdings, LLC, and a number of persons co-investing alongside RA Citadele Holdings, LLC. In addition, all commitments made by Citadele Group to the EC ceased to apply and had no further effect or restriction upon the activities of Citadele Group. A further subscription for ordinary shares by RA Citadele Holdings, LLC, the consortium of co-investors and the EBRD following closing of the sale on 20 April 2015, provided RA Citadele Holdings, LLC and the co-investors with a stake of 75% plus one share in Citadele. The final sale price paid by RA Citadele Holdings, LLC and the consortium of co-investors was EUR 74 million.

In January 2017 Citadele repaid the subordinated debt in amount of EUR 34 million to LPA pursuant to the subordinated loan agreement entered into by and between Parex and the Latvian Privatisation Agency on 22 May 2009.

8.3. Structure of Citadele Group

Subsidiaries

Citadele is the parent company of Citadele Group. The following table contains a list of subsidiaries (some of which are direct and others of which are indirect) (the “**Subsidiaries**”), branches and representative offices of Citadele Group at the date of this Base Prospectus. The voting interests held, directly or indirectly, by Citadele in each of these subsidiaries corresponds directly to its ownership interest.

Subsidiary	Country of incorporation	Ownership	Industry
AP Anlage & Privatbank AG	Switzerland	100%	Private wealth management
SIA Citadele Līzings un Faktoringas	Latvia	100%	Leasing and factoring
OU Citadele Leasing & Factoring	Estonia	100%	Leasing and factoring
UAB Citadele faktoringas ir lizingas	Lithuania	100%	Leasing and factoring
IPAS CBL Asset Management	Latvia	100%	Asset management
AS CBL Atklātais Pensiju Fonds	Latvia	100%	Pension fund management
AAS CBL Life	Latvia	100%	Life insurance
SIA Citadeles moduļi	Latvia	100%	Management of main office building
SIA Hortus Land	Latvia	100%	Managing real estate assets
SIA Hortus Residential	Latvia	100%	Managing real estate assets
SIA Hortus RE (in liquidation)	Latvia	100%	Managing real estate assets

*Calenia Investments Limited, 100% owned, Non-regulated financial institution and OOO Mizush Asset Management Ukraina, 100% owned, Asset Management are under liquidation

Branch

Name	Place of incorporation	Branch location
AS "Citadele banka" (CB)	Latvia	Estonia
AB "Citadele banka" (CB)	Latvia	Lithuania

Citadele's holdings in the following subsidiaries are likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses: (i) IPAS "CBL Asset Management (CBL AM); (ii) AP Anlage & Privatbank AG; and (iii) SIA "Citadele līzings un faktoringi".

8.4. Business segments, Strategy and principal markets

Citadele Group's strategy is to become the leading local bank of choice for individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States. Citadele Group intends to achieve this by delivering exceptional digital services, "premium feel" products and by placing a high emphasis on quality of service across customer segments. Citadele Group intends to further increase revenue from its existing customer base and to proactively target new customers in the retail, SME and micro SME (being those entities with a turnover of less than EUR 0.4 million per annum) sectors.

Citadele's management believes that Citadele Group's core strengths will allow it to increase the market penetration of its banking services in the Baltic States, and attract new customers from its local banking competitors, driving further revenue growth.

Citadele Group's operations and infrastructure differ across each of the Baltic States, and so whilst Citadele's management intends to implement its business strategy across each of the Baltic States, such strategies are tailored by Citadele management to better suit the customer requirements in the relevant market. The infrastructure to deliver growth in the retail and SME segments is already in place in Latvia and Lithuania and can be rolled out in Citadele Group's Estonian operations without the need for additional major investment.

Whilst Citadele Group's core strategy is to grow the business organically by focusing upon expanding its customer base and revenues derived from its retail and SME segments, Citadele Group will also consider attractive opportunities which may arise, from time to time, to acquire other businesses in the Baltic States and wider Eurozone. Citadele Group would only seek to explore such opportunities if deemed to be value enhancing as well as presenting clear operational or growth benefits for Citadele Group. In December 2019, Citadele announced it has agreed to acquire UniCredit's Baltic leasing operations with its lease portfolio in amount of more than EUR 850 million. Following the acquisition, Citadele's aggregate net leasing loans will exceed 1.1 billion euros. As a result, Citadele will become one of the three largest players in the Latvian leasing market and will significantly strengthen its footprint across the Baltics. The closing of the acquisition is expected in Q1 2020, subject to mandatory approvals.

Citadele Group's management believes that its business strategy will allow it to continue to build upon and evolve its current product mix and customer base (for example, by continuing to be a trusted partner to mid-sized corporate entities in Latvia), whilst capturing opportunities in selected market segments, such as consumer, and micro SME and SME lending, where attractive revenue opportunities exist. Citadele's management believes that it is now in a position to implement a focussed growth strategy supplemented by digital offerings that fully utilises its established branch offices and distribution network, sophisticated IT infrastructure, innovative product offering, experienced management team, well-trained staff and comprehensive risk management systems. Citadele Group's management believes that by remaining a leading local bank, Citadele Group will continue to understand and respond more effectively to the needs of its customer base, remain highly responsive and adaptive to competitive market dynamics and can continue to apply its local expertise in pricing and managing risk.

The three core areas of business activity undertaken by Citadele Group in are Retail and SME, Corporate and Wealth management. Citadele Group also has operations in relation to asset management, leasing, life insurance and pension fund management and also operates outside Latvia in Lithuania, Estonia and Switzerland as described in more detail below.

Retail and SME segment

Citadele's retail segment caters primarily to private individuals. Citadele's SME segment caters to entities with annual turnover of up to EUR 7 million (including a micro SME customer base comprised of entities with an annual turnover of up to EUR 0.4 million). A typical SME customer for Citadele has annual revenues of EUR 1 million and outstanding loans with Citadele of EUR 120,000. Citadele Group's retail and SME customers

share similar characteristics in relation to their size, the type of services required and the frequency of access to branch offices, which is why they are addressed together. Citadele does, however, have separate strategies for each of these customer groups (see “*Citadele Group —Strategy*”). As of 31 December 2019, Citadele had more than 329,000 private customers and 25,600 SME customers.

Citadele Group aims to increase the number of mass and affluent retail customers in the Baltic States that use Citadele Group as their primary bank for their full range of banking needs, as opposed to using only one or two of Citadele Group’s products. Citadele’s management estimates that close to one third of Citadele’s existing customer base in the Baltic States currently uses Citadele as their primary bank and Citadele’s management intends to increase the number of its new and existing customers that use Citadele as their primary bank using the strategies described below:

- Offering a flagship current account product, which Management believes will become a key “hook” product in Latvia, Lithuania and Estonia enabling Citadele Group to further develop its relationships with new and existing customers and enhancing its ability to sell additional retail products to its customer base across different operations;
- acquiring retail customers by leveraging existing services provided to corporate customers, such as payroll services, and focussing on increasing the proportion of Citadele Group’s retail customers which use Citadele Group accounts to receive salary payments;
- continuously developing a clear and simplified “product menu”, with all key products having clear target customers and being offered at simple and transparent rates;
- providing a responsive “premium feel” service to its retail customers by further modernizing its existing network of branch offices, improving the functionality and uniformity of its branch offices, front-office staff, establishing 24/7 service via SkyBranch, online and mobile banking offering; and
- providing the best digital offering by creating the market leading mobile banking application with upgraded functionality and design, launching a daily banking product proposition with digital distinctiveness to significantly improve user experience.

Enhance its consumer lending product offering to retail customers via mobile and online in the Baltic States. Citadele Group believes that ongoing growth in the Baltic States’ economies will increase demand for consumer lending products in the consumer lending market, which Citadele Group believes is currently underserved by local banks, and presents Citadele Group with attractive revenue generation opportunities. Growth of its consumer lending platform will also expose Citadele Group to a greater number of potential retail banking customers. Citadele Group intends to expand its consumer loan offering across the Baltic States by leveraging and improving its information technology and risk management systems to increase automation in the consumer loan approval process and facilitate on-boarding of new customers as well as the consumer loan approval process, while maintaining accurate risk based pricing. Citadele Group will also seek to expand the number of its retail customers using card products, such as by leveraging its relationships with retailers, to further drive commission and fee income. Citadele Group will also focus upon providing additional sales-based training for its relationship managers in order to increase cross-selling of its consumer lending products. Citadele Group intends to replicate strategies that are successful in Latvia in the other Baltic States.

Drive revenue growth in the SME customer base in the Baltic States. Citadele Group intends to drive revenue growth from its SME customers by focusing upon expanding its existing products, such as secured credit lines, and by implementing new product offerings, such as extended overdraft facilities. Citadele believes that improving the efficiency and responsiveness of its internal systems and customer facing employees will enable it to provide an enhanced “premium feel” service to customers and enable it to more rapidly approve SME related products, such as business development loans or credit lines. In addition, by providing its relationship managers with a strong understanding of the relevant business and industry sectors and encouraging them to take a leading advisory role with their SME customers, Citadele believes that it will further strengthen its position as the local bank of choice for businesses in the Baltic States. Citadele anticipates being able to price competitive yet profitable margins on its SME products because its “premium feel” responsive customer service and innovative product offerings will attract new SME customers and foster loyalty from its existing SME customer base.

Citadele believes that the SME segment is currently underserved in the Baltic States and represents an attractive growth opportunity for Citadele Group’s customer base. Citadele’s management believes that Citadele’s experience as a local bank in the Baltic States has allowed Citadele to acquire the knowledge and experience required to successfully develop the SME market segment. In particular, Citadele intends to

proactively approach retailers and small and medium merchants through targeted marketing efforts across its established branch offices and distribution network, including efforts by Citadele Group's relationship managers to engage with micro SMEs owned by existing retail customers. Using its comprehensive risk management systems and relationship manager network, Citadele intends to identify the most attractive micro SMEs, with strong and established financial track records, and offer them credit lines for business development based on individual risk based pricing. Once a micro SME becomes a customer, Citadele will seek to sell its other products, such as advanced point of sale terminals enabled for contactless transactions, cash management facilities, card products, business development loans, leasing products for new equipment and mortgage products for investments in real estate. Citadele believes that by supporting and investing in SMEs, it will further strengthen Citadele Group's position in the market as the local bank of choice for businesses in the Baltic States. Furthermore, as Citadele develops strong relationships by investing and assisting these SMEs to grow their businesses, Citadele believes that it will benefit from increased revenue from these customers as they develop into larger, more complex businesses and utilise a wider range of Citadele's products.

Corporate segment

Citadele has targeted corporate customers (being companies with annual turnover above EUR 5m) who operate in a wide range of industries including manufacturing, agriculture, forestry, retail, wholesale trade and transport. The Bank aims to establish cooperation with top companies in each of the segment as Citadele is focusing on building portfolio on long-term basis and believes that this strategy in long-run would allow to create good quality loan portfolio with customers who are leaders of their segments, thus giving opportunity to increase the employee competence of each industry further providing best possible consultation to the market players in the industry. During last years Citadele has been able to achieve strong position in Latvia resulting in significantly increased loan book, and possibilities to discuss financing opportunities with blue chips that have turnover of above EUR 100m, resulting in financing larger ticket size loans for a single customer group. The Bank continues to build its portfolio with mid-corp segment companies in agriculture and forestry business, as Citadele believes that players that use local natural resources are players who will drive further development of the mid-corp segment.

Citadele is not only focusing on servicing industry legal entities on the Baltics level, but is also developing new opportunities through the financing of FinTech lending companies across Europe. This represents a unique opportunity for Citadele to gain exposure to flows of lending across new markets and customer segments, diversifying the Bank's risk profile while achieving ROE-accretive returns. In addition, FinTech companies would also bring digital and technological knowledge to Citadele, and generate potential banking opportunities with underlying customers. The Bank also differentiates itself from its competitors by having Citadele's Management Board and senior managers within Citadele directly form relationships with Citadele's key corporate customers, who Citadele management believes value such relationships highly, ensuring key decisions in relation to such customers can be made more efficiently and providing a higher level of customer service and engagement to Citadele's customers.

Citadele ensures that its relationship managers and senior managers have a deep understanding of the industries in which its corporate customers operate to enable them to be a flexible and effective banking partner which, in turn, Citadele believes, fosters customer loyalty.

Wealth management

Citadele Group provides a wide range of wealth management services to approximately 13 thousand active clients. The main focus is on the local high net worth households. Wealth management also services the international affluent individual clients who have substantial economic and legal ties to the Baltic. Citadele aims to increase its activities in the wealth management segment in the Baltic States by cross-selling wealth management and asset management products. Citadele also retains a compact client base interested in international savings and payment card services. Despite the intention to expand the Baltic wealth management segment, Citadele has seen that the relative importance of this segment has decreased in comparison to the other segments.

The affluent Baltic clients are predominantly offered premium payment cards, savings and investment products and lifestyle services, as well as brokerage transactions and asset management services. The international business companies typically are cross-border businesses involved in trading, transportation or logistics. Throughout 2018 and 2019, Citadele's strategy comprised a de-risking program with regards to the international business company segment, and the number of international business companies was reduced by 3,000, targeting a full stoppage of services for such clients by the end of 2019 due to high AML risks. Within the same de-risking program, the onboarding of the international private individuals has been limited to those

potential clients who have substantial legal and economic ties to the Baltic, while the servicing of all international client segments in Estonia was scheduled to be stopped on January 1, 2020.

In the Baltics, Citadele's wealth management offering is focused upon high net worth domestic and foreign individuals. These clients represent in total EUR 733 million deposited or invested with Citadele Group. A typical client profile for this segment would be an individual who is a business owner or entrepreneur with at least EUR 100,000 deposited or invested with Citadele Group. The Baltic private banking market is competitive and Citadele seeks to further improve its client service and update its wealth management products to ensure it retains the existing relationships with high net worth individuals based in the Baltics as well as acquire new clients.

Other operations

Asset management and pensions

Citadele's asset management subsidiary was established in 2002, and Citadele Group has, since its formation, grown this asset management business into one of the top three asset managers in Latvia based upon the value of assets under management as of 31 December 2019. Citadele Group does not currently conduct any active asset management activity outside of Latvia (other than in relation to its Swiss subsidiary).

The services offered by Citadele Group's asset management business include investment fund and discretionary portfolio management for its customers based mostly in the Baltic States and CIS countries. Citadele Group offers its customers a wide and comprehensive range of funds in which to invest, including regional equity, fixed income and balanced risk funds.

Citadele Group is a manager of Pillar II and Pillar III pension funds in Latvia. It is also one of the top three service providers in relation to state funded pension plan management in Latvia with a total customer base in excess of 175,000 individuals, representing 13.5% of the Latvian market as of 31 December 2019.

In relation to asset management and pensions, Citadele Group has three types of customer:

- "Pillar 2" pension customers: these are Latvian resident customers who accrue state pensions through their contributions to state income taxation in Latvia and are able to choose which pension fund provider (including Citadele Group) manages their contributions. Citadele Group uses its extensive network of branch offices in Latvia as the key distribution channel to capture as much of the "Pillar II" pension value as possible;
- affluent, high net worth customers, seeking to invest a portion of their funds in segregated portfolios or mutual funds; and
- "Pillar 3" pension customers: these are Latvian resident customers contributing voluntarily to their pensions into Citadele's subsidiary, AS CBL Atklātais pensiju fonds.

Life insurance

Citadele Group's life insurance subsidiary, AAS CBL Life, provides term life and accident insurance with savings options as well as life annuity products. Citadele Group utilises its wide network of branch offices and wealth management business to sell such insurance products.

Leasing

Citadele Group provides a range of leasing products in Latvia, Lithuania and Estonia for both private individuals in its retail segment as well as corporate customers in the SME and corporate segments. These leasing products include financial leases, operational leases and leaseback products. Citadele Group focuses primarily on leasing for automotive, agriculture and commercial transport across the Baltic States. The total value of the leased portfolio equalled EUR 214 million as of 31 December 2019 (on a gross basis).

The main strategy for the leasing business is based on digital solutions that would ensure automatic decision making for standard retail leasing transactions. As a result, leasing would become a one-click solution where customers could choose whether to have financial / operating leasing or full service leasing including vehicle services.

In order to build this strategy, Citadele has focused on expanding cooperation with Dealerships via white label and use their wide range of retail chains across regions to ensure access points for customers. During 2019, Citadele has started white label cooperations to ensure the efficient development of internal process and best

service to Dealerships and end customers. Focus on the development of vendor relationships will be continued as communications with vendors increase and employee competencies across industry sectors grow.

In December 2019, Citadele announced it is entering into a binding agreement with UniCredit S.p.A. pursuant to which Citadele will acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). SIA UniCredit Leasing is one of the leading market players 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 net leasing loans will exceed EUR 1.1 billion. As a result, Citadele will become one of the three largest players in the Latvian leasing market, and will significantly strengthen its footprint across the Baltics,

Operations in Lithuania

Citadele Group (and prior to its establishment, Parex) has been present in the Lithuanian market since the acquisition of Industrijos Bankas in 2000 by Parex. Today, Citadele conducts operations in Lithuania through its branch. Bank's subsidiary (AB Citadele bankas (Lithuania)) was transformed into the Lithuanian branch of AS Citadele banka in January 2019 and subsidiary's assets, liabilities and equity were merged into the Bank's balance sheet). The reorganization was in line with Citadele Group's strategy to become the primary bank of choice in the Baltics. It enables an aligned product and service offering and quicker introduction of new banking services to Lithuanian customers, as well as improvement of the Group's operational efficiency.

Citadele Group's Lithuanian operations offer products and services across the Retail, SME and Corporate segments through a network of 7 customer service units, which cover the key cities in Lithuania. Citadele Group's Lithuanian customer base is predominantly local and unconnected with its customers in Latvia.

Citadele Group aims to ensure that the products and services offered in Lithuania are the same as in Latvia and therefore intends to expand the number of products and services that are available through Citadele Group's Lithuanian operations. Citadele Group is aiming to grow its customer base in Lithuania, with a particular focus upon the retail and SME segment.

The total value of loans provided to customers in Lithuania as of 31 December 2019 was EUR 419 million. The deposits from Lithuanian customers provide sufficient funding for Citadele Group's Lithuanian lending operations and also secure full compliance with the liquidity requirements in Lithuania.

Operations in Estonia

This legal branch in Estonia has a stable deposit base which has provided sufficient funding for Citadele's operations in Estonia and has the further benefit of increasing the sources of funding for Citadele Group more generally. Citadele Group currently has one customer service centre located in central Tallinn which is focused upon providing a full range of traditional banking products primarily to SME customers.

Additionally, customers acquired by Citadele Group in Estonia are predominately local customers and are not connected to Citadele's customers in Latvia. The majority of the products offered in Estonia align with the products offered in Latvia in the retail (including SME) segment and the corporate segment. Citadele Group does tailor certain of its products to the Estonian market. Citadele Group is aiming to grow its customer base in Estonia, with a particular focus upon the retail and SME segment.

The total value of loans provided to customers in Estonia as of 31 December 2019 was EUR 153 million.

Operations in Switzerland

Citadele Group's Swiss private banking business operates as a standalone entity servicing clients originated by its own sales team as well as referrals from Citadele Group's wider wealth management segment. Parex acquired 100% of the shares in AP Anlage & Privatbank AG, its private banking subsidiary in Switzerland, in 2004. The primary business of Citadele Group's Swiss operations includes account servicing, deposits, brokerage and investment services as well as trust services. Citadele Group's Swiss operations focus on mid-sized accounts, being accounts with a value of between CHF 1 million to 5 million. The value of total client funds as of 31 December 2019 equalled EUR 447 million of which EUR 239 relates to deposits held in current or deposit accounts and EUR 208 million relates to funds held under management and fiduciary deposits. The majority of the total funds under management, including balance sheet items, are derived from CIS and Baltic State clients.

8.5. Selected Financial Information

The following table summarizes the key consolidated financial data of Citadele Group for each of the years ended, 31 December 2017, 2018 and 2019, 30 June 2019 and 30 June 2018. The information provided in the tables below corresponds to that presented in 2017, 2018, H1 2019 Audited Consolidated Financial Statements, and unaudited Consolidated Financial Statements for year 2019. For more details, please refer to Citadele's Consolidated Financial Statements in section *Index of Schedules*.

Citadele Group Income statement

EUR millions	2017	H1 2018	2018	H1 2019	2019
	<i>audited</i>	<i>unaudited</i>	<i>audited</i>	<i>audited</i>	<i>unaudited</i>
Net interest income	75.4	39.9	82.6	41.9	84.6
Net fee and commission income	35.2	15.8	33.4	14.4	30.9
Operating income ⁽¹⁾	129.3	64.0	127.2	60.9	123.9
Net credit losses and impairments	-4.5	-2.1	-7.0	-2.6	-3.7
Net profit	16.0	18.0	34.8	16.2	36.5

Jan-Dec 2017 is adjusted for one-time EUR 23.2 million write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime and EUR 7.7 million reversal of impairment on property and equipment. 2017 adjusted Net profit: EUR 34.8m.

Citadele Group Balance sheet

EUR millions	2017	H1 2018	2018	H1 2019	2019
	<i>audited</i>	<i>unaudited</i>	<i>audited</i>	<i>audited</i>	<i>unaudited</i>
Total assets	3,312	3,043	3,052	3,266	3,745
Loans to customers	1,331	1,360	1,396	1,488	1,573
Deposits from customers	2,917	2,649	2,645	2,836	3,290
Shareholders' equity	269	279	297	319	341
Subordinated debt	60	60	60	60	60
Loan-to-deposit ratio ⁽⁶⁾	46%	51%	53%	52%	48%
Non-performing loans	8.3%	8.7%	9.1%	6.3%	4.8%
CET 1	15.0%	14.6%	16.7%	16.6%	18.8%
Total capital ratio	18.4%	18.0%	20.1%	19.7%	22.2%
Leverage ratio, transitional	7.8%	8.1%	9.5%	9.3%	8.9%

Table below "Ratios" includes certain data which Citadele considers to constitute alternative performance measures (the APMs) as defined in the "ESMA Guidelines on Alternative Performance Measures" issued by the European Securities and Markets Authority on 5 October 2015. These APMs are not audited nor defined by, or presented in accordance with, IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Group's liquidity.

Alternative performance measures included in the "Ratios" table below are commonly used in the banking sector. These provide comparable holistic view of the Group, highlight key value drivers and aggregate financial information in possibly more relevant measures. Citadele Groups' use and method of calculation of APMs may vary from other companies' use and calculation of such measures.

Ratios

	2017	H1 2018	2018	H1 2019	2019
Return on average assets (ROA) ⁽²⁾	0.48%	1.13%	1.10%	1.03%	1.07%
Return on average equity (ROE) ⁽³⁾	6.1%	13.1%	12.3%	10.5%	11.5%
Cost to income ratio (CIR) ⁽⁴⁾	63.5%	68.5%	67.1%	67.9%	66.8%
Cost of risk ratio (COR) ⁽⁵⁾	1.0%	0.3%	0.5%	0.3%	0.2%

Jan-Dec 2017 is adjusted for one-time EUR 23.2 million write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime and EUR 7.7 million reversal of impairment on property and equipment. 2017 adjusted ratios: ROA: 0.94%, ROE: 12.0%.

⁽¹⁾ *Operating income* consists of the following income statement items: net interest income, net commission and fee income, net gain on transactions with financial instruments and other income. Operating income is a useful measure as it aggregates several operating income components and thus presents a less volatile measure of the total operating income generation capability of the Group. All else held equal, generally the higher the operating income, the better.

⁽²⁾Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period. ROA is a measure of the profitability of the assets. It is a measure of efficiency of asset usage in profit generation of the Group. All else held equal, generally, the higher the ROA, the better.

⁽³⁾Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period. ROE is a measure of profitability of the equity. It is a measure of efficiency of equity usage in profit generation of the Group. All else held equal, generally, the higher the ROE, the better.

⁽⁴⁾Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income. CIR is a measurement of operating efficiency. CIR represents the proportion of administrative overheads it takes for the Group (expressed in percentage) to generate the income. The more efficient the Group is in generating income, the lower the CIR ratio. Lower CIR represents higher income generate with lower administrative expenses.

⁽⁵⁾Cost of risk ratio (COR) is calculated as net loans impairment charges divided by the average of net loans at the beginning and the end of the period. COR is an indicator of riskiness of the loan portfolio, the net impairment charges recognised during the period as a proportion of the loan portfolio. The lower the cost of risk, the less risky is the loan portfolio originated.

⁽⁶⁾Loan-to-deposit ratio is calculated as the carrying value of loans and receivables from customers divided by deposits from customers at the end of the relevant period. Loan-to-deposit ratio is a measure of funding base of the loan portfolio. Loans are often considered as a less liquid assets versus cash and securities. Thus all else held equal the lower the proportion of the deposit portfolio is invested in loans, the more liquid is the balance sheet of the Group.

AS Citadele banka has 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 (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). SIA UniCredit Leasing is one of the leading market players 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 net leasing loans will exceed EUR 1.1 billion. As a result, Citadele will become one of the three largest players in the Latvian leasing market, and will significantly strengthen its footprint across the Baltics. After acquisition, Citadele expects to maintain strong capital and liquidity ratios well above regulatory requirements and buffers for the Bank and the Group, and enhance its profitability metrics. The closing of the acquisition is expected in Q1 2020, subject to mandatory approvals.

8.6. Competition

According to data published by the FCMC, as of 30 September 2019, there were 20 credit institutions operating in Latvia with total collective assets amounting to EUR 22.2 billion for the banking system. The market is relatively concentrated, with the largest four banks by total assets accounting for 75.3% of total assets, 82.2% of total loans, and 80.4% of total deposits (as of 30 September 2019). The Scandinavian-owned banks currently dominate the Latvian market. Citadele and Luminor are the largest non-Nordic-owned universal banks in Latvia measured by the number of customers. A universal ba

+nk is a financial institution which has broad diversification in its products, services and customer base across retail, SME and corporate sector.

The level of competition in the Latvian banking sector, and to a lesser degree in the Lithuanian and Estonian banking sectors, has a significant impact on Citadele Group's cost of funding, net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits. Increased competition in the banking sector typically leads to increased competition for lending and deposit products, creating downward pressure on Citadele Group's net interest margin, and potentially its profitability, by forcing Citadele Group to offer lower interest rates on loans and higher interest rates on customer deposits, which are the predominant source of funding for Citadele Group. Citadele Group's commission and fee income and commission and fee expense are also affected by competition in the banking sector. Accordingly, Citadele Group's operating results could be materially impacted by changes in the competitive landscape in the Latvian, Lithuanian or Estonian banking sectors.

According to data from the Finance Latvia association (FLA), Citadele had the third highest number of active customers (368,096) as of 30 June 2019 after Swedbank (974,923) and SEB (445,273) and ahead of Luminor with 230,141. Citadele was also ranked third by the number of online banking users (209,123) at the same date, behind Swedbank (733,175) and SEB (307,321), and ahead of Luminor (147,260). With 37 branch offices as of 30 June 2019, Citadele operated the second largest network of branch offices in Latvia after Swedbank, and was also the third largest bank in terms of total deposits (with 17% market share), second largest for households deposits (with 18.5% market share), fourth largest for total loans (with 11.8% market share) and fourth largest for total assets (with 14.7% market share). Citadele was also ranked first by term deposits (with a 18% market share) with EUR 584.6 million as term deposits, ahead of Swedbank (EUR 487.2 million), SEB (EUR 473.9 million) and Luminor (512.6 million).

Despite a market-wide deleveraging process in recent years, Citadele Group's loan portfolio has remained resilient compared to several of its competitors, growing by 7.8% per annum over the period 2012-2019 compared to an average 1.7% decline of Citadele's key competitors (Swedbank, SEB and Luminor).

Citadele's most significant local competitor is Luminor Bank. For further information on the macro-environment in the Baltic States and banking sector in Latvia, see the section entitled "*Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector*" below.

8.7. Key strengths

The Management Board believes that Citadele Group has the following key strengths that will enable it to effectively implement its strategic objectives:

Well positioned to take advantage of favourable economic conditions and the attractive banking market in Latvia and the other Baltic States

The Latvian economy is one of the fastest-growing economies in Europe, with GDP growth in recent years (of 3.8%, 4.6% and 2.1% in 2017, 2018 and according to preliminary data 2019 respectively) outpacing the EU average (of 2.6%, 2.0% and 1.5% in 2017, 2018 and first three quarter of 2019 respectively). While the deceleration in GDP growth in 2019 was caused by weak external demand and a number of other one-off factors, export orientated business and IT services continue to grow rapidly and private consumption growth is expected to remain robust, supported by slowing, but continued wage growth, a recovery of domestic credit, and strong consumer sentiment. Latvia's current economic position, including low levels of public debt (36% of GDP as of 31 December 2018, according to EC), healthy fiscal balance, stable and relatively low unemployment (of 6.0% as of 30 September 2019 which is significantly below the 2010 peak of 19.5% and slightly below above EU average of 6.2% as of 30 December 2019, according to Eurostat) and industry diversification, now provides an attractive backdrop for continued growth benefitting the full spectrum of Citadele's operations.

Latvia's banking sector, including Citadele Group, has benefited from the performance of the underlying economy in this period and is undergoing a solid, continued recovery in the wake of the financial crisis in 2008 and 2009. Profitability across the Latvian banking sector is recovering, assisted in part by the normalisation of non-performing loan rates in Latvia (which declined from 19% as of 31 December 2010 to 3.8% as of 30 September 2019) and an increase in the net interest margin (which rose from 1.1% in 2010 to 2.0% in 2019). Citadele Group has experienced profitable growth during this period and is well placed to exploit the growth potential of the Latvian banking sector. Moreover, despite this recovery, the use of banking services by individuals and businesses in Latvia remains relatively low, with total banking assets as a percentage of GDP of 77% as of 31 December 2019 well below the euro area average of 267%. Citadele Group believes that the overall banking sector backdrop therefore offers additional attractive and significant growth opportunities for Citadele Group.

In addition to the favourable economic conditions in Latvia, both Lithuania and Estonia are undergoing a period of sustained growth and their banking sectors, like that of Latvia, are well positioned for continued growth and increased market penetration of banking services. According to the World Bank, in 2017, 93% of all adults in Latvia, 98% in Estonia and 83% in Lithuania, had bank accounts. GDP growth in Lithuania was 4.2%, 3.6% and 3.9% in 2017, 2018 and first three quarters of 2019, respectively, and in Estonia, the GDP growth rate was 5.7%, 4.8% and 4.3% over the same periods. However, as with Latvia, both these markets are relatively underserved by their respective banking sectors, with banking assets as a percentage of GDP standing at 101% in Estonia and 66% in Lithuania as of 31 December 2019, which Citadele Group believes places it in a strong position to increase its revenue in these markets in the future.

Solid foundations to become a ‘domestic champion’ for banking services in each of the Baltic States

Citadele believes it is well positioned to become the primary bank for customers in Latvia and the Baltic States, particularly those in the retail and SME segment by: (i) using the scale of its already formidable customer base and infrastructure to sustain its competitive position and gain market share from foreign-based competitors; and (ii) leveraging its ‘locality’, cultural awareness and understanding of its customer base (including through the regular engagement with local customers by senior management at Citadele), which Citadele Group management believes sets Citadele Group apart from its competitors and enables Citadele Group to offer more responsive and market-tailored products and services to new and existing customers. Citadele has received positive feedback from customers for its level of responsiveness, and quick decision making.

Citadele Group offers a comprehensive range of banking products to customers in each of its core segments (Retail private and SME, Corporate and Wealth Management) as well as additional products such as asset management, pension fund management, insurance and leasing. This universal offering means that customers can be offered products and services which are tailored specifically to meet their banking requirements, adding to the “premium feel” customer experience which Citadele Group offers and providing the foundations for Citadele Group to create a reputation for being a ‘domestic champion’ bank in Latvia and the other Baltic States in the future, and to eventually become a ‘regional champion’.

Market-leading distribution capabilities in Latvia and footprint in the other Baltic States

Citadele Group’s extensive and well established distribution capabilities offer significant opportunities for Citadele Group to attract new customers and gain additional revenue from its existing customer base. Citadele has a range of distribution channels through which it can offer its products and services, including:

- a network of 28 branches and client service centers in Latvia, 1 branch in Estonia and 1 branch and 7 customer service units in Lithuania. Whilst Citadele aims to deliver a personalised service for its customers in its branch offices, customers are sometimes redirected towards automated cash operations if required to enable sales managers to focus on advisory services for revenue generation. This extensive network of branch offices enables Citadele Group to provide an efficient customer service to customers, enhances the positive perception of Citadele Group’s brand and increases the opportunities to advertise, highlight, and cross sell Citadele Group’s products more effectively. As part of its strategy, Citadele Group also intends to review and if necessary upgrade and modernise its network of branch offices;
- team of highly trained and sales-focussed relationship managers: Citadele Group has recruited relationship managers to provide advice to customers across its business segments with a view to selling Citadele Group’s products. These relationship managers are important, from the perspective of both creating and maintaining relationships with Citadele Group’s customers, such as by supporting the customer during the underwriting process and during the life of the loan. Citadele Group has invested in its relationship managers by providing them with extensive training focused upon sales. Relationship managers increase the opportunities to sell additional products to its customers more effectively.
- a well-utilised, functional and reliable online banking platform and mobile application with 190 thousand active Internet Bank customers and 131 thousand active Mobile App users as of 31 December 2019. Citadele Group believes that its online banking offering is crucial to retaining existing customers and attracting new customers. Furthermore, Citadele Group’s ability to tailor its online banking offering to the specific local requirements of each of the Baltic States plays an important role in reinforcing the market perception that Citadele Group is responsive and in touch with the differing and specific needs of its local customers across the Baltic States. Citadele Group is continually upgrading its online banking offering to its customers to enhance functionality, security and usability to ensure that Citadele Group is matching or exceeding the online offering of its competitors. Citadele has also implemented enhanced security through the introduction of Mobilescan™ software on banking authorisation devices, thus customers can use their mobile phones for 2-factor authorisation on Citadele’s online banking platform. In Latvia, Lithuania and Estonia Citadele offers a mobile banking application to its customers, enabling mobile access and management of their funds and payments, as well as ATMs, branches and retail stores with special offers for Citadele’s customers. The online banking offering, including Citadele Group’s mobile banking and SMS banking platforms, also provides customers with easier access to Citadele Group’s products, and enables customers to apply for these products directly and more efficiently online.
- ATMs: Citadele Group has the third largest ATM network in Latvia and these ATMs are located across all regions of the country. As of 30 September 2019, the total number of ATMs in Latvia is 163 - approximately 48% being cash-in/cash-out ATMs (enabling both deposits and withdrawals). ATMs provide the main cash-out transactions channel for Citadele Group, with more than 97% of all bank cash-out transactions being

made through ATMs. Citadele Group intends to maintain the total number of ATMs and to renew and modernise its existing ATM network by focusing upon converting more of its ATMs to have cash-in as well as cash-out functionality;

- relationships with retailers: Citadele Group has strong relationships with retailers operating across the Baltic States. These relationships form the basis for Citadele Group to offer point of sale products, cash management products and finance for consumers in relation to white goods, electronics or other high cost products and services more effectively to such retailers. Citadele Group has also developed an extensive discount and rewards programme called “Relax” with retailers for its customers when using Citadele Group’s products, which differentiates Citadele Group from its competitors and further encourages customers to use Citadele Group’s products; and
- call centre team: As of 30 September 2019, Citadele Group had 57 employees working in its call centre team, which is open on a 24 hour basis. This call centre team has two key functions. First, it deals with queries from existing customers as well as directing customers who wish to acquire products to the appropriate branch office or relationship manager. Second, as part of the business strategy, the call centre proactively calls new and existing customers to offer new products or initiatives and thereby develop into a key sales channel, as well as to proactively identify and solve common customer issues, such as blocked cards.

Citadele customer service regularly receives the highest rating from the customer service research firm Dive, which undertakes an annual review of the customer service of Baltic banks.

Citadele Group believes that its distribution channels and extensive operational infrastructure place it in a strong position to capture market share from smaller local (non-Nordic) competitors who are unable to provide the same level of service coverage and product offering to customers as Citadele Group, as well as Nordic banks who have been scaling back their Latvian operations for the last few years; and provide a stable and efficient platform for Citadele Group to sell additional Citadele Group products and services. Citadele Group aims to achieve similar efficiency ratios across all Baltic States banking segments, and has undertaken an efficiency initiative starting in 2019 to reduce complexity and redundancies across the organization.

Strong operational platform with structural capacity for significant growth and further upside potential

Citadele Group’s operational systems and processes have been designed and implemented specifically for the nature and scale of Citadele Group’s operations at the point of its establishment in 2010, and are regularly reviewed, upgraded and refined. Citadele Group’s systems are modern and are regularly assessed by a dedicated efficiency improvement team, who are able to implement complex and large scale changes with relative speed and efficiency compared to many competitors. Citadele Group has implemented a comprehensive framework of operational risk management systems to ensure the efficient and low-risk functioning of its operations, and has also invested in its core banking systems and other IT platforms which are widely used and recognised in the international market, such as the T24 system provided by Temenos. These systems provide a strong yet flexible platform which is able to support future growth and to integrate Citadele Group’s operations across the Baltic States more efficiently. Citadele Group’s network of branch offices also provides a foundation for further growth by providing a wide operational footprint, enabling more access to customers and greater visibility of its products and brand. In order to support customers over digital channels, Citadele has launched remote service centre “Sky branch”, which plays an instrumental role in Citadele’s strategy and is the largest Citadele bank branch in the Baltics. Citadele plans to develop Sky branch as the main channel to service customers’ needs 24/7, service digital applications and provide daily support while using online and mobile solutions. Citadele Group’s current responsive 24-hour call centre and well-trained, sales–focussed relationship managers also provide a responsive “premium feel” banking service for customers, and Citadele’s highly trained workforce and management team represents a capable and motivated group of employees who Citadele believes are well positioned to help deliver excellent customer service and achieve strategic aims.

Citadele Group’s ability to carry out complex, high profile projects with a high degree of operational excellence has been demonstrated on a number of occasions. Since Citadele’s formation in 2010, all three of its key markets (being the Baltic States) joined the Eurozone, requiring a considerable degree of planning and operational transition. Citadele was entrusted to execute the payments of guaranteed compensation to the customers of ABLV Bank in 2018, and customers of JSC “PNB Banka” in 2019. The Bank ensured the smooth pay-out process to almost 14 thousand customers of ABLV Bank and more than 43 thousand customers of PNB Banka.

Resilient funding profile, strong liquidity position and solid asset quality underpinning attractive returns profile

Citadele Group has a deposit-focussed funding model, with deposits accounting for the vast majority of total liabilities (as of 31 December 2019), the majority of which are retail deposits. As a result of its growing deposit base, Citadele Group believes it is well-positioned to benefit from the organic growth of its primary funding source, and to provide capital for additional growth and revenue generating opportunities. Citadele Group also has a highly liquid balance sheet, with cash and securities representing 52% of the asset base and deposits accounting for 89% of funding, which is defined as the sum of deposits and subordinated debt as of 31 December 2019. Loan to deposit ratio stands at 48% as of 31 December 2019.

Citadele Group has conducted extensive reviews of its asset quality, including by commissioning several reputable international audit and consultancy firms to perform detailed independent reviews. The findings of these reviews have highlighted the robustness of Citadele Group's risk management culture and the strength of Citadele Group's asset quality track record. Citadele Group's loan portfolio is diversified across its operating segments and across major economic and industry sectors in the Baltic States. These reviews have also highlighted Citadele Group's ability to develop new, sector-specific lending areas, such as specific agricultural products, renewable energy projects and products for the retail and transportation industries.

Strong corporate governance framework and experienced management team

Citadele Group has a comprehensive corporate governance and risk management structure in place, which it believes allows it to operate in a transparent and prudent manner to balance and protect the interests of its various stakeholders. Members of Citadele's Management Board are experienced participants in the banking sector and have an average of 15 years experience in the banking and financial services industry. Management Board members have established a strong track record by successfully leading Citadele Group from its inception in 2010 to the successful banking organisation that it is today with sustainable and growing customer numbers, revenues and profits.

Experienced shareholders with an established track record of delivering results

The current shareholders of Citadele are experienced banking sector participants and have a proven track record in driving value creation and delivering growth in their investments. They are actively involved in shaping and delivering Citadele's strategy. Ripplewood Advisors LLC ("Ripplewood") and its co-investors have extensive experience in the banking industry, including with regard to businesses operating in emerging, developing and frontier markets. Ripplewood has invested in the global financial services sector since the late 1990s, with previous successful investments in Commercial International Bank ("CIB") of Egypt and Shinsei Bank of Japan.

In 2000, a consortium led by Ripplewood Holdings LLC, a predecessor to Ripplewood Advisors LLC, acquired a controlling stake in Shinsei Bank in Japan, in a landmark transaction for USD 1 billion. Shinsei Bank launched initiatives to improve profitability in core lending, risk management and fee-based products, services and technology. It became the first bank in Japan to offer online banking services and underwent an IPO four years after the acquisition, following a significant decline in bad loans and an increase in capital adequacy ratio.

In 2006, a consortium led by Ripplewood Holdings, LLC acquired a significant minority stake in CIB in Egypt for approx. USD 240 million. Post-acquisition, CIB introduced operating enhancements in financial reporting, customer service centre processes and product offerings. It also implemented an equity incentive compensation plan, which was a first in the region. The consortium exited in 2009, at which point CIB's assets had doubled and earnings and book value had almost trebled.

Additionally, co-investing shareholders James L. Balsillie and Dhananjaya Divedi (who are both members of Citadele's Supervisory Board) have, between them, extensive experience in the technology, IT and financial sectors. They intend to continue to deploy their experience and expertise alongside the management team to enhance the development and growth of Citadele Group and improve and develop new and innovative products, services and systems. Finally, the continued ownership of the EBRD brings its experience in instilling best practice governance structures and in fostering progress towards market orientated economies.

8.8. Properties

Citadele Group owns 8,096 square meters of land, on which is built its head office, located at Republikas laukums 2A, Riga, Latvia, consisting of 31,619 square meters of floor space. The headquarter building is a Class A premium office building designed by the world class architect Meinhard von Gerkan. The building was completed in 2009 and is equipped with modern building management and security systems, 300 in-door

parking spots, and conference hall for 200 participants, and datacenter facilities with complete redundancy features.

Citadele Group also owns some of the premises of its branch offices (Daugavpils (434 sq.m.), Tukums (304.5 sq.m.), Ventspils (986.5 sq.m.)). Citadele Group has rented out some floor space to third parties.

As of 31 December 2019, Citadele leased 29 other premises in total for its branch offices in Latvia, customer service centers and storage and archive centers in Latvia. All such leases expire by 30 September 2024 and the relevant member of the Citadele Group is able to terminate such leases on giving notice. Citadele Group also leases locations in premises for 120 ATMs as of 31 December 2019.

In addition to its properties in Latvia, Citadele also owns a property in Lithuania located at 13 K.Kalinausko street, Vilnius (location of the headquarters of Citadele's branch in Lithuania). As of 31 December 2019, Citadele leased 6 other premises in total for its branch offices in Lithuania. All such leases expire by 28 February 2024. As of 31 December 2019, Citadele leased premises for its branch office in Estonia. The lease agreement expires by 1 March 2021.

Citadele Group uses revenue generated by its operations to fund its obligations under the property leases described above.

8.9. Information systems

Citadele Group's IT systems are at the core of its operations. Information Technology in Citadele Banking group in Baltic (Latvia, Lithuania and Estonia) region is using the common IT core platforms and systems, infrastructure and operating model.

A significant proportion of Citadele Group's front- and back-office functions for its operations in Latvia, Lithuania and Estonia are centrally managed through the T24 system provided by the Swiss company Temenos. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. The T24 system's functionality enables it to support a range of Citadele Group's products and services, including credit risk management processes, payment mechanics, cash operations and the processing of deposits, loans, securities and other financial instruments. The T24 system is fully integrated with the additional satellite IT systems set out below. Citadele Group's technology is designed using a modular and highly adaptable architecture to ensure a robust operating environment for cards, internet and mobile banking systems. Citadele's technology is designed such that its internet and card transaction processing ability is preserved even if the core banking system is unavailable. T24 system's open and flexible architecture allows Citadele Group's experienced IT team to quickly adapt and extend system functionality according to the business needs and customer expectations.

Ripplewood Advisors LLC and its co-investors have particularly strong technological experience and capabilities and have reviewed Citadele Group's IT platform with a view to providing ideas to enhance the development and growth of Citadele Group's business. Citadele Group also has a strong and capable IT team which has experience in executing ambitious projects within challenging timeframes.

At present Citadele's operations in Switzerland use separate core banking systems which are tailored to the regulatory requirements of those jurisdictions and are widely regarded as the best available systems in each country. Citadele successfully migrated the Lithuanian operations to the group T24 system in 2019 with the aim to centralise and standardise its services across the Baltic States.

In Switzerland Citadele uses the OLYMPIC Banking system provided by ERI as the core banking platform. ERI is an international company, specialising in the design, development, implementation and support of an integrated, real-time banking software package: the OLYMPIC Banking System. The OLYMPIC Banking System has been chosen by over 300 banks and financial institutions spread over more than 50 countries around the world. The OLYMPIC Banking System covers all the main business activities of Citadele's subsidiary in Switzerland including account management, remote banking, payment of cards, deposit and investment services and others.

Citadele Group uses the Cortex system provided by FIS for payment card and ATM management. Cortex is a comprehensive multi-functional processing IT solution for payment card management and enables the issuing and processing of Visa, MasterCard and American Express cards and transactions.

Citadele Group also utilizes internet banking and mobile banking solutions. The internet banking platform provides a full spectrum of banking services to customers, including access to payments, information about all customer existing products, account statements, card management, credit scoring and loan applications, standing orders, deposits, investment funds, life insurance, pension funds and other product applications,

information and advertisement. Customers are also able to set up SMS notifications in connection with card authorisations, balance enquiries and payments. Loyalty program information, correspondence with the bank and different e-services from bank partners are provided as well. The internet banking system supports different two-factor authentication devices, thereby promoting high levels of security for online transactions. Citadele has also implemented a new, modern internet banking authorisation system (MobileScan) which enables login and payment confirmations to be processed using a smart phone application rather than a separate authentication device.

In 2018 Citadele banka implemented and launched Mobile banking solution for its customers on Android and iOS platform. Today it offers wide range of functionalities and features such as login and payment acceptance using customer bio-metric data Touch ID and FaceID; payment card controls - blocking, enable/disable contactless, enable/disable cash withdrawal, online purchases and PIN change for card; mobile chat with bank; push notifications; fast sepa payments; NFC payments with the phone supported by seamless user experience. Mobile banking application also allows for non clients to open bank account remotely and receive payment card by remote customer identification process.

The internet and mobile banking solutions have been developed in-house, and Citadele Group continually improves and updates the systems to meet future customer demands. These internet and mobile banking applications are highly stable and recorded a 0.06% level of unplanned downtime (excluding planned maintenance and upgrades) in 2019.

Citadele Group has several other systems in place, including a data warehouse system (which contains a large volume of customer data and can be used for extensive customer and product data analysis), specialized Anti Money Laundering and sanction filtering systems, advanced card fraud prevention systems, and modern customer loyalty management solutions. Citadele has implemented world leading call centre platform from Genesys which will enable more sophisticated customer service interactions.

Citadele has been a Baltics banking market leader with numerous digital innovations, such as being the first bank to deploy mobile and NFC payments for customers, instant SEPA payments, as well as online credit scoring and mobile on-boarding.

Citadele believes that this improved technology platform is a key step in enabling Citadele Group to expand its operations across the Baltic region and improve its efficiency in offering its services to its customers.

Citadele Group has in place disaster recovery and business continuity policies to ensure that in the event of an emergency, its operations and systems are able to continue to function efficiently. In order to further mitigate any such emergency risks, Citadele Group has two separately located data centres where Citadele Group's data and systems from Latvia, Lithuania and Estonia are continuously backed up. Similar IT continuity plans are also in place in Switzerland. This enables such data to be retrieved in the event that an emergency occurs and core systems to remain operational.

8.10. Employees

As of 31 December 2019, Citadele Group had 1,370 full time employees compared with 1,492 full time employees as of 31 December 2018. Citadele Group's remuneration policy includes basic compensation (fixed base salary), variable compensation (incentive schemes, performance based annual bonus, long-term incentive plan), and perks (health insurance, Citadele Group's products at a special employee rate).

Citadele Group continuously invests resources in its employer branding, talent attraction and retention, as well as implements internal programs aimed at improvement of loyalty and motivation of its employees. Employees' engagement survey is organized on annual basis for all Citadele Group's functional units and focus groups are being organized to improve the survey results. Citadele Group monitors the market trends to offer a competitive remuneration to its employees. Citadele Group aims to be the most desirable employer in Latvia, based on a set of values reflecting the performance based nature of the organisation and the focus on strong profitability.

8.11. Intellectual property

Citadele Group has registered several trademarks containing "Citadele" in Latvia. Citadele Group has also registered the mark "CBL Bank" (in graphic form) across the EU and continues the registration of the marks "CBL" and "CBL Bank" in the EU and other selected countries. Citadele has also registered multiple domain names in Lithuania and Estonia. Other than trademarks and logos in relation to the "Citadele" name, "CBL" or any derivative thereof, Citadele Group does not consider that any of its registered intellectual property is material to its business. Citadele has also entered into a co-existence agreement with a third party in relation to its use of the "Citadele" name and is able to use the Citadele name in the Baltic States. For further information

on the terms of this co-existence agreement, please see the section entitled “Overview and *Business Description —Material Agreements —IP Coexistence Agreement.*”

8.12. Principal investments made by Citadele

AS Citadele banka has 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 (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). The closing of the acquisition is expected in Q1 2020, subject to mandatory approvals. Following the acquisition of UniCredit’s leasing’s lease portfolio of more than EUR 850 million; Citadele’s aggregate net leasing loans will exceed EUR 1.1 billion.

8.13. Material Agreements

The following is a summary of each agreement (not being an agreement entered into in the ordinary course of business) which has been entered into by any member of Citadele Group which contains any provision under which any member of Citadele Group has any obligation or entitlement which is material to Citadele as of the date hereof.

Shareholders’ Agreement

Each of Citadele’s shareholders prior to the Offer is a party to the First Deed of Amendment to the Shareholders’ Agreement and the Amended and Restated Shareholders’ Agreement dated 16 April 2015 (the “**Shareholders’ Agreement**”). As a result of the particular circumstances which led to Citadele’s formation (as set out in the section entitled “*Overview and Business Description—History and Development*”) and the circumstances in which the EBRD was brought in as an external investor, the EBRD enjoys a number of enhanced rights under the Shareholders’ Agreement, particularly in relation to receiving information and limitations on the operations of the business. Such measures were designed to provide comfort and protection in relation to the EBRD’s capital investment and were a prerequisite to its subscription for shares in Citadele.

The Shareholders’ Agreement provides for, among other matters, the following:

Membership of the Supervisory Board

- For so long as the EBRD holds at least 10% of Citadele’s share capital, it is entitled to nominate one person to the Supervisory Board. If RA Citadele Holdings, LLC and the other co-investors (together, the “**Main Shareholder**”) nominate more than five members of the Supervisory Board, the EBRD shall be entitled to nominate a second person to act as a member of the Supervisory Board.
- For so long as the EBRD holds at least 10% of Citadele’s share capital, the EBRD and the Main Shareholder shall be entitled to nominate jointly one independent member (the “**Independent Member**”) that is not affiliated with RA Citadele Holdings, LLC to act as a member of the Supervisory Board.
- Subject to the total number of Supervisory Board members not exceeding eleven, the Main Shareholder shall be entitled to nominate the remaining members of the Supervisory Board.

Decisions of the Supervisory Board

- No resolution of the Supervisory Board shall be proposed or adopted at any meeting of the Supervisory Board unless: (1) a quorum consisting of a majority of its members, including at least one member nominated by the EBRD or the Independent Member, shall have been present throughout the entire meeting; and (2) a majority of the members constituting the quorum shall have voted in favour of such resolution.
- For so long as the EBRD holds at least 10% of Citadele’s share capital, certain matters shall only be adopted at a Supervisory Board meeting if at least one member of the Supervisory Board nominated by the EBRD votes in favour of such matter. These matters consist of: (1) the approval of any draft resolution for submission to the GMS relating to a dividend or any other distribution of profit that would: (a) lead to a breach of any capital adequacy regulations applicable to Citadele; or (b) be in excess of IFRS net profit after tax for the relevant preceding period; (2) the approval of any draft resolution amending the Articles of Association for submission to the GMS unless such changes are required to comply with the law of the Republic of Latvia; (3) the approval of any draft resolution increasing the registered capital of Citadele or changing the type, rights or form of any call of shares for submission to the GMS; or (4) any resolution to appoint or change Citadele’s auditors.

Management Board

- The members of the Management Board shall be appointed and changed by the Supervisory Board.

Conflict with Citadele Articles of Association of Latvian Law

- In the event of any conflict, ambiguity or discrepancy between the provisions of the Shareholders' Agreement and the Articles of Association, the provisions of the Shareholders' Agreement shall prevail only in relation to those shareholders that are party to the Shareholders' Agreement, provided that no party shall be required to take any action in breach of applicable mandatory provisions of Latvian law. The parties to the Shareholders' Agreement shall exercise all voting and other rights and powers available to them so as to give effect to the provisions of the Shareholders' Agreement.

Termination

- The Shareholders' Agreement can be terminated by mutual agreement between the EBRD and the Main Shareholder.
- The Shareholders' Agreement shall be amended, novated, supplemented, extended or restated following either the EBRD or the Main Shareholder ceasing to own any shares in Citadele.

Information Rights

- Citadele is obliged to provide RA Citadele Holdings, LLC and the EBRD access to key information. This includes quarterly, semi-annual and annual financial information in order to monitor the performance of Citadele. Furthermore, Citadele is required to provide (on an annual basis) RA Citadele Holdings, LLC and the EBRD with its share register, the business plan for the next financial year and an environmental and social report.

Advisory services agreement

On 28 September 2017, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. The agreement stipulates that such advice shall include, but not be limited to: business plan development, risk management, capital allocation, funding and capital structure, operating efficiency, strategic fit of business lines, customer relationship management, product and service development and enhancement, distribution channel strategy and performance, human resource management and compensation, management information systems and tools, methods to increase the performance culture of Citadele, identification, evaluation and execution of acquisition and combination opportunities and internal and external reporting marketing and communications, as well as such other advisory services as may be reasonably requested and agreed from time to time.

In return for the performance of the advisory services, Citadele is required to pay an annual total fee of EUR 2,000,000 plus VAT on a quarterly basis in arrears, commencing from 20 April 2017. Citadele is also required to indemnify Ripplewood Advisors LLC in connection with investigations or disputes resulting from the provision of services under the advisory services agreement. On or following 20 April 2019, either Citadele or Ripplewood Advisors LLC may terminate the advisory services agreement at any time and with immediate effect on giving notice to the other in the event of the insolvency, the administration or the winding-up of the other party, it being unlawful for Ripplewood Advisors LLC to provide the advisory services or if the other party commits a material breach of the advisory services agreement which is either irremediable or is remediable but is not remedied within a period of 30 days after notice has been given requiring such remedy. The agreement may be amended with the prior approval of the Supervisory Board and Ripplewood Advisors LLC.

MasterCard Licence Agreement

On 18 August 2010, MasterCard International Incorporated ("**MasterCard**") and Citadele entered into a licence agreement under which MasterCard granted Citadele a non-exclusive licence to use various trademarks, service marks and logotypes in connection with various MasterCard-, Maestro- or Cirrus-branded cards and programmes in Latvia and Estonia. The term of the agreement is ten years, subject to early termination or automatic renewal for a successive ten-year period.

Visa Europe Membership

On 2 August 2010, Visa Europe Limited ("**Visa Europe**") and Citadele entered into a membership deed, the terms of which enable Citadele to become a Visa Europe member and to participate in, and receive services under the Visa Europe systems and to use certain Visa marks and intellectual property in connection with participation in such systems. On 2 November 2015 and 10 May 2016 Visa Europe has agreed, on behalf of its members, to sell 100% of the issued and outstanding share capital of the company to Visa Inc. (the „**Visa**

Transaction). As a result, as from June 2016 Citadele holds stocks in Visa Inc. and generally continues to participate in the Visa Europe program according to its existing membership category and associated rights and obligations, however subject to changes made in Visa Europe rules and membership documentation in relation to the Visa Transaction.

IP Coexistence Agreement

Citadele has entered into an IP coexistence agreement with a third party in relation to the use of the “Citadele” name in the Baltic States. This agreement is intended to manage the conflict between Citadele’s registration of the “Citadele” mark in Latvia and the third party’s registration of the “Citadele” name across the EU. Under the terms of the agreement, Citadele’s ability to use and expand the “Citadele” brand beyond the Baltic States is limited.

Temenos Software Agreement

On 30 June 2010, Temenos Headquarters SA (“**Temenos**”) and Parex entered into a software agreement under which Temenos agreed to supply Parex with the T24 software systems and documentation and to grant a non-exclusive, non-transferable and non-sub-licensable licence to use such systems and related documentation. Parex transferred all of its rights and obligations under the software agreement to Citadele by way of an addendum to the original software agreement dated 30 June 2010, which took effect 1 August 2010. In consideration of the provision of the software by Temenos, Citadele has agreed to pay certain recurring licence fees. The software agreement will continue in force for a term of 20 years, unless terminated earlier.

Worldline Services Agreement

On 30 July 2012 (as amended on 29 July 2016), Citadele entered into a framework agreement with, Wordline Latvia SIA, (previously – “First Data Latvia” SIA) (“**Wordline**”) in connection with the provision of certain services related to the operation of payment cards, including: the authorisation of payment card transactions, the servicing of acceptance device networks, and the maintenance of point-of-service terminals. Specific terms in relation to the provision of each service, including payment terms, are set out in separate service agreements. Under the framework agreement, Citadele is obliged to participate in international payment card systems including VISA, MasterCard and American Express as a precondition to receiving the services from Worldline, and Worldline is obliged to comply with all standards, specifications and requirements set by such international payment card organisations. Worldline’s liability under the agreement is capped at a sum equal to the amounts paid to it by Citadele over the previous twelve months. The agreement is for a term of five years until 31 July 2021.

Nomad Software Licence Agreement

On 24 August 2001, Nomad Software Limited (“**Nomad**”) (currently known as FIS) and Parex entered into an agreement under which Nomad granted Parex a non-transferable and non-exclusive licence to use the CORTEX software systems in relation to the provision of payments services to its customers in Latvia and Estonia and its associated documentation. The rights under the software licence agreement were assigned to Citadele under an assignment agreement dated 7 January 2011. In consideration of the grant of such licence, Citadele has agreed to pay certain licence fees and additional amounts calculated by reference to the frequency of Citadele’s use of the software. The licence is to continue until terminated in accordance with its terms.

NetEconomy Licence and Services Agreement

On 19 December 2005, Fiserv, trading as NetEconomy B.V. (“**NetEconomy**”) and Parex entered into a licence and services agreement by which Parex and its affiliates were granted the right to use NetEconomy’s ERASE software for internal business purposes, by virtue of a perpetual, non-transferable, non-assignable and non-exclusive licence. The rights under the licence and services agreement were assigned to Citadele under an assignment letter dated 31 July 2010. In consideration of the grant of such licence, Citadele has agreed to pay certain licence and service fees which are determined by reference to a pricing schedule.

Moody’s Service Agreement

On 25 June 2010, Moody’s Investors Service Ltd (“**Moody’s**”) and Citadele entered into an agreement under which Moody’s agreed to provide a rating to Citadele. In consideration of the provision of these services, Citadele has agreed to pay certain fees to Moody’s.

9. Financial and Trend Information

9.1. Historical Financial Information

2017 Audited Consolidated Financial Statements, 2018 Audited Consolidated Financial Statements, Audited Interim Report For the six months ended 30 June 2019 and unaudited Public Financial Information 4th Quarter 2019 (prepared according to IFRS) are attached to this Base Prospectus and form an integral part of this Base Prospectus.

9.2. Independent Auditors

The 2017 and 2018 Audited Consolidated Financial Statements, as well as Interim Report For the six months ended 30 June 2019 were audited by KPMG Baltics SIA (registration number: 40003235171, legal address: Vesetas Street 7, Riga LV 1013, Latvia). KPMG Baltics SIA is included in the register of companies of certified auditors maintained by the Latvian Association of Certified Auditors. KPMG Baltics SIA has no material interest in Citadele or Citadele Group.

9.3. Material Legal and Arbitration Proceedings

Citadele Group currently does not have any active or pending material legal proceedings. Citadele Group does, however, have ongoing legal proceedings which arise in the ordinary course from time to time (including in relation to the enforcement of security), but no such legal proceedings are significant to Citadele Group's business or operations. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Citadele is aware) during the last 12 months which may have, or have had in the recent past, significant effects on Citadele or Citadele's financial position or profitability.

During 2018 the FCMC conducted on-site audit of Citadele's AML/CFT compliance with the requirements of applicable laws and regulations but at the date of this Base Prospectus no final binding decision regarding outcome of such on-site audit has been taken by the FCMC. As of the date of this prospectus, 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. After the date of this Base Prospectus, 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 board of Citadele expects that if there would be a fine, the amount will not have any material effect on Citadele's financial position.

9.4. Significant Changes in Financial Position of Citadele

There has been no material adverse change in the financial or trading position of Citadele or the Citadele Group since 31 December 2019, the end of the last financial period for which financial information has been published. There has been no material changes in Citadele's borrowing and funding structure since the last financial year.

Insofar as Citadele is aware, there have not been any recent events particular to Citadele or Citadele Group which would be to a material extent relevant for assessing solvency of Citadele or Citadele Group.

AS Citadele banka has 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 (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). SIA UniCredit Leasing is one of the leading market players 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 net leasing loans will exceed EUR 1.1 billion. As a result, Citadele will become one of the three largest players in the Latvian leasing market, and will significantly strengthen its footprint across the Baltics. After acquisition, Citadele expects to maintain strong capital and liquidity ratios well above regulatory requirements and buffers for the Bank and the Group, and enhance its profitability metrics. The closing of the acquisition is expected in Q1 2020, subject to mandatory approvals.

9.5. Trend Information

There has been no material adverse change in the prospects of the Citadele or the Citadele Group since the 2018 Audited Consolidated Interim Financial Statements.

At the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Citadele's or the Citadele Group's prospects and the industries in which Citadele or the Citadele Group operates in the current financial year.

9.6. Future Outlook

Citadele has not made any profit forecast or profit estimate in this Base Prospectus.

10. Form of the Final Terms



Final Terms dated [date] [month] [year]

AS Citadele banka

Issue of up to € [●] Bonds due [●] under

the € 30,000,000 Third Unsecured Subordinated Bonds Programme

Terms used herein have the meaning given to them in the Base Prospectus of € 30,000,000 Third Unsecured Subordinated Bonds Programme of AS Citadele banka dated [●] [as supplemented by supplement(s) to it dated [●] [and [●]] (the “**Base Prospectus**”), which constitutes a base prospectus for the purposes of Regulation (EU) 2017/1129, as amended (the “**Prospectus Regulation**”). References herein to „the Base Prospectus” shall, where applicable, be deemed to be references to the Base Prospectus as supplemented or amended from time to time.

This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with the Base Prospectus and any supplement thereto. Full information on Citadele and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Bonds is annexed to these Final Terms.

The Base Prospectus is available for viewing at Citadele’s website www.citadele.lv.

- | | | |
|----|-----------------------------|---|
| 1. | Issuer: | AS Citadele banka |
| 2. | Series Number: | [●] |
| 3. | Tranche Number: | [●] (indication as to whether the respective Series will consist of only one Tranche) |
| 4. | ISIN Code: | [●] |
| 5. | Currency of the issue: | Euros (EUR) |
| 6. | Aggregate principal amount: | [from € [●] up to [●]] ¹ |
| 7. | Nominal value of the Bond: | € [●] |
| 8. | Issue Date: | [●] ² |

¹ Citadele has a right to increase or decrease the aggregate principal amount of the Tranche, provided that the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 30,000,000. The final aggregate principal amount of the Tranche will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

9. Annual Interest Rate: [●]³
10. Interest Payment Dates: [●] and [●] each year⁴
11. Maturity Date: [●]⁵
12. Issue Price: [●]% of the Nominal Value of the Bond⁶
13. Minimum Investment Amount: 10 Bonds
14. Yield to Maturity: [●]⁷
15. Offer Period: from [●] to [●]⁸
16. Procedure for submission of the Purchase Orders: [●]
17. Agent of Citadele: [●]
18. Credit rating: the Bonds to be issued under this Tranche [are not/have been/are expected to be] rated [by:[●]]
19. Use of Proceeds: [The net proceeds of the issue of each Tranche will be used by Citadele for its general corporate purposes] / [The net proceeds of the issue of each Tranche will be used by the Citadele for [●]].
20. Underwriting: [●]

² The Offer Period may be extended by Citadele according to the section entitled “Terms and Conditions of the Offer — Offer Period” of the Base Prospectus. If the Offer Period is extended, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

³ Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period and announce the updated Annual Interest Rate (the “**Updated Annual Interest Rate**”). The Updated Annual Interest Rate will be published on Citadele’s website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Annual Interest Rate has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Annual Interest Rate, inter alia, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

⁴ The Offer Period may be extended by Citadele according to the section entitled “Terms and Conditions of the Offer — Offer Period” of the Base Prospectus. If the Offer Period is extended, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

⁵ The Offer Period may be extended by Citadele according to the section entitled “Terms and Conditions of the Offer — Offer Period” of the Base Prospectus. If the Offer Period is extended, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

⁶ Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the “**Updated Issue Price**”). The Updated Issue Price will be published on Citadele’s website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Issue Price has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Issue Price, the final Issue Price will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Issue Price, inter alia, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

⁷ An expected yield to maturity for the Bonds, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

⁸ The Offer Period may be extended by Citadele according to the section entitled “Terms and Conditions of the Offer — Offer Period” of the Base Prospectus. If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

21. Information about the bonds of Citadele that are already admitted to trading on regulated markets: [•]
22. Countries where the offer to the public takes place: [•]
23. Countries where admission to trading on the regulated market(s) is being sought: [•]
24. Countries where the Base Prospectus has been notified: [•]

These Final Terms have been approved by the Citadele's Management Board at its meeting on [date] [month] [year] [and will be updated after allotment of the Bonds to the investors, as well as published on the Citadele's website www.citadele.lv and submitted to the FCMC] / [and have been updated on [date] [month] [year] after allotment of the Bonds to the investors].

Riga, Latvia [date] [month] [year]

Management Board of AS "Citadele banka":

[•]

Annex – Issue Specific Summary

(Citadele to annex an issue specific summary and its translations to the Final Terms)

11. Taxation

The following is a general summary of certain key principles of Latvian and Lithuanian tax regimes which may be relevant to the acquisition, holding, disposal and/or redemption of the Bonds held by the Bondholders, based upon domestic Latvian and Lithuanian tax law in effect as of the date of this Base Prospectus and the provisions of double taxation treaties currently in force between Latvia and/or Lithuania and other countries. Legislative, judicial or administrative changes or reinterpretations may, however, be forthcoming. Any such changes or reinterpretations could affect the tax consequences to holders of the Bonds, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to present a comprehensive or exhaustive description of all aspects of Latvian and Lithuanian tax laws that may be of relevance to the Bondholders. Also this summary does not take into account or discuss the tax implications of any country other than the Latvia and Lithuania. The description contained in this summary does not substitute the need for individual Bondholders to seek professional tax advice. It is therefore recommended that each Bondholder consults his/her own tax advisor regarding the tax implications of acquiring, holding, disposing and/or redeeming the Bonds and the required procedures to secure Latvian and/or Lithuanian tax payments, if applicable. Only qualified tax advisors are in the position to adequately assess and advise with respect to the particular tax situation of each individual Bondholder. The information provided in this section shall not be treated as legal or tax advice.

Latvian Tax Considerations

The Bondholders could be taxed with respect to income arising from the holding of the Bonds (taxation of interest income) and disposal or redemption of the Bonds (taxation of capital gains).

For the purposes of this summary, the Bondholders are classified as follows:

- *Resident individuals* – physical individuals who are deemed Latvian residents for personal income tax purposes under Latvian tax law and any applicable double taxation treaty. As a general rule, an individual would be considered Latvian resident for personal income tax purposes if the individual: (i) has a declared place of residence in Latvia; or (ii) has been present in Latvia for 183 days or longer during any twelve-month period beginning or ending in a taxable year, or (iii) is a Latvian citizen employed by the Latvian Government abroad, unless the individual is treated as a resident of another country in accordance with the double taxation treaty entered into between Latvia and that country, as explained below.

According to the provisions of double taxation treaties, whenever an individual qualifies as tax resident under the domestic tax rules of both countries, the individual's tax residence is determined by applying the following criteria: (i) the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests); (ii) if the country in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode; (iii) if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national; (iv) if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.

- *Non-resident individual* means an individual who is not deemed to be a resident individual as explained above.
- *Resident entity* means a person, other than an individual or partnership, which is established and registered or which was required to be established and registered in Latvia in accordance with the laws of Latvia.
- *Non-resident entity* means a person, other than an individual or partnership, which is not deemed to be a resident entity as explained above.

Resident Individuals. According to the Latvian Law on Personal Income Tax interest from the Bonds paid by Citadele to resident individuals is subject to a deduction at source ("withholding tax") at a rate of 20%.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

A capital gain (the difference between the disposal price and acquisition value) earned by the resident individual from the sale or redemption of the Bonds would be subject to personal income tax at the rate of 20%.

The tax should be paid and reported on annual basis by the respective individual him/herself.

Non-Resident Individuals

Interest income

Interest paid by Citadele to non-resident individuals would not be subject to taxation in Latvia, provided that:

- the Bonds, at the time of the payment of interest, remained listed on the regulated market of a Member State of the EU or EEA; and
- non-resident individual was not located in a jurisdiction or territory treated as “tax haven”.

If interest on the Bonds listed on the regulated market of a Member State of the EU or EEA is paid to a non-resident individual located in a jurisdiction or territory treated as “tax haven”, such payments shall be subject to a withholding tax at a rate of 20%.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

The list of “tax-haven” countries and territories are included in the Latvian Cabinet of Ministers Regulation No. 655 on Low Tax or Zero Tax Countries and Territories (dated 7 November 2017). Nevertheless, and despite the list of “tax havens”, a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

If the Bonds at the time of payment of interest were not listed on a regulated market in the EU or EEA, interest payments would be subject to withholding tax at a rate of 20%.

The above stated withholding tax rate could be reduced in accordance with provisions of effective double taxation treaties concluded with Latvia. To apply lower withholding tax rate or exemption, a non-resident individual should submit to Citadele a valid residence certificate confirmed by the foreign tax authority which thereafter should be confirmed by the SRS. If withholding tax is applicable, it shall be withheld, reported and paid to the Latvian State budget by Citadele.

Capital gains

A capital gain earned by a non-resident individual from the sale or redemption of the Bonds would not be subject to taxation in Latvia, unless the Bonds which are not listed on a regulated market in the EU or EEA are sold to Latvian entity. In the latter case, sales proceeds earned by a non-resident individual shall be subject to a withholding tax at a rate of:

- 3% if the sale is made by an individual not located in “tax haven” jurisdiction or territory;
- 20% if the sale is made by an individual of “tax haven” jurisdiction or territory.

This 3% withholding tax can be avoided in accordance with provisions of effective double taxation treaties concluded with Latvia. To apply exemption from withholding tax, a non-resident individual should submit to Citadele a valid residence certificate confirmed by the foreign tax authority which thereafter should be confirmed by the SRS.

Similarly 20% withholding tax applicable to residents of “tax haven” jurisdiction or territory may also be avoided, if a special permission from the SRS is obtained by the purchaser prior to the sale. If this is the case, reduced withholding tax rate of 3% would be applicable.

In any event each non-resident individual should also clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

Taxation of Resident Entities. As from 2018 resident entities is subject to corporate income tax at a rate of 20% only upon distribution of profit (via dividends or deemed profit distributions). Income from the Bonds is not exempted from corporate income tax, however, taxation occurs only when entity distributes profit. If no profit is distributed, no taxation will occur.

Taxation of Non-Resident Entities. According to the Latvian Law on Corporate Income Tax income earned from the Bonds (interest income and capital gains from sale or redemption) by the non-resident entities would not be subject to taxation in Latvia regardless of the status of the Bonds (listed or non-listed), provided that non-resident entity was not located in a jurisdiction or territory treated as “tax haven”.

If interest is paid to a non-resident entity located in a jurisdiction or territory treated as “tax haven”, such payments shall be subject to a withholding tax at a rate of 20%.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

If the Bonds not listed on the regulated market in a Member State of the EU or EEA are sold by a “tax haven” entity to a Latvian entity, such sales proceeds shall be subject to a withholding tax at a rate of 20%.

20% withholding tax may be avoided, if a special permission is obtained from the SRS by the purchaser prior to the sale. No withholding tax will apply if the Bonds at the time of sale are listed on the regulated market in a Member State of the EU or EEA.

As explained above, the list of “tax-haven” countries and territories is included in the Latvian Cabinet of Ministers Regulation No. 655 on Low Tax or Zero Tax Countries and Territories (dated 7 November 2017). Nevertheless and despite the list of “tax havens”, a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty, or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

In any event each non-resident individual should clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

Lithuanian Tax Considerations

Tax related information provided below does not constitute tax advice and is intended only as a general guide to current Lithuanian law in force. It relates only to certain limited aspects of the Lithuanian tax treatment of holders of Bonds and is intended to apply only to entities and individuals who are Bondholders and are resident in Lithuania for Lithuanian tax purposes. Definitions of the resident entities and individuals are provided below. Income of the non-resident entities and individuals arising from the holding of Bonds and disposal or redemption of Bonds is not subject to taxes in Lithuania.

Prospective purchasers of the Bonds are advised to consult their own tax advisers as to the consequences of a purchase of the Bonds under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Bonds.

In accordance with the Lithuanian Law on Tax Administration where any international treaties to which Lithuania is a party provide for the rules on taxation different from those of the relevant taxation legislation, and provided the international treaties have been ratified, enacted and enforceable in Lithuania, the rules of such international treaties shall prevail. Lithuania and Latvia have entered into a tax convention on elimination of the double taxation, which provides more favourable taxation regime (effective from 30 December 1994). The rules for application of tax conventions are provided in the Lithuanian Law on Tax Administration and in the other legal acts implementing provisions of the Lithuanian Law on Tax Administration.

Resident Individuals. An individual will be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Lithuanian Law on Personal Income Tax, i.e.: (i) if the individual’s permanent place of residence is in Lithuania during the calendar year; (ii) if the individual’s place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year; (iii) if the individual is present in Lithuania for a period or periods in

the aggregate of 183 days or more during the calendar year; (iv) if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania); (v) if the individual is a citizen of Lithuania, but does not meet the above mentioned (iii) and (iv) criteria, however, receives remuneration under an employment contract or a contract in its essence corresponding to an employment contract or his costs of living in another country are covered from the state budget or municipal budgets of Lithuania.

If an individual is considered as a tax resident of another country according to its local legislation as well, the country of his/her tax residence is determined by applying provisions of the respective double tax treaty (provided that there is such treaty concluded). When an individual qualifies as a tax resident in another country under the domestic legal acts, the place of his/her tax residence is determined by applying the rules established in the respective double tax treaties:

- the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him/her; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests);
- if the state in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode;
- if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national;
- if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.

In accordance with the Lithuanian Law on Personal Income Tax any income generated by a resident of Lithuania from the Bonds (interest, result from disposal or redemption of the Bonds) shall be taxed by a 15 per cent rate personal income tax, when the taxable annual income does not exceed 120 average salaries of Lithuania published by the Ministry of Social Security and Labour of Lithuania. The amount of the taxable annual income exceeding 120 country average salaries shall be taxed by a 20 per cent rate personal income tax.

The following exemptions are applicable:

- interest (total of interest generated from the Bonds and certain other types of interest) not exceeding EUR 500 during a tax period is non-taxable;
- gains (total of gains generated from sale of the Bonds and certain other types of securities) not exceeding EUR 500 during a tax period are non-taxable.

Income tax must be paid to the Lithuanian State budget by the 1 May of the year following the year when the income is received. The resident individual who has received interest from the Bonds or income from disposal of the Bonds must file an annual income tax return and report this income. The term for filing the tax return is the same as income tax payment term.

Non-Resident Individuals. Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident individual from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to personal income tax in Lithuania.

Resident Entities. An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. For the purposes of this summary resident entities also include permanent establishments of foreign entities in Lithuania.

Income from the Bonds (interest payments and capital gains) should be included in taxable income of the resident entity and should be subject to corporate income tax at the rate of 15%. If sale of the Bonds results in loss, it will be tax-deductible for corporate income tax purposes. The loss can be utilized only against the profit from sale of securities and can be carried forward for 5 years. If there is a gain upon redemption of the Bonds, it shall be considered as taxable income. If redemption of the Bonds results in loss, this loss is tax deductible.

Non-Resident Entities. Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident entity from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to corporate income tax in Lithuania.

Estonian Tax Considerations

General

The Bondholders can be taxed in respect of the income arising from the holding of the Bonds (taxation of interest income) and disposal or redemption of the Bonds (taxation of capital gains).

For the purposes of this summary, the Bondholders are classified as follows:

- *Resident individuals* – physical persons who are considered Estonian tax residents for personal income tax purposes under the Estonian tax laws and any applicable double taxation treaty. As a general rule, an individual is considered Estonian resident for personal income tax purposes: if (i) his or her place of residence is in Estonia; or (ii) he or she stays in Estonia for at least 183 days over the course of a period of 12 consecutive calendar months, or (iii) he or she is an Estonian diplomat outside Estonia. An individual is regarded as a resident as of the date of his or her arrival in Estonia. Nevertheless, double taxation treaties may provide for a different definition of resident individuals.

According to the provisions of double taxation treaties, whenever an individual qualifies as tax resident under the domestic tax rules of both countries, the individual's tax residence is determined by applying the following criteria: (i) the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him/her; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests); (ii) if the country in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode; (iii) if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national; (iv) if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.

- *Non-resident individual* means a physical person who is not deemed to be a resident individual as explained above.
- *Resident entity* means a legal entity, excluding a trust fund, if it is established pursuant to Estonian law. European public limited companies (SE) and European associations (SCE) whose registered office is registered in Estonia are also resident entities.
- *Non-resident entity* means a legal entity, which is not deemed to be a resident entity as explained above. The provisions concerning non-residents apply also to a foreign association of persons or pool of assets (excluding contractual investment fund) without the status of a legal person, which pursuant to the law of the state of the incorporation or establishment thereof is regarded as a legal person for income tax purposes.

Resident Individuals

According to the Estonian Income Tax a resident individual must pay Estonian income on worldwide income, meaning income derived from all sources of income both in Estonia and outside Estonia. Income tax rate is 20%. Period of taxation is a calendar year. A resident individual must submit to the Estonian Tax and Customs Board an income tax return regarding taxable income derived during the period of taxation by the 30th of April of the year following the period of taxation. Due income tax must be paid to the Estonian Tax and Customs Board by 30th of October of the year following the period of taxation.

Interest

Interest from the Bonds payable by Citadele to Estonian resident individuals is considered as a taxable interest for the purposes of the Estonian Income Tax Act. Therefore, a resident individual is obliged to pay Estonian income tax of 20% on the amount of interest from the Bonds. Payment of income tax and submission of an income tax return takes place as described above.

As noted in the Latvian tax considerations above the interest from the Bonds payable by Citadele to Estonian tax residents is exempted from Latvian income tax. This is because there is effective double taxation treaty between Estonia and Latvia. Nevertheless, should there be a Latvian income tax on interest from the Bonds payable by Citadele to Estonian tax residents the Estonian-Latvian double taxation treaty article 11 (2) restricts the Latvian income tax on interest from the Bonds to 10% of the gross amount of the interest. However, in order to take advantage of the lower withholding tax rate of exemption, Estonian resident individuals must submit Citadele a valid residence certificate issued and confirmed by the Estonian Tax and Customs Board which must thereafter be confirmed by the Latvian Tax Authorities.

Further, if Latvia establishes income tax on interest from the Bonds payable by Citadele to Estonian resident individuals and the Latvian income tax payable on the interest is less than the income tax payable according to the Estonian Income Tax Act a resident individual must pay Estonian income tax on the difference between the Latvian income tax and Estonian income tax.

Capital gains

A capital gain (the difference between the disposal price and acquisition value) earned by an Estonian resident individual from the sale or redemption of the Bonds is subject to Estonian income tax of 20%. Payment of income tax and submission of an income tax return takes place as described above.

Non-Residents (both Individuals and Entities)

General

Estonia levies same rules of income tax on interest income and capital gains received by a non-resident individual and a non-resident entity. In other words: taxation of a non-resident individual and that of a non-resident entity takes place pursuant to the same rules. Therefore, the below overview applies to both non-resident individuals and non-resident entities.

Interest income

Interest from the Bonds payable by Citadele to non-resident individuals is generally exempted from Estonian income tax.

The exception from the tax exemption is the case where a non-resident receives interest in connection with holding in a contractual investment fund or other pool of assets of whose property, at the time of the payment of interest or during a period within two years prior to that, more than 50 per cent was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10 per cent at the time of the receipt of interest. Citadele is a Latvian limited company/joint stock company, which cannot be regarded as a contractual investment fund or other pool of assets. Consequently, the exception from the general tax exemption does not apply.

Therefore, interest from the Bonds payable by Citadele to non-residents is not subject to Estonian income tax.

Capital gains

A capital gain earned by a non-resident from the sale or redemption of the Bonds is generally exempted from Estonian income tax.

The exception from the tax exemption is the case where a non-resident individual transfers or returns a holding in a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or return or during a period within two years prior to that, more than 50 per cent was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10 per cent at the time of conclusion of the specified transaction. According to our best knowledge (i) immovables or structures as movable located in Estonia do not form more than 50 per cent of Citadele's assets and (ii) the amount of the Bonds does not constitute a holding of at least 10 per cent of Citadele's share capital.

Thus, capital gain earned by a non-resident from the sale or redemption of the Bonds is not subject to Estonian income tax.

Resident entities

Estonian resident entities are required to pay Estonian income tax only upon public profit distribution (e.g. dividends) or hidden profit distribution (e.g. fringe benefits, gifts and donations, transaction with associated entities whereas the value of the transaction does not correspond to market value, expenses and payment not associated with the entities business activities). Estonian resident entities' income tax rate is 20%, whereas the taxable amount must be divided by the number of 0,80 before it is multiplied by the tax rate. If profits are not distributed there is no tax obligation.

Therefore, resident entities are not obliged to pay Estonian income tax upon receipt of interest from the Bonds payable by Citadele or upon capital gain earned from the sale or redemption of the Bonds.

The EU Savings Directive

In accordance with the Council Directive 2003/48/EC on the taxation of savings income, each Member State of the EU is required to provide to the tax authorities of another Member State of the EU details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State of the EU or to certain limited types of entities established in that other Member State of the EU.

On 24 March 2014, the Council of the EU adopted a Council Directive 2014/48/EU amending and broadening the scope of the requirements described above. Member States of the EU were required to apply these new requirements from 1 January 2017. The changes have expanded the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive also applies a "look through approach" to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State of the EU is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

Similar reporting obligations Latvia has on U.S. individuals and entities based on bilateral agreement concluded between Latvia and US to Improve International Tax Compliance and to Implement FATCA.

Investors who are in any doubt should consult their professional advisers.

12. Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector

Macro-economic profile of the Baltic States

The Baltic States together form a group of small, open and fast-growing, export orientated economies. According to the IMF, the Baltic States have relatively high GDP per capita figures compared to other countries in central and eastern Europe, with further potential for growth as their wealth continues to converge towards the EU average. With high levels of production and relatively low labour costs, the Baltic States are well-positioned to continue their strong growth-trajectories following their exceptional recovery since the onset of the global economic recession in 2008. A favourable investment climate, together with increasing integration with the rest of the EU strengthens the Baltic States' trade links in the region. Stable governance and a flexible labour market are also conducive to attracting further inflows of foreign direct investment although overall investment climate in Latvia and Estonia has been negatively affected by recent scandals in the banking sector. In addition increased geopolitical tension has adversely affected relations with Russia.

Tight labour markets and declining working age populations pose a significant challenge to Baltic countries over the medium term as unemployment continues to decline and wage growth exceeds gains in productivity. In Estonia in Q3 of 2019 unemployment declined to 3.9% while in Latvia and Lithuania unemployment stood at 6.0% and 6.1% respectively. This has put pressure on wages which in Q3 of 2019 compared to previous year grew by 8.2% in Latvia, 8.3% in Estonia and 9.2% Lithuania. While wage growth is likely to remain a strong balanced current account, moderate inflation and moderate credit growth financed by domestic savings as well as prudent public finances, all point to a balanced economic growth. Strong income growth has also contributed to stabilization in migration. In 2019 net migration in Lithuania turned positive and in Estonia migration has been positive already since 2015 while in Latvia net emigration in 2018 slowed to lowest level in almost two decades.

Latvia

As a member of the EU and NATO since 2004, Latvia has made significant strides in increasing integration with the EU over the past decade. This has translated into the EU becoming one of Latvia's key trading partners, and Europe now lies at the heart of the Latvian economy. Following a smooth accession to the Eurozone in January 2014, Latvia has further embedded itself on the European stage and improved its investor-friendly environment. Since July 2016 Latvia has also become a member of the Organisation for Economic Co-operation and Development.

Latvia is an export-oriented economy and according to Central Statistical Bureau of Latvia ("CSB") exports of goods and services in 2018 represented 61.3% of GDP, up from 53.6% in 2010, and representing a significantly higher percentage than for the EU as a whole (where exports accounted for 46.4% of GDP in 2018). The EU represents the largest market for Latvia's export of goods, accounting for 70.8% of the total in 2018 (of which Lithuania comprised 17.1%, Estonia 11%, Sweden 7.1%, Germany 6.9%, UK 5.6% and Poland 3.9%). Latvia is now more closely tied to the health of the Eurozone, having adopted the Euro in 2014. In addition, Russia remains a key trading partner for Latvia, while its concentration has declined representing 8.9% of Latvia's exports in 2018 down from 10.7% in 2014. Latvia imports according to CSB 73.9% of its goods from the EU, including 26% from the other Baltic States (of which Lithuania comprised 17.4% and Estonia 8.6%).

In 2017 and 2018 favourable global macroeconomic trends and recovery in world trade boosted exports in the Baltics which in 2018 grew by 4.3% in Estonia, 4% in Latvia and 6.3% in Lithuania. In the first three quarters of 2019 exports in Estonia grew on average by 5.7%, in Latvia by 2.4% and Lithuania 10.7%. Strong growth despite stagnant world trade point to a strong competitive position of the Baltic countries and these export opportunities are expected to drive the growth of Latvian businesses and increase their requirements for banking services.

Latvia's credit rating has improved in recent years, with Moody's upgrading Latvia from Baa1 to A3 in February 2015, Fitch and BBB+ to A- in June 2014 and S&P from A- to A in September 2018. A reduction in foreign exchange risk and access to ECB funding facilities following the adoption of the Euro were among the key drivers of this upgrade, as was the improvement of the Latvian Government's balance sheet. Latvia now has relatively prudent public finances, with public debt of 36.4% as a percentage of GDP at the end of 2018, down from 47.3%

in 2010.⁹ This is also considerably below the 80.4% for the average across the EU by the end of 2018. Latvia's wealth convergence with larger economies is demonstrated by its rising GDP per capita figure (USD 18,033¹⁰ as of 31 December 2018).

Following robust GDP growth of 3.8% in 2017 and 4.6% in 2018, growth decelerated to 2.1% in 2019 according to the preliminary estimate. According to IMF October 2019 forecast, Latvian GDP per is expected to grow on average by 2.9% annually between 2020 and 2022, well ahead of the forecasted growth for the euro area as a whole of 1.4%.

Latvia has a skilled and highly-educated workforce. Despite this, labour costs remain relatively low, at an average of EUR 9.3 per hour, compared to an average of EUR 23.7 across the EU according to Eurostat. Unemployment continued to fall and reached 7.4% in 2018, down from 10.8% in 2014 and 19.5% in 2010. In comparison unemployment in the EU in 2016 was on average 6.4%. The breakdown of Latvian GDP by sector in 2016 shows that the service sector, including trade, was the predominant contributor to macroeconomic output, having contributed 73.4% of total value added. Industry, construction and agriculture, at 15.8%, 6.7% and 4.1%, respectively, made up the remainder. In terms of end of use, household consumption accounted for 58.9% of the total end use of Latvian GDP. Inflation has remained relatively low in recent years, with the consumer price index rising by 2.9% in 2017 followed by 2.6% in 2018.¹¹ According to the IMF, in the medium to long term, inflation is expected to reach an average of 2.4% in 2020-2022.

Key Macroeconomic Indicators	For the year ended December 31				
	2014	2015	2016	2017	2018
GDP (USD bn)	31.4	27.0	27.7	30.5	34.9
Population (m)	2.0	2.0	2.0	2.0	1.9
GDP per capita (USD)	15,681	13,588	14,072	15,654	18,033
GDP, PPP (international USD bn)	47.1	49.0	50.6	53.9	57.9
GDP per capita, PPP (international USD)	22,296	23,136	23,819	25,164	26,579
GDP growth (%)*	1.9	3.3	1.8	3.8	4.6
Unemployment (%)*	10.8	9.9	9.6	8.7	7.4
Inflation (%)*	0.7	0.2	0.1	2.9	2.6
Exports (% of GDP)*	61.2	60.7	60.4	62.1	61.3
General Government gross debt (% of GDP)* .	40.9	36.7	40.2	40.3	36.4

Source: IMF, unless stated otherwise * Source: CSB

Lithuania

Lithuania is also an export-driven economy, with exports of goods and services comprising 75.6% of GDP in 2018. Russia is among the major trading partners for Lithuania, in 2018 representing 14% of its total exports down from 20.9% in 2014.¹² Despite this, Lithuania is predominantly westward facing, having acceded to the Eurozone in January 2015 and increased ties with Western institutions. In July 2016 Lithuania also become a member of the Organisation for Economic Co-operation and Development. Lithuania's GDP growth rate in 2018 was 3.5%, following 4.1% growth in 2017 and 2.4% in 2016.¹³ Lithuania's expected GDP between 2020 and 2022 is expected to grow on average by 2.5% according to the IMF, putting it among the fastest growing economies in Europe and exceeding the euro area average rate of 1.4%. According to the IMF, in 2016, Lithuania's GDP per capita of USD 18,994 was similar to that of Latvia, and relatively high in comparison to the average level in the central and eastern European region.

Lithuania's credit ratings reflect the Lithuanian government's programme of fiscal consolidation and it joining the Eurozone. Moody's upgraded Lithuania from Baa1 to A3 in May 2015 and changed outlook to positive in August

⁹ Data source: Eurostat

¹⁰ Data source: IMF 2019 October WEO

¹¹ Data source: CSB

¹² Data source: UN Comtrade

¹³ Data source: Eurostat

2019, while Fitch upgraded Lithuania from A- to A in January 2020 and S&P's upgrade from A- to A in March 2018. Lithuania's HDI rating was 0.869 in 2018 (the latest available data).

Estonia

Similar to its Baltic neighbours, Estonia also relies heavily on exports, with exports of goods and services representing 74.3% of GDP in 2018. As opposed to Latvia and Lithuania, Estonia's exports are focused on the Nordics, with Sweden and Finland comprising 15.1% and 10.4% of its total export market, respectively. Estonia's economic growth in recent years has buoyed by strong external demand and growth rebound in Finland. In 2018 GDP growth rate was 4.8% following 5.7% and 2.6% growth in 2017 and 2016 respectively. Estonia's expected annual GDP growth rate for 2020-2022, at 2.8%, is also notably ahead of the 1.4% expected euro area average. According to the IMF, Estonia has one of the highest GDP per capita rates among the central and eastern European nations, standing at USD 23,330 in 2018. Estonia's HDI rating in 2018 (the latest available data) reached 0.882.

As a result of Estonia's lowest debt-to-GDP ratio in the EU (8.4%), Estonia's credit ratings are very strong, with both S&P and Fitch assigning the fourth highest investment grade available. Fitch raised its rating to AA- rating in October 2018, S&P affirmed its AA- rating in October 2018, and Moody's affirmed its A1 rating in May 2019.

Outline of the Latvian Banking Sector

Introduction

The Latvian banking sector consists of commercial banks and branches of EU Member State banks. As of 30 September 2019, there were 11 banks and 9 branches of foreign banks operating in Latvia. Generally, all banks and cooperative credit unions are required to be licensed and are regulated by the FCMC, except the significant institutions that are supervised by the ECB. The market is relatively concentrated, with the largest four banks by total assets accounting for 75.3% of total assets, 82.2% of total loans, and 80.4% of total deposits. On 1 October 2017 Nordea and DNB combined their operations in the Baltic countries creating a new bank - Luminor Bank AS which has become one of the largest banks in the Baltic region.

Commercial Banks in Latvia

According to the FCMC, the total assets in the Latvian banking sector (including both domestic commercial banks and branches of foreign banks) were EUR 22.2 billion as of 30 September 2019. Since the beginning of 2016 overall banking assets have declined by almost 25% due to outflow on non-resident deposits which have declined by 78.1% since the end of 2015. Of the total assets in the Latvian banking sector, the proportion of loans fell to 60% (EUR 13.5 billion) by 30 September 2019, compared with approximately 70% in 2008, as part of the ongoing deleveraging process. The shrinkage in the loan portfolio between 2010 and 2019 was approximately EUR 6.6 billion (representing a rate of 5.3% per annum). In terms of the loan portfolio mix, as of 30 December 2019, the corporate loan portfolio amounted to EUR 5.4 billion and the households loan portfolio amounted to EUR 5.0 billion. Between 2010 and 2019, the size of these portfolios declined by 5.4% and 5.3% per annum, respectively. Conversely, the proportion of claims on non-Latvian financial institutions and foreign government securities has risen.

The shift towards deposit funding has continued in recent years, with the share of deposits in banks' liabilities rising to 82.2% by the 30 December 2019 from between 40-45% in the midst of the recession in 2008-2009. Customer deposits amounted to EUR 16.8 billion at 30 December 2019, which represents an increase of 1.4% per annum over the period of 2010 to 2019. Of this total, resident household deposits constituted 51.5% (EUR 7.6 billion), which represents an increase of 6.8% per annum between 2010 and 2019, and resident non-financial corporate deposits constituted 31.3% (EUR 4.6 billion), which represents an increase of 5.3% per annum between 2010 and 2019. By the 30 December 2019 international deposits constituted 17.2% of all deposits, down from 55.5% at the end of 2015. Liabilities to monetary and financial institutions constituted 7.6% of total liabilities as of 30 September 2019 which has declined from 29.9% of total liabilities as of 31 December 2010. The trend towards deposit funding has meant a significant fall in the loan-to-deposit ratio from a peak of 169% in 2008 to 73.9% in 2017.

The following table sets out loans, deposits and loan/deposit ratios for the Latvian banking sector since 2010:

Year	Loans (EUR billion)	Deposits (EUR billion)	Loan/Deposit ratio (%)
2010	20.4	15.8	129
2011	18.7	15.8	119

Year	Loans (EUR billion)	Deposits (EUR billion)	Loan/Deposit ratio (%)
2012	16.7	17.8	94
2013	15.6	19.5	80
2014	14.7	22.2	66
2015	14.7	23.3	63
2016	15.1	21.4	71
2017	14.4	20.3	71
2018	13.9	17.0	82
2019 Q3	13.9	16.8	83

The deterioration in loan quality during the recession was accompanied by a sharp rise in the volume of non-performing loans. The percentage of loans which were more than 90 days overdue reached a peak of 19% of total portfolios in 2010 and decreased thereafter, reaching a level of 7.8% in 2012, 6.9% by the end of 2014, and 3.8% as of 30 September 2019. As credit quality has improved since the global financial crisis, provisions for the principal amount of loans have started to decline, reaching lows of EUR 463 million (approximately 3.3% of total loans), down from a peak of EUR 2.8 billion in 2010.

The following table sets out the asset quality figures for the Latvian banking sector since 2007:

Year	Non performing loan ratio (%)
2007	0.7
2008	3.6
2009	16.4
2010	19.0
2011	17.2
2012	11.1
2013	8.3
2014	6.9
2015	6.0
2016	4.4
2017	4.1
2018	4.0
2019 Q3	3.8

The following table sets out the compound annual growth rates of loans issued by selected banks in Latvia between 2012 and 2019:

Bank	Compound annual loan growth rate (%) (2012-19 Q3)
Citadele	7.8%
Rietumu Banka	-5.2%
Luminor ¹⁴	-5.2%
SEB	1.2%
Swedbank	-1.0%

Profitability across the Latvian banking sector improved between 2010 and 2019, with return on equity rates rising from -20.4% at 31 December 2010 to 6.2% as of 30 September 2019, driven by the improved efficiency of Latvian banks. Cost-to-income ratios have declined from 72% as of 31 December 2010 to 63.3% as of at 30 September 2019. Net interest margins have improved from 1.29% as of 31 December 2010 to 1.95% as of 30 September 2019.

The table below sets out the average gross yields (as a percentage of assets) and cost of funds (as a percentage of assets) of the Latvian banking sector since 2007:

¹⁴ Before 2017 combined loans from DNB bank and Nordea Bank Finland Latvian branch

Year	Gross yield (% of total assets)	Cost of funds (% of total assets)	Net interest margin
2007	6.0	3.3	2.7
2008	6.2	3.8	2.4
2009	4.5	2.9	1.6
2010	3.7	2.4	1.3
2011	3.0	1.6	1.4
2012	2.6	1.1	1.5
2013	2.3	0.6	1.7
2014	2.1	0.5	1.6
2015	2.1	0.4	1.7
2016	2.1	0.4	1.7
2017 ⁽¹⁾	2.0	0.4	1.5
2018	2.2	0.4	1.8
2019 Q3	2.4	0.5	2.0

(1) The figures for the period to 30 June 2017 have been annualised for comparison purposes

13. Glossary of Terms

2017 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as of and for the year ended 31 December 2017 as set out in Schedule 1 to this Base Prospectus
2018 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as of and for the year ended 31 December 2018 as set out in Schedule 2 to this Base Prospectus
2019 unudited Consolidated Interim Financial Statements	Citadele's audited consolidated interim financial statements as of and for the six months ended 30 June 2017 as set out in Schedule 3 to this Base Prospectus
2019 Audited Consolidated Interim Financial Statements for the six months	Citadele's Audited Consolidated Interim Report For the six months ended 30 June 2019
Accrual Date	shall have the meaning assigned to in the section entitled " <i>General Terms and Conditions of the Bonds — Interest and Yield</i> "
ALCO	Assets and Liabilities Management Committee of Citadele's Management Board
Annual Interest Rate	shall have the meaning assigned to it in the section entitled " <i>General Terms and Conditions of the Bonds — Interest and Yield</i> "
Articles of Association	Citadele's constitutional document – articles of association, as in force from time to time
Baltic States	Latvia, Lithuania and Estonia
Bank of Latvia	Latvijas Banka, the central bank of Latvia
Base Prospectus	this Base Prospectus
Bonds	non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity of 10 years and with fixed interest rate to be issued under the Programme
Bondholder	holder of the Bonds
Bondholders	the holders of the Bonds
Bondholders' Meeting	the meeting of the Bondholders or meeting of the Bondholders of the relevant Series as described in the section entitled " <i>General Terms and Conditions of the Bonds — Meetings of the Bondholders</i> "
BRRD or Bank Recovery and Resolution Directive	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, as amended
Business Day	a day on which banks in Riga, Latvia, as well as Nasdaq CSD are open for general business

CEO	Chief Executive Officer of Citadele, unless the context requires otherwise
CIIFRR Law	The Latvian Credit Institutions and Investment Firm Recovery and Resolution Law of 2015, as amended
CIS	Commonwealth of Independent States
Citadele	AS “Citadele banka”, a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv
Citadele Group	Citadele and its Subsidiaries as listed in the section entitled “ <i>Overview and Business Description—Structure of Citadele Group</i> ”
CRA Regulation	Regulation (EC) No 1060/2009 on credit rating agencies, as amended from time to time
CRD IV	Directive No 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive No 2002/87/EC and repealing Directives No 2006/48/EC and No 2006/49/EC, as amended from time to time
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended from time to time
CSB	Central Statistical Bureau of Latvia
Delegated Regulation	Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004
Early Redemption Date	shall have the meaning assigned to it in the section entitled “ <i>General Terms and Conditions of the Bonds — Maturity and Redemption</i> ”
EBA	the European Banking Authority, an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	The European Economic Area

EU	The European Union
EUR, euro or €	the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant, and as defined in Article 2 of the Council Regulation (EC) No.974/98 of 3 May 1998 on the introduction of the euro, as amended
FCMC	The Financial and Capital Markets Commission of Latvia
Final Terms	the final terms of the relevant Tranche composed according to the form described in the section entitled „ <i>Form of the Final Terms</i> ”
First Interest Period	shall have the meaning assigned to it in the section entitled “ <i>General Terms and Conditions of the Bonds —Interest and Yield</i> ”
FIU	Latvia’s Financial Intelligence Unit
FMCRC	The Financial Market and Counterparty Risk Committee of Citadele’s Management Board
General Terms and Conditions of the Bonds	The general terms and conditions of the Bonds as described in the section entitled „ <i>General Terms and Conditions of the Bonds</i> ”.
GIC	The Group Investment Committee of Citadele’s Management Board
GMS	General meeting of shareholders of Citadele, unless the context requires otherwise
Government	Government of Latvia
IFRS	International Financial Reporting Standards as adopted by the EU
IMF	International Monetary Fund
Interest Payment Date	one of the two Interest Payment Dates
Interest Payment Dates	shall have the meaning assigned to it in the section entitled “ <i>General Terms and Conditions of the Bonds —Interest and Yield</i> ”
ISIN	International Security Identification Number
Issue Date	the issue date of each Tranche of the Bonds as described in the section entitled “ <i>General Terms and Conditions of the Bonds — Issue Date</i> ”
Issue Price	the issue price of the Bonds as described in the section entitled “ <i>General Terms and Conditions of the Bonds — Issue Price</i> ”
Latvian Commercial Law	Commercial Law of the Republic of Latvia of 2000, as amended
Latvian Credit Institutions Law	Credit Institutions Law of the Republic of Latvia of 1995, as amended
Latvian Law on Corporate Income Tax	Law on Corporate Income Tax of the Republic of Latvia of 1995, as amended
Latvian Law on Personal Income	Latvian Law on Personal Income of the Republic of Latvia of 199’3, as amended
Latvian Privatisation Agency	VAS “Privatizācijas aģentūra”, a state joint stock company incorporated

and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003192154, legal address: Krišjāņa Valdemāra iela 31, Riga, LV-1010, Latvia, telephone: +371 67021358, fax: +371 67830363, e-mail: info@pa.gov.lv, website: www.pa.gov.lv

Latvian SSS	the securities settlement system of Nasdaq CSD governed by Latvian law
Lithuanian Law on Personal Income Tax	Law on Personal Income Tax of the Republic of Lithuania, as amended
Lithuanian Law on Tax Administration	Law on Tax Administration of the Republic of Lithuania, as amended
Management Board	Management board of Citadele, unless the context requires otherwise
Maturity Date	shall have the meaning assigned to it in the section entitled “ <i>General Terms and Conditions of the Bonds —Maturity and Redemption</i> ”
Member State	each Member State of the European Union or the European Economic Area, as applicable
Micro SME	Micro SMEs, being entities with annual turnover below EUR 0.4 million
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as amended from time to time
Minimum Investment Amount	the minimum investment amount for subscription of the Bonds, as specified in the section entitled „ <i>General Terms and Conditions of the Offer —Minimum Investment Amount</i> ”
Nasdaq CSD	Nasdaq CSD SE, registration number: 40003242879, legal address: Valņu 1, Riga, LV-1050, Latvia
Nasdaq Riga	Nasdaq Riga AS, registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia
Notification	shall have the meaning assigned to in the section entitled „ <i>General Terms and Conditions of the Offer —Allotment</i> ”
OECD	Organisation for Economic Cooperation and Development
OFAC	The Office of Foreign Assets Control of the U.S. Department of the Treasury
Offer	offering of the Bonds under the Programme pursuant to the Base Prospectus and the applicable Final Terms
Offer Period	the offer period for each Tranche as specified in the section entitled „ <i>General Terms and Conditions of the Offer —Offer Period</i> ” and the Final Terms, including any and all extensions of the applicable Offer Period
Parex	AS “Reverta” (previously – AS „Parex banka”), a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003074590, legal address: Brīvības Street 148A-1, Riga, LV-1012, Latvia, telephone: +371 67779100, fax: +371 67779101, e-mail: reverta@reverta.lv, website: www.reverta.lv

PEP	Politically exposed persons
Programme	the € 30,000,000 Third Unsecured Subordinated Bonds Programme comprising a set of activities intended for the issue of the Bonds within the period of this Base Prospectus being effective
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as amended from time to time
Purchase Orders	orders of the investors to purchase the Bonds as specified in the section entitled „ <i>General Terms and Conditions of the Offer — Submission of Purchase Orders</i> ”
Qualifying Purchase Orders	shall have the meaning assigned to in the section entitled „ <i>General Terms and Conditions of the Offer — Invalid Purchase Orders</i> ”
Relevant Member State	Each Member State of the European Economic Area
Series	shall mean any series of Bonds issued under the Programme
SME	Small and medium sized enterprises, being entities with annual turnover between EUR 0.4 million and EUR 7 million
SRS	The State Revenue Service of the Republic of Latvia
Subsidiary	Company in which Citadele holds direct or indirect interests of not less than 50% or more of the shares and which is part of Citadele Group as described in the section entitled “ <i>Citadele Group — Structure of Citadele Group</i> ”
Supervisory Board	Supervisory board of Citadele, unless the context requires otherwise
Taxes	shall have the meaning assigned to in the section entitled “ <i>General Terms and Conditions of the Bonds — Taxation</i> ”
Tranche	tranche of Bonds of the respective Series
UN	The United Nations
United States or U.S.	The United States of America
Updated Annual Interest Rate	shall have the meaning assigned to in the section entitled “ <i>General Terms and Conditions of the Bonds — Interest and Yield</i> ”
Updated Issue Price	shall have the meaning assigned to in the section entitled “ <i>General Terms and Conditions of the Bonds — Issue Price</i> ”
VAT	Value added tax
Yield to Maturity	the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate. An expected Yield to Maturity, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

14. Index of Schedules

Schedule 1 -	Citadele's Audited Consolidated Financial Statements as of and for the year ended 31 December 2017
Schedule 2 -	Citadele's Audited Consolidated Financial Statements as of and for the year ended 31 December 2018
Schedule 3 -	Citadele's unaudited Consolidated Financial Statements as of and for the year ended 31 December 2019
Schedule 4 -	Citadele's Audited Consolidated Interim Report For the six months ended 30 June 2019