

AS Citadele banka

Sustainability Report

for the year ended

31 December 2018

ABOUT REPORT

Sustainability for Citadele Group means developing our business with long term perspective and in line with our social, environmental and economic goals in the decisions we make, products we offer and services we provide.

This document outlines our principles of sustainability in 2018. Our report summarises how we manage sustainability, both in terms of incorporating aspects of sustainability throughout our business and how our sustainability commitments shape the way we do business.

CITADELE GROUP

Citadele Group offers a wide range of banking products to its retail, SME and corporate customer base. It also provides wealth management, asset management, life insurance, pension and leasing and factoring products.

AS Citadele banka in Latvia (Citadele Bank) is a parent company of the Group, and its subsidiaries and branches operate in Latvia, Lithuania, Estonia and Switzerland. Citadele's operations in Latvia account for 76% of total Group's assets. As at 30 September 2018 Citadele Bank is the third largest bank in Latvia by number of customers and fourth largest bank in terms of assets, deposits, loans and ATM network.

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

- the Private customers and Small business 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;
- the Corporate segment's core products include business development loans, short term credit lines, trade finance products, card acquiring services and general deposit and cash management services to larger legal entities;
- the Wealth management segment provides a wide range of private banking, wealth management and transaction services through dedicated relationship managers, with a focus on private banking for Baltic clients.

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

In 2018, the decision was made regarding AB Citadele bankas (Lithuania) reorganization by merging it with AS Citadele banka (Latvia) and continuing its operations as AS Citadele banka Latvia branch. The reorganization was completed on 3 January 2019. It will enable the quicker introduction of new digital banking services to Citadele's Lithuanian customers, and the improvement of the Group's operational efficiency.

Geographical footprint

Citadele Banka distribution network as of 31 December 2018 comprises a total of 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania. AB Citadele bankas (Lithuanian subsidiary) has 8 customer service units in Lithuania.

The Group has online and mobile banking platform, which is available in Latvia, Lithuania and Estonia.

Country	Banking	Leasing	Asset Management	Pension Fund management	Life Insurance
Latvia	☐	☐	☐	☐	☐
Lithuania	☐	☐	☐		
Estonia	☐	☐	☐		
Switzerland	☐		☐		

Awards

Citadele has won local and international awards during 2018. In 2018, one of the leading customer service evaluation firms in Central and Eastern Europe, Dive, acknowledged Citadele as the bank with the best customer service in Latvia and Lithuania.

Rating upgrade

International credit rating agency **Moody's Investors Service upgraded** AS Citadele banka **long-term deposit rating** from **Ba2 to Ba1**, maintaining a positive outlook in October 2018. The main reason for upgrading Citadele Bank's rating, according to Moody's, is the progress made in implementing the Baltic focused growth strategy. The rating upgrade is also based on higher capitalization, increasing profitability, declining problem loans, strengthening of the bank's governance and continued reduction of non-resident business. Moody's positive outlook reflects the expectation of a further progress in the context of a supportive operating environment, strengthened governance, and continued increase in Baltics market shares despite increasing competition.

More information on the business activities of the Citadele Group, financial performance, geographical markets, risk politics and the development of the Group is available in the "Investor Relations" and "About us" sections of www.cblgroup.com website.

GROUP'S VISION AND CORE VALUES

Citadele Group's commitment to high ethical standards is the foundation of the Company's vision and core values. The Group's vision is "To be the Baltic banking champion". It represents the main purpose of Group's existence.

The Group's core Values are – Aspire, Personalize and Innovate:

- **Aspire** – we aspire for excellence for every client and the entire Baltic economy. We take care of clients, consistently deliver high quality service and expertise to clients and demonstrate excellence in everything we do.
- **Personalize** – we see people first and add human touch to banking. We work together; treat all team members in a respectful, courteous and professional manner. We understand the external environment, banking sphere and apply new trends and best practices to daily work.
- **Innovate** – We set the standard with innovative products. We think 'outside the box', take personal actions to innovate, modify practices and support the changing environment. We inspire others and act as a role model for the team in complying with integrity and ethics norms.

Demonstrating the Group's core values every day through real words and actions is how Citadele Group strengthens its ethical culture, delivers a superior customer experience and elevates the brand of Citadele. The Group aims to facilitate and maintain working environment which supports ethical conduct and ensures an open dialogue on ethical conduct, is free from any discrimination, prejudice, harassment in the workplace, abuse of power and undignified attitude. Employees are expected to perform their obligations to the Group and its clients decently, fairly, professionally and behave with respect to any and all persons.

CORPORATE GOVERNANCE

Citadele Group has a comprehensive corporate governance and risk management structure to operate in a transparent and prudent manner, to balance and protect the interests of its various stakeholders.

Governing bodies

Corporate governing bodies of Citadele are the General Meeting of Shareholders, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with the Article of Association of Citadele, Latvian law, and other binding legislation.

The Shareholders meeting elects the members of the Supervisory Board, which, in turn, is responsible for the supervision and appointment of members to the Management Board. The Management Board, which is an executive body, is responsible for the management of day-to-day operations of Citadele. The Shareholders meeting 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, as well as other matters.

Supervisory Board consists of 9 members:

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Dominic Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Sylvia Yumi Gansser Potts	Member of the Supervisory Board	29 October 2018

As part of Citadele's board reorganization, Karina Saroukhanian resigned from the Supervisory Board on 1 September 2018 and Catherine Margaret Ashton resigned from the Supervisory Board on 14 September 2018. On 28 September 2018, the Bank's extraordinary shareholders meeting re-elected the Supervisory Board, with Sylvia Yumi Gansser Potts, which was nominated by the EBRD, joining the Supervisory Board as well as Karina Saroukhanian. The Financial and Capital Market Commission's approval was received on 29 October 2018.

Management Board consists of 8 members:

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

Johan Åkerblom started working as Member of the Management Board on 1 February 2018. Kaspars Jansons started working as Member of the Management Board on 22 June 2018. Former Member of the Management Board Kaspars Cikmačs resigned from the Management Board on 22 June 2018.

Internal control

The purpose of the internal control system is to provide justified assurance that the assets of the Bank and the Group are ensured against loss, unauthorised management, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the inherent and probable risks of the Bank and the Group, the transactions are performed in line with the procedures prescribed at the Bank and the Group, the Bank and the Group act reasonably, prudently and efficiently in full compliance with the requirements of laws and regulations, and the drawbacks identified in the management of the Bank and the Group are eliminated.

The Management Board and the Supervisory Board of the Bank bear responsibility for the creation of the overall internal control system and the efficient functioning thereof. In order to ensure due responsibility with respect to the preparation of financial statements and the truthfulness, impartiality, explicitness and completeness of the information disclosed therein, adequate accounting methods that are described in the internal regulations are applied at the Group.

The Internal Audit Division is involved in the monitoring and assessment of the internal control system at the Bank and the Group. The reports on the internal audit results prepared by the Internal Audit Division are sent to the Bank's Management Board, Supervisory Board and the Audit Committee thereof, which inter alia oversees the efficiency of the internal control and risk management system. The Internal Audit Division performs its responsibilities in accordance with the applicable laws and regulations, the standards for the professional practice in internal auditing and the internal regulations of the Bank and the Group.

Risk management

Information on the elements of the risk management system is available in AS Citadele banka's separate and the Group's consolidated annual report for the year ended 31 December 2018 and in the Risk Management and Capital Adequacy Report published on the Bank's website www.cblgroup.com (section "About us", subsection "Corporate governance").

The Group's consolidated and the Bank's separate report for the year ended 31 December 2018 is available on the website www.cblgroup.com in section "For investors", subsection "Financial statements".

SOCIAL RESPONSIBILITY

Within the area of social responsibility Citadele have three main directions:

- Responsible provision of banking services to promote the economic development of the Baltics
- To increase opportunities for businesses and people
- To expand opportunities for people with disabilities and empower their involvement in society

Responsible business

In order to provide **banking services responsibly**, we develop purposeful communication with our clients to increase their awareness of banking services and the opportunities, obligations and risks that they bring. To lend responsibly, we carefully evaluate the ability of each potential borrower to repay the loan. In business financing the Bank, in addition to industries prohibited by law, also does not offer loans for tobacco and strong alcohol production or export, as well as gambling industries; this in care of physical and mental health of the population. Similarly, when evaluating a loan application, we assess the environmental impact of each submitted project.

The Group also is taking all measures necessary to comply with the letter and spirit of law and regulations issued by the banking regulators, specifically in the AML, anti-corruption and international and national sanctions regime compliance areas. In 2018 Citadele has undertaken an independent external AML audit and it was confirmed that Citadele continued to implement leading practices that again demonstrated its position as a leader in AML compliance in the Baltic region.

To promote the development of the Baltic economy, our **business strategy is focused on promoting development of small and medium businesses**. We view these enterprises as the foundation of the nation's economic growth. Alongside this, to promote increase in quality of life and energy efficiency, we with business loans particularly support agriculture and manufacturing process efficiency projects and building insulation. In addition, Citadele's funding contributes to SME businesses in a variety of industries including professional services, real estate, construction, food production, and others.

To support small business customers and to make banking easier, Citadele was the first Bank in the Baltics to introduce a new online tool to determine individual credit ratings for businesses – similar to the Bank's previously introduced individual credit rating functionality for private customers. Citadele's new feature enables SME clients to focus more on their businesses by easily determining their eligibility and terms for a microloan online. The online tool enables any Latvian SME business to quickly discover its available lending amount as well as the offered interest rate, regardless of its primary bank.

When **developing banking products** and when **introducing innovative solutions** in banking, we intend to simplify and upgrade both business owners' and private individuals' access to quality banking services. Introducing innovative banking services is one of Citadele's crucial strategic operations. Citadele is the first bank in the Baltics to introduce smartphone payments, touchscreen ATMs, payment cards with an inbuilt public transportation ticket function, among other innovations.

Throughout 2018, the Citadele group continued to develop and launch innovative digital solutions, products and services to meet customer expectations in multiple channels: improved online banking and Bank's mobile application, continued upgrades to contactless payment terminals and new touchscreen ATMs. Citadele has become the first bank in Latvia with facial recognition in mobile application for customer authentication and payment authorization. Also, Face ID and Touch ID for mobile app login, payments and card security management were introduced for fast, convenient and secure client interaction.

As Citadele has set a goal to **expand opportunities for people with disabilities** and empower their involvement in society, 24 of the Bank's branches in Latvia are equipped with an entry/exit ramp for wheelchair access (in 1 branch it is not possible to provide a ramp due to technical reasons).

Support projects

In 2018, the Latvian Chamber of Commerce and Industry with the Bank's support organized several conferences and events for entrepreneurs and those who are interested in business to contribute development of business environment in regions of Latvia.

Since 2012 Citadele's key cooperation partner in the area of social responsibility is the Latvian and Lithuanian Paralympic Committees, which Citadele supports with the aim of improving opportunities for people with disabilities, helping them to better integrate into society and empowering them to achieve their personal goals.

To increase the opportunities for talented young people with disabilities to gain a higher education, Citadele has operated a special scholarship programme in cooperation with the Vītoli fonds foundation since 2015.

"New York Knicks" basketball players Kristaps Porziņģis and Mindaugas Kuzminskas, as well as tennis star Aļona Ostapenko, world boxing champion Mairis Briedis and world-class rallycross driver Reinis Nitišs are brand ambassadors of Citadele in the Baltics. By means of this cooperation, Citadele wishes to inspire people and businesses to grow and excel. Citadele hopes that its cooperation with Kristaps fosters enthusiasm, zeal, inspiration and pride for being part of Kristaps Porziņģis' home country that can deliver amazing results.

Procedures and policies

In order to implement social responsibility, Citadele operates in accordance with a number of procedures and policies, for example, Environment and Social Risks in Lending Transactions of Legal Persons, Procedure for Donation and Sponsoring Activities by AS Citadele banka Group, Anti-corruption policy, Data protection policy, and more.

Anti-corruption framework

The Bank's operation is based on transparent and sustainable actions in the financial markets. The Bank has a zero tolerance for corruption, as well as expects a similar attitude and conduct from its employees, clients and business partners. The Bank follows the principle of not offering bribes or any other unauthorised payments, or incentives, not requesting bribes or any unauthorised payments from the current or prospective clients and business partners. The Bank's employees shall not accept or give bribes, act as intermediaries or become involved in any other manner in bribery in the interests of the employee itself, the employee's family or other persons.

For timely identification and understanding of corruption risk, the Bank ensures explicit and unequivocal internal rules for the priority areas enabling to comply with anti-corruption principles and ensure transparency, described in a number of policies and procedures, e.g. Code of Ethics, Policy for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism, Policy for a Conflict of Interest in the Rendering of Investment and Ancillary Investment Services, Procedures for Assessment of Reports on Breaches, Monitoring of Employee Transactions and more.

Citadele also has an internal whistleblowing process where employees can anonymously report violations of internal or external rules sending the notification via the link of the Bank's internal website 'Report on Breach' or by sending a letter by mail or courier addressed to the respective contact person.

All employees shall undergo compulsory training courses dedicated to the prevention of corruption risk and fraud risk and all employees of the Bank shall submit an annual confirmation of their compliance with the principles prescribed in Anti-corruption policy.

EMPLOYEES

As of 31 December 2018, the Group had 1,492 (2017: 1,540) and the Bank had 1,147 (2017: 1,173) full time equivalent active employees.

Citadele Group aims to be the most desirable employer in Latvia. The Group continuously works under its employer branding, talent attraction and retention, implements internal programs that improves employee's loyalty and motivation. Employees engagement survey is organized on a monthly basis for all Citadele Group's functional units and focus groups organized to improve the survey results. The Group monitors the market trends to offer a competitive remuneration to its employees.

Remuneration policy

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).

Employee training program

The Bank also provides trainings, seminars and external certification to its employees. Employees can also use the Bank's E-learning system, retrieving the study materials and taking the respective examinations. These additions improve each employee's development and growth within the company.

Other

Citadele supports an active lifestyle and alternative transport; therefore, employees at the bank's central office building have access to convenient and secure bicycle parking and showers. Employees of the central office building also have access to special leisure zone. Thinking about employee and client convenience, the "Chef Rids Brunchery" lunch restaurant opened its doors at Citadele's headquarters on 30 August 2018, offering people high quality meals in modern and cosy surroundings.