



AS Citadele banka

# ESG POLICY

The framework and the main principles for managing ESG related topics in Citadele Group

2023 update

# ABOUT THIS POLICY

The purpose of the Policy is to determine the framework and the main principles for managing Environmental, Social, and Governance (ESG) related topics in Citadele Group, including.:

- Define sustainability ambition and ESG objectives for Citadele Group
- Establish principles that Citadele Group will follow in its daily operations towards reaching ESG objectives and make ESG component an integral part of the business strategy
- Integrate ESG factors into daily operations, contributing to the sustainable development of the world
- Increase awareness of ESG matters in Citadele Group

The Policy is reviewed and updated on an annual basis.



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### More information

Sustainability report is available for downloading at: <https://www.cblgroup.com/en/about/social-responsibility/>

Website: <https://www.cblgroup.com/en/>

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# SUSTAINABILITY FOR CITADELE

Financial institutions have an important role in society. As financial intermediaries, we have the responsibility to contribute to a sustainable development of the economies and support the transition to a sustainable society as a key stakeholder in the financial eco-system. Banking is based on society's trust; hence Citadele Group aims to act responsibly and in the long-term interest of society.



Sustainability for Citadele Group means developing our business with long term perspective and in line with our environmental, social, and economic goals. This includes respect for the natural environment, and responsible and ethical practices in the decisions we make, products we offer and services we provide. We are committed to support our clients in the transition to a low-carbon economy and reduce the negative impacts on society and the environment in our own business activities and operations. We expect our clients, partners and suppliers to work in a responsible and ethical way, including full compliance with all applicable laws and regulations, and we always uphold these principles in our own operations.

Citadele aims to minimize the negative and maximize the positive non-financial impacts of our operations on the environment and society. At the same time, minimizing the negative and maximizing the positive impacts of ESG risks on the Group.

By signing the Principles for Responsible Banking, we have committed to aligning our business strategy and contribute to the UN Sustainable Development Goals and Paris Agreement.

The UN Sustainable Development Goals (SDGs), formulated in 2015, form the framework for nations, businesses and societies on how to achieve long-term economic growth, social inclusion and environmental protection. The 17 SDGs define the main objectives which are broken down into 169 targets with the aim to identify concrete actions.

Citadele has identified and prioritised five of the UN Sustainable Development Goals in dialogue with our key stakeholders. The prioritized goals are linked to our business strategy and sustainability work and are in the areas we have the largest opportunity to make an impact. We are also contributing to other SDGs in our daily operations.



Ensuring healthy lives and emphasizing well-being at all ages is essential to sustainable development. Citadele supports an active lifestyle and work-life balance by offering a number of benefits to its employees and works towards promoting supported values within healthy and balanced lifestyle which has an impact on overall society's well-being level and helps to overcome health issues.



Access to an affordable, reliable and sustainable energy is crucial for social well-being and transitioning to green economy. Citadele contributes to increasing the share of renewable energy in the global energy mix by providing financing to our corporate customers for green sector technology project development, incl. solar panel acquisition, development of wind farms and modernisation of production facilities.



Citadele contributes to sustainable growth of the Baltic economy through promoting development of our private, SME and corporate customers by providing access to financing, investment products, innovative banking solutions and job creation. We work towards ensuring equal opportunities for everyone, and youth development to transition to a decent job opportunities by investing in education events and training that match labour market demands and increase financial literacy.



Citadele's mission is to modernise the banking sector and offer more opportunities to clients and businesses throughout the Baltics. We work towards promoting the resilient infrastructure and innovations. Through maintaining long-term relationships with our corporate clients, we contribute to strengthened infrastructure and technological development. Digitalization of our services, functional and reliable online and e-commerce solutions, continuous new remote product offering allow us to support the development of innovative environment, meet our private and SME customers' expectations across multiple channels and help them in reaching their goals.



Financial sector can redirect capital flows to achieve more sustainable economy. Citadele encourages the use of environmentally friendly and sustainable business practices and plans to continue developing new offers supporting the green economy transition. To limit direct impact on climate from Citadele's own operations, the Bank adheres to green office initiatives, monitors and reduces CO<sub>2</sub> footprint from its own operations and works on identifying and disclosing our financed customers' GHG emissions.

## ESG INITIATIVES – ENVIRONMENTAL MATTERS

Citadele aims to contribute to adaptation of the global and Baltic economy to the achievement of the established climate goals. Bank acknowledges its responsibility in contribution to sustainable economy development and is committed to address the environmental aspects in financing and investments as well as in managing our direct impact. Hence, the Bank:

- has joined the UN Principles for Responsible Banking and contributes to the fulfilment of the aims of the Paris Agreement,
- following EU and regional ambition to reach net-zero emissions by 2050, the Group sets this target for its own financed portfolio. Net-zero by 2050 sets a measurable target to Group's ambition on increasing sustainability and strengthening support to clients in transition to green operations.
- works towards aligning the business strategy, governance, risk management and disclosures to correspond to the expectations regarding climate-related and environmental risks set by the European Central Bank,
- has defined industries that Citadele does not finance due to significant negative environmental and/ or social impact (Appendix 1), as well as applies environmental and social risk management procedures in financing,
- encourages the use of environmentally friendly and sustainable business practices and plans to continue

developing new offers supporting the green transition, implementing ESG topics in customer offers and product development,

- observes green office principles and is committed to measure and report its own GHG emissions and environmental footprint in order to transition to climate-neutral office activities by the end of 2023.

To identify the areas in which the Bank's business activities have the greatest positive and negative effect, Citadele conducts portfolio impact analysis, defining, measuring and disclosing key indicators to increase the efficiency of our environmental projects to ensure climate-related and environmental risk incorporation in Bank's operations and processes.

Citadele commits to work with our clients to educate them, incentivise them and support them in reducing their environmental impact.

CBL Asset Management is signatory to UN Principles for Responsible Investment, undertaking to incorporate ESG issues into investment analysis and decision-making processes, ownership policies and practices, as well to increase awareness of PRI within the investment society and report on activities and progress towards PRI implementation. Company's sustainability framework is stipulated by CBL AM "Sustainability and Engagement Policy".

## ESG INITIATIVES – SOCIAL RESPONSIBILITY

Financial institutions social impact is based on the ability to leverage its' expertise, financial products and services to enable people and communities to prosper and grow. Citadele acts based on high ethical and professional standards towards its clients, partners and employees. Being socially responsible bank, Citadele stands up for

- responsible provision of banking services to promote the Baltics economy,
- promoting financial education and literacy in society,
- promoting tolerance in society and supporting charity projects for people, animals and nature support,
- increasing customer's trust in Citadele Group,
- making banking services accessible for people at any time and place convenient for them through our digital channel offering,
- constantly increase internal ESG competence to promote it in society,
- engaging in partnerships with relevant stakeholders to achieve society's goals.

Citadele's success is based on its employees and their well-being. From the employer's perspective, we treat all employees in a respectful, courteous and professional manner. Citadele is committed to ensure supportive work environment which is aligned with today's requirements and standards:

- *No discrimination.* Citadele supports working environment that is free from any discrimination, prejudice, harassment, abuse of powers and undignified attitude.
- *Equality.* Citadele treats every employee, within their own abilities, qualifications, beliefs, and life experiences, regardless of gender, ethnic background, religion, age, sexual orientation, as an equal part of the team with equal opportunities.
- *Good working conditions.* Citadele ensures convenient and secure working conditions, in line with labour-related standards and requirements, national employment, social insurance, occupational health and safety standards.
- *Talent development.* Citadele supports professional skill and competence development for all employees. Employees have access to personalized development plans, solid training curriculum (external & internal courses) and advanced leadership skills' development programs.
- *Well-being.* Citadele supports an active lifestyle and balance between work and private life by offering a number of benefits, e.g. health insurance, sport-related program, special offers on bank's products, flexible working hours, team events and other.

# CORPORATE GOVERNANCE

Citadele’s operations are based on high ethical and professional standards. The Bank has developed internal legal framework, including policies, procedures, rules and instructions to set a clear and transparent corporate governance framework. Mechanisms are in place to manage conflicts of interest and avoid transactions and other actions which may pose risk of adversely affecting confidence and trust in Citadele. Citadele is committed to avoid corruption and has no tolerance towards financial crime and non-compliance.

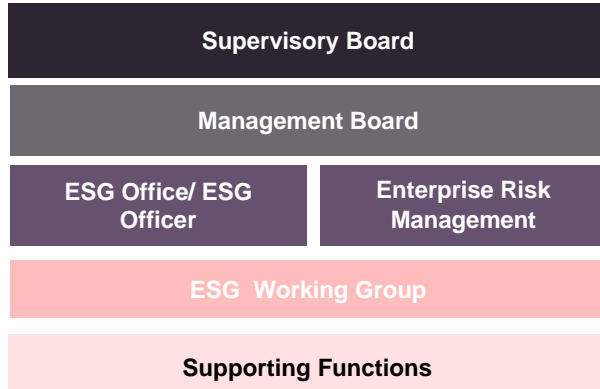
To ensure successful integration of ESG factors into the internal governance of Citadele Group, Bank works towards

- setting “tone from the top” - the Management Board and the Supervisory Board are involved in setting up and communicating ESG related considerations and expectations;
- introducing and strengthening of ESG factors in everyday work, management, internal control framework and remuneration;
- integrating ESG risks into governance structure, establishing clear working procedures for business lines, internal control functions, the relevant

committee(s) and management body, with a view to ensuring a sound and comprehensive approach to the incorporation of ESG risks into the business strategy, business processes and risk management;

- ensuring that responsibilities with regard to ESG risks are clearly integrated into the organisational structure, both in business lines and internal control functions;
- setting and overseeing the progress against the Bank’s ESG risk-related objectives and limits, incl. measuring and disclosing key metrics to general public and key stakeholders;
- enhancing awareness, training and expertise, to identify, assess and manage ESG risks at all levels of the institution - business units, internal control functions, management body;
- integrating the ESG factors into company’s culture and encouraging staff behaviour that is consistent with Citadele’s ESG risk approach;
- establishing a framework to mitigate and manage conflicts of interest which incentivise short-term-oriented undue ESG-related risk-taking, including green-washing or mis-selling of products.

## Sustainability governance



**Supervisory Board** is responsible for overseeing the establishment and implementation of ESG strategy.

**Management Board** is responsible for the establishment of ESG strategy and execution of the strategy by organisation. The Management Board is regularly updated on corporate sustainability matters.

Bank’s **Chief Executive Officer** is the governing body member responsible for the execution of the ESG strategy and implementation of the governance structure set by the Management Board.

Bank’s **Chief Risk Officer** is the governing body member responsible for implementation of ESG risk in the risk management framework, ensuring regular monitoring and reporting to the Group’s Supervisory Board on management of ESG risk encountered by the Group.

**ESG Office/ ESG Officer** develops a roadmap for achieving the ESG strategy and objectives and ensures its implementation within the Bank, incl. implementation of the Principles for Responsible Banking, day-to-day management of ESG topics, tracking progress and control over deliverables and resources. ESG Officer is a central point of contact for overall sustainability projects coordination and is responsible for increasing awareness of ESG matters by ensuring respective external and internal communication.

**Enterprise Risk Management** function develops and updates risk management policies to integrate the principles of ESG Risk policy and other relevant regulatory requirements and ensures implementation of key ESG risk drivers in the Risk Management Framework, Risk Appetite Framework, and relevant Risk Strategies.

**ESG Working Group** is created to ensure the transparent and efficient driving of the overall ESG agenda and is composed from the key stakeholders – dedicated representatives per function with clearly assigned responsibilities. ESG Working Group has the responsibility to ensure that procedures and controls are in place in order to implement and adhere to the ESG objectives, strategy and policies set by the Management Board, ESG Committee CEO and CRO. ESG Working group is responsible for integration of the Principles for Responsible Banking across the relevant functions of the Bank. ESG Working Group is led by ESG Officer.

**Supporting Functions** - analysis and implementation support to all streams due to cross-stream coverage.

## TERMS AND ABBREVIATIONS

|   |   |
|---|---|
| <b>Bank, Citadele, Group</b>                          | AS "Citadele banka" and its subsidiaries  |
| <b>Company, CBL AM</b>                                | IPAS "CBL Asset Management"   |
| <b>Stakeholders</b>                                   | a party that has an interest in the Group, such as investors, analysts, fund managers, investment bankers, clients, media, general public, and regulators.  |
| <b>UN Principles for Responsible Banking (PRB)</b>    | United Nations Environment Programme Finance Initiative Principles for Responsible Banking; framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.     |
| <b>UN Principles for Responsible Investment (PRI)</b> | United Nations Principles for Responsible Investment; investor's developed and United Nations-supported principles with an aim to contribute to developing a more sustainable global financial system.  |
| <b>The Paris agreement</b>                            | Legally binding international treaty on climate change with a goal to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels and reaching net-zero greenhouse gas emissions by 2050.  |
| <b>UN Sustainable Development Goals (SDG)</b>         | formulated in 2015, form the framework for nations, businesses and societies on how to achieve long-term economic growth, social inclusion and environmental protection. The 17 SDGs define the main objectives which are broken down into 169 targets with the aim to identify concrete actions. |

## Appendix 1

### No-go industries

Citadele has defined industries that it does not finance due to significant negative environmental and/ or social impact. No-go industries are defined in the Bank's internal policies and procedures based on regulatory requirements, EBRD Environmental and Social risk management procedures, the Bank's strategy and risk appetite.

In line with EBRD's Environmental and Social Policy, Citadele does not provide financing for activities relating to the following:

1. The production of or trade in any product or activity deemed illegal under host country (i.e. national) laws or regulations, or international conventions and agreements, or subject to international phase out or bans, such as:
  - 1.1 Production of or trade in products containing PCBs.<sup>i</sup>
  - 1.2 Production of or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances.<sup>ii</sup>
  - 1.3 Production of or trade in ozone depleting substances.<sup>iii</sup>
  - 1.4 Production or use of or trade in persistent organic pollutants.<sup>iv</sup>
  - 1.5 Trade in wildlife or production of or trade in wildlife products regulated under CITES.<sup>v</sup>
  - 1.6 Transboundary movements of waste prohibited under public international law.<sup>vi</sup>
2. Forced evictions.<sup>vii</sup>
3. Thermal coal mining or coal-fired electricity generation capacity.

4. Upstream oil exploration.
5. Upstream oil development projects, except in rare and exceptional circumstances where the proceeds of the project exclusively target the reduction of GHG emissions or flaring from existing producing fields.
6. Activities involving force-feeding of ducks and geese.
7. The keeping of animals for the primary purpose of fur production or any activities involving fur production.
8. The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally.<sup>viii</sup>
9. The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.<sup>ix</sup>
10. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
11. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
12. Shipment of oil or other hazardous substances in vessels, which do not comply with IMO requirements.<sup>x</sup>
13. Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit.

<sup>i</sup> PCBs: Polychlorinated biphenyls are a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

<sup>ii</sup> Reference documents: Regulation (EU) No. 649/2012 of the European Parliament and of the Council of 4 July 2012 concerning the export and import of hazardous chemicals as amended from time to time; United Nations Consolidated List of Products whose Consumption and/ or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); World Health Organisation Recommended Classification of Pesticides by Hazard.

<sup>iii</sup> Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised 'ozone holes'. The Montreal Protocol on Substances that Deplete the Ozone Layer lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the United Nations Environment Programme.

<sup>iv</sup> Reference document: Stockholm Convention on Persistent Organic Pollutants (POPs) as amended in 2009

<sup>v</sup> CITES: The Convention on International Trade in Endangered Species of Wild Fauna and Flora.

<sup>vi</sup> Reference documents: Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; and Decision C(2001)107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations

<sup>vii</sup> "Forced eviction" refers to the acts and/or omissions involving the coerced or permanent or temporary involuntary displacement of individuals, groups and communities from homes and/or lands and common property resources which they occupy or depend on, thus eliminating or limiting the ability of an individual, group or community to reside or work in a particular dwelling, residence or location, without the provision of, and access to, appropriate forms of legal or other protection.

<sup>viii</sup> Commission Regulation (EU) 2016/1005 of 22 June 2016 amending Annex XVII to Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) as regards asbestos fibres (chrysotile).

<sup>ix</sup> Regulation (EU) 2017/852 of the European Parliament and of the Council of 17 May 2017 on mercury.

<sup>x</sup> International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation International Safety Management Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU) and tankers due for phase out under MARPOL regulation 13G. No single hull vessel over 25 years old should be used.