

# Becoming a valuable banking group

Citadele Bank's chairman of the board of directors, Juris Jakobsons explains the bank's strategy and how the bank plans to grow in the future.

**Q Citadele separated from Parex Banka in 2010: how would you characterise the first nine months of Citadele Bank's activity?**

**A** The first nine months of Citadele Bank's activity were the period for stabilising and renovating the business. The key issue for us was to obtain society's trust toward the new bank and it must be said that we have succeeded at that. During this time, almost 9000 new clients have chosen the services of our bank, we have issued 31.000 new payment cards. Additionally, more than 20,000 people have switched from state-funded pension funds offered by other banks to ours during the first quarter. The first nine months of our activity was the time when we re-initiated crediting; the amount of deposits has been retained at a stable level regardless of purposeful decrease in deposit interest rates. The bank's results are constantly improving, for example, inherited negative net interest revenue is positive since January and we plan to finish 2011 with some profit. According to the amount of assets, Citadele presently is the fifth largest bank in Latvia and our aim is to become the most valuable financial group in the Baltic states.

**Q How do you plan to achieve the aim to become as the most valuable group of finance in Baltic states?**

**A** The concept "most valuable" means three things for us: financial value of the bank, the bank as a value in clients' eyes and the bank as the best employer. Accordingly, our main fields of activity are: development of the bank in accordance with the plans approved by shareholders and the European Commission, provision of financial services that are varied, high quality, easy for clients to

understand and comfortable in use as well as care for our employees since only motivated, knowledgeable and responsible employees who understand the sense and goal of it come to work with joy and are able to fill clients with it, too. In terms of variety of services, Citadele already is one of the most developed banks in the Baltics which besides traditional banking services also provides encashment, offers asset management and is an exclusive issuer of American Express credit cards in Latvia and Lithuania. We will continue working in this direction also in the future in order to provide clients with services of very high quality.

**Q What will Citadele's core activities be in the future?**

**A** Our advantage is our long-term experience and professionalism in working in the Baltic and CIS countries. We are going to maintain and develop the types of services most suitable for these markets, we will increase their quality and give up the ones that are less significant. Basically, we plan to develop in three main segments: Services for retail customers and small and medium enterprises in our branch office network, services for large enterprises and private wealth management. Our group's companies will offer private pension plans and life insurance with savings, asset management and leasing services. Citadele will continue to be a universal bank which offers a full range of services, ensuring that the offered products and services have high added value and are unique in the market to some extent. For example, in the field of crediting, we offer and we will continue to offer a full range of services – credit cards, consumer credit and mortgage loans. However we are working on unique crediting offers for the Baltic market which presently are not provided by other banks. Likewise, we are developing special and high quality private wealth management services – investment funds, exclusive credit cards and concierge service. Understanding of the Baltic and CIS market as well as uniqueness of our products is and will continue to be our strength.

**Q Will Citadele retain the international activities of the former Parex Banka?**

**A** We will offer private capital management services for clients from other

**“WE PLAN TO DEVELOP OUR SERVICES FOR RETAIL CUSTOMERS AND SMES AND PRIVATE WEALTH MANAGEMENT”**

countries, mainly CIS; we will continue to service these clients in Riga, Tallinn, Vilnius and Zurich and also we will continue to run representative offices in Moscow, St Petersburg, Kiev, Minsk and Almaty. We are experienced in this market and we understand the mentality of the people from this region. Alongside quality of services, we offer security and we pay special attention to Compliance requirements which is one of the cornerstones of business in the future and it is important for both – clients and the bank.

**Q What is the strategy for Citadele to pay back capital injected by the Latvian government?**

**A** The answer to this question has two parts. The capital that has been invested in Citadele's shares by the Latvian government will be recovered by the latter by privatising the bank and the EBRD will recover its injections by selling its shares. Both shareholders will assess when and how it is most convenient for them to recover this capital. The second part that has been invested by the Latvian government are state treasury deposits which the bank is repaying in accordance with a schedule.

During the first nine months of Citadele Bank's activity, we have reimbursed a part of the invested funding prior to term already twice; the total sum of these reimbursements was €63.9m. Thus, the amount of state deposits with Citadele Bank has decreased to €139.8m. It should be pointed out that the Latvian government stimulated the bank to repay these deposits at its earliest convenient for the state's funds are certainly not cheap. This is a motivation for the bank to repay the mentioned funds as promptly as possible and this is exactly what we are going to do.

**Q What is the funding position for Citadele?**

**A** Unlike group banks that operate in Latvia, there is no investor behind Citadele's back with "deep pockets" therefore we are taking care of refinancing ourselves. The main types of refinancing are deposits from clients, deposits made by the state treasury, securities emitted by the bank as well as capital. The funding pool presently consists of a large part of short-term funds because the period for majority of client deposits are up to 12

months and the Eurobonds are also approaching their maturity date. For this reason, we are purposefully working at attracting medium-term funding, for example, €100m medium-term loan from the European Investment Bank for financing the business of small and medium enterprises in Latvia.

**Q What are the prospects for the Latvian economy, and how would you characterise Latvia as a medium for investments?**

**A** According to data, economy in Latvia is starting to stabilise – growth in GDP can be observed for more than a year. Up to now this was possible mainly thanks to export. Domestic consumption is still fluctuating however it also has a tendency to increase. Investment climate is improving in Latvia and we have returned in the investment grade rating. The legislative environment, too, is sufficiently structured in order for investors to feel safe here. Latvia has set up a goal for itself: to join the eurozone within the nearest three years, and it is approaching this goal constantly and pragmatically. Latvia's strengths, first of all, lie in its geographical location – our territory shapes a corridor between the West and the East.

Second, cheap, yet highly qualified and efficient labour force is available in Latvia and the Baltic States in general. For the time being, it is important for the State to maintain this labour force for it not to be drained to other countries.

Thirdly, the banking sector in Latvia is well developed. However, we must keep in mind that the market is rather small. Therefore Latvia is more suitable for investment segments that focus on export. Also, one should take account of a longer period of time for investments to start generating returns because the economy in Latvia, similarly to the World in general, is not developing as rapidly as before the crisis.

Citadele Bank is a part of Latvia's economy and the one of Baltic states, and we are directly interested in economic growth of the region. In our opinion, it is important for the growth of the banking sector to be in harmony with the overall growth of the region's economy. It should be borne in mind that a hypertrophied development of the economy and its isolation from the real economy was one of the causes for the global economic crisis.



From the top: Juris Jakobsons, chairman of the board of directors, Citadele Bank; the bank's branch in Riga

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**Bank Citadele was established in 2010 in the result of restructuring of Parex banka, which was bailed out by the Latvian government in 2008. Bank Citadele was created as the "good bank", taking over all clients, deposits and performing assets and focusing on developing its banking business in Baltic states and CIS region.**