



AS “Citadele banka”

# PRB Progress Reporting and Self-Assessment 2022

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Principles for Responsible Banking



# Principles for Responsible Banking Reporting and Self-Assessment Template

This is AS "Citadele banka" first report as a signatory to the Principles for Responsible Banking, PRB. In the report we provide our self-assessment in relation to the principles, and references to respective reports e.g. Annual Report 2022 and Sustainability Report 2022.

## Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

### Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

AS Citadele banka (Citadele, Bank, we) is a Latvia-based bank that provides a wide range of banking products to its retail and corporate customer base. The Bank's main market is the Baltics (Latvia, Lithuania, and Estonia).

In 2022, Citadele had 1,350 employees and 374,000 active customers in the Baltics. The Bank's loan portfolio was €2.9 billion, and deposits reached €3.9 billion. Citadele has 15 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch with 6 customer service units in Lithuania.

The main customer segments served by Citadele include private individuals, small and medium-sized enterprises (SMEs), and large corporations. The Bank offers a variety of products and services, including deposit and loan products, payment services, and foreign exchange services. It also provides investment products and asset management, life insurance, pension, leasing and factoring products.

In terms of sectors, Citadele provides financing and other financial services to a range of industries, including agriculture, real estate, retail, and transportation.

Citadele is committed to using technology to enhance its services and improve the customer experience. The Bank has implemented a range of digital solutions, including online and mobile banking services, contactless payments and instant payments, to provide customers with convenient and efficient access to their financial information and services.

Overall, Citadele Bank's business model is focused on providing a comprehensive range of financial services to a diverse range of customers, while leveraging technology to enhance the customer experience and support the transition to a more sustainable and digital economy. Citadele aims to become a modern banking platform for the Baltics. Increasingly digital bank with a wide product suite and unique offerings for its private and business clients, complemented by innovative stand-alone solutions with unique value proposition.

For portfolio composition, please refer to section "Impact and Target Setting" 2.1 b)

### Links and references

[Annual report 2022](#)

[Corporate presentation](#)

## Strategy alignment

**Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?**

- Yes  
 No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

**Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?**

- UN Guiding Principles on Business and Human Rights  
 International Labour Organization fundamental conventions  
 UN Global Compact  
 UN Declaration on the Rights of Indigenous Peoples  
 Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: *EBRD Environmental & Social Risk Management Guidelines, GRI*  
 Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: *EBRD Environmental & Social Risk Management Guidelines*  
 None of the above

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 non-financial impacts of our operations on the environment and society, and maximize the positive impacts, while minimizing the negative impacts of ESG risks on the Group and maximizing the positive impacts.

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

In 2021 we identified five UN Sustainable Development Goals that are linked to our business strategy and where we have the largest opportunity to make an impact. In our work, we also contribute to other SDGs. Our focus SDGs are:

- **3: Good health and well being.** Citadele supports an active lifestyle and work-life balance by offering a number of benefits to its employees and their families and through them - an impact on overall well-being level in the society, and helping to prevent poor health.
- **7: Affordable and clean energy.** Citadele contributes to increasing the share of renewable energy in the regional 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, and makes clean energy affordable to households by offering special loan terms for installing solar panels.
- **8: Decent work and economic growth.** Citadele contributes to sustainable growth of the Baltic economy by providing access to financing, investment products, innovative banking solutions to our private, SME and corporate customers thus through supporting their sustainable growth. We are recognized as one of the top employers in finance industry, and work towards ensuring good working conditions, continuous learning and equal opportunities for everyone.
- **9: Industry, innovation and infrastructure.** We work towards promoting resilient infrastructure, innovations and technological development through maintaining long-term relationships with our corporate clients. 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.
- **13: Climate action.** Citadele takes action to decrease our direct carbon footprint by reducing consumption, using renewable energy where possible and encouraging employees to make small changes that make a difference when combined. We contribute to green transition by promoting green financing and moving toward alignment of our operations with GHG reduction in line with the Paris Agreement.

In 2022 we validated the initially shortlisted SDGs with one of our key stakeholder groups – employees and finetuned our SDG focus to best integrate their views and values.

## Links and references

[Sustainability report 2022](#)  
page 5

[ESG policy](#)  
page 3

Principle 2:

## Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

### 2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly<sup>1</sup> and fulfil the following requirements/elements (a-d)<sup>2</sup>:

#### a) Scope

What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

#### b) Portfolio composition

Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope i) by sectors & industries<sup>3</sup> for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or ii) by products & services and by types of customers for consumer and retail banking portfolios.

*If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.*

In 2022 Citadele performed an initial impact analysis, based on the UNEP FI Portfolio Impact Analysis Tool.

The analysis covered Bank's core business areas – Retail and Corporate, with the combined operating income from the segments at 89% of Group total. Asset Management was not included in the initial impact assessment to allow more focus on our bigger areas of potential impact without adding sizeable complexity to the analysis required for this particular segment.

The focus segments were further analysed by customer profile (legal entities and households) to best identify the relevant impact areas. Analysis included all the three Baltic countries of operations. Strong presence in Latvia and Lithuania means the majority of our impact is in these geographies, however we included Estonia in the analysis because the market is important to us and we want to make sure we are taking its needs and priorities into account as well. We analysed our impacts on country level, and on Baltic scale. To analyse our aggregated impacts, each country was weighed by share in total lending portfolio.

As a universal Bank, Citadele provides a broad range of products and services to its clients. Lending is a core product for the Bank, and one with a direct possibility for impact. All lending products for legal entities were included in the impact assessment. For households mortgage loans and finance leases were analysed as key impact products for the segment.

Citadele is focused on the Baltic countries with 85.8% of total assets and 99.5% of loans to public located in the region as at date of impact assessment<sup>4</sup>. Loan portfolio split at the date of impact assessment is Latvia - 46%, Lithuania 38%, Estonia 15%.

Household lending portfolio constitutes 44% of total loans to public at date of impact assessment, with mortgage loans the largest category thereof at 63% and financial leases at 25%. The products not included in initial impact analysis are credit for consumption, card loans and overdrafts.

Loans to legal entities analyzed include financial and non-financial corporations and exclude loans to the central government (constituting <1% of total Group portfolio).

Highest concentration by industry is Real estate purchase and management with 23% of total lending in the category, followed by Manufacturing (14%), Transport and communications (13%), Trade (12%), and Agriculture and forestry (10%). All other industries are below 10% of total in category.

#### Links and references

[Sustainability report 2022](#), page 5, page 6

#### Links and references

For portfolio composition as of 31.12.2022 please refer to [Annual report 2022](#), Page 46 Page 66

<sup>1</sup> That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

<sup>2</sup> Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

<sup>3</sup> 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

<sup>4</sup> All data analyzed: Group, as at 30.06.2022

**c) Cont:ext.** What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?<sup>5</sup> Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

*This step aims to put your bank's portfolio impacts into the context of society's needs.*

Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)<sup>6</sup>? Please disclose.

Regional challenges and priorities were identified primarily using UNEP FI Portfolio Impact Analysis Tool. Country priorities were identified and analyzed for all the three Baltic countries of operation first on country level, and on aggregated level, with priority scores weighted by Citadele's exposure in each country.

The country needs and priorities identified using the Portfolio Impact Analysis Tool were then analyzed in the context of National policy priorities and targets for 2030, EU Recovery & resilience plan priorities and National Development Plans of each of the countries.

Based on the impact analysis performed, Citadele identified two key positive impact areas – Availability accessibility, affordability, quality of resources & services, and Healthy economies – and two key negative impact areas – Circularity and Climate stability. Citadele decided to focus on two key impact areas – one were we have a positive impact to increase: Availability, accessibility, affordability, quality of resources & services; and one with negative impact to decrease: Climate stability. We also decided to include Healthy economies as a complementary impact area because of the Bank's long history and strong position in the SME market allowing us to make impact in our two key focus areas at the same time contributing to development and value creation through successful MSMEs.

**Links and references**

[Sustainability report 2022](#)

page 5, page 6

**Links and references**

[Sustainability report 2022](#)

page 5, page 6

**d) For these (min. 2 prioritized impact areas): Performance measurement.** Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context. In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/ or financial health & inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

*If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this. The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.*



For the focus areas identified, we identified qualitative and quantitative internal indicators currently in place that can be used to track the impacts resulting from the Bank's activities and provision of products and services. We identified the following internal indicators for **Availability, accessibility, affordability, quality of resources & services**.

- Green leasing;
- Loans with ALTUM support programmes;
- Remote availability of services;
- Continuous availability of services (primary system downtime).

The following indicators were identified for **Climate stability** impact area:

- Green business loans.

We analyzed current and historic performance level to use as input when determining baseline indicator levels during further stages of PRB implementation.

**Links and references**

n/a

<sup>5</sup> Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

<sup>6</sup> To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

## Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?<sup>7</sup>

Scope:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Portfolio composition:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Context:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Performance measurement:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Climate change mitigation, climate change adaptation, availability, accessibility, affordability of resources and services, healthy economies, financial health & inclusion, decent employment.

How recent is the data used for and disclosed in the impact analysis?

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.: (optional)

## 2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets<sup>8</sup> have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

**a) Alignment:** which international, regional or national policy frameworks to align your bank's portfolio with<sup>9</sup> have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

*You can build upon the context items under 2.1.*

Setting of SMART targets is the following stage of Citadele's journey to PRB alignment. However, with the initial impact analysis performed, and focus areas identified, Citadele ESG Working Group decided to go ahead of the base schedule for PRB implementation and set our ambition for the impact areas already this year.

For **Climate stability** we set the ambition of CO2 neutral lending portfolio by 2050.

For **Availability, accessibility, affordability, quality of resources & services** we set the target of digital banking accessibility and stability >98%; and at least 14% of total new lending in 2023 to be Green – an overarching target with Climate stability focus area.

### Links and references

[Sustainability report 2022](#), page 4

<sup>7</sup> You can respond "Yes" to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

<sup>8</sup> Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

<sup>9</sup> Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

**b) Baseline:** Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

*You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target. A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the Annex of this template.*

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

Impact area	Indicator code	Response
Climate change mitigation	...	...
	...	...
	...	...

Impact area	Indicator code	Response
Financial health & inclusion	...	...
	...	...
	...	...

*In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.*

**c) SMART targets** (incl. key performance indicators (KPIs)<sup>10</sup>): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place).

Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

**d) Action plan:** which actions including milestones have you defined to meet the set targets? Please describe. Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.



Citadele has started the identification of baseline for our impact areas of focus. We plan to establish baseline for our target ambitions during 2023 in accordance with PRB implementation timeline.

During 2022 we have identified quantitative and qualitative indicators and KPIs already in place in the Group. Building on what we already have in place allows us to focus on making an impact while we continue working on better ways to measure outcomes in the background.

We have identified that there are some indicators that we do not calculate or do not have the necessary data for calculation. With setting the ambition of reaching carbon-neutral lending portfolio by 2050 we acknowledge that we will need to calculate current level of scope 3 emissions to establish a veritable baseline from which to measure progress toward the goal.

For primary area of significant impact – **Climate stability** – our target is **net-zero** GHG emissions from our **lending portfolio by 2050**.

For our second area of significant impact – **Availability, accessibility, affordability, quality of resources and services** – our target is at least **14% of total new lending in 2023** to be **Green**, including Green leasing – all fully electric cars, Loan for multi apartment building energy efficiency improvement, Loans classified as green under EBRD framework, Green corporate loans (evaluated individually case by case).

Setting up a clear action plan and interim milestones are the next steps on PRB alignment journey, planned for 2023.

**Links and references**  
n/a

**Links and references**  
[Sustainability report 2022](#), page 6

**Links and references**  
n/a

<sup>10</sup> Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.

## Self-assessment summary

Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...

	Availability, accessibility, affordability, quality of resources and services	Climate stability	Complementary impact area: Healthy economies
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input checked="" type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input checked="" type="checkbox"/> No
Action plan	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No

### 2.3 Target implementation and monitoring (Key Step 2)

#### For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target. Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

**Or, in case of changes to implementation plans (relevant for 2<sup>nd</sup> and subsequent reports only):** describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.



#### Links and references

n/a

Citadele is yet to reach this milestone in PRB implementation. This is the first PRB progress report published since the Bank joined PRB in early 2022.



Principle 3:

## Clients and customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

### 3.1 Client engagement

**Does your bank have a policy or engagement process with clients and customers<sup>11</sup> in place to encourage sustainable practices?**

Yes  In progress  No

**Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?**

Yes  In progress  No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities<sup>12</sup>. It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

*This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).*

### 3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

Citadele is planning to focus on client engagement and transition support once the Bank has developed a roadmap for achieving the set impact ambitions.



#### Links and references

n/a

In 2022 Citadele has continued to pursue the opportunities in financing a green transition by disbursing more green lending through the existing green products and by attracting more financing earmarked for green lending.

EUR 81.0 million were issued in new green lending in 2022:

- New green financing for corporate customers reached EUR 44.6 million (Impact goal – climate).
- Citadele provided green leasing to private individuals and legal entities in the amount of EUR 33.8 million, financing 659 fully electric cars. (Impact goals - Availability, accessibility, affordability, quality of resources and services; Climate)
- Loans for multi-apartment building renovation and improvement of energy efficiency, including the use of renewable energy reached c. EUR 1.8 million in 2022. (Impact goals - Availability, accessibility, affordability, quality of resources and services; Climate)

#### Links and references

[Sustainability report 2022](#), page 13

<sup>11</sup> A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

<sup>12</sup> Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

- Mortgages for energy efficient homes with ALTUM for families with children and expectant families, for the purchase or construction of a home, with special conditions for class A energy efficient homes or nearly zero-energy buildings. Financing under this program was EUR 0.7 million in 2022. (Impact goals - Availability, accessibility, affordability, quality of resources and services)

In December 2022 Citadele Bank and EIB group announced a deal to support at least EUR 460 million in new lending for Baltic businesses over the next three years. With 20% of the lending geared towards green projects, we will be helping propel the green transition of local economies and reduce overall greenhouse gas emissions.

## Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

### 4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups<sup>13</sup>) you have identified as relevant in relation to the impact analysis and target setting process?

- Yes
- In progress
- No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

Citadele is committed to engaging with stakeholders and increasing transparency in our responsible banking efforts. We believe that active engagement with a variety of stakeholders is essential to ensuring that we are meeting the needs and expectations of our customers, shareholders, and the communities in which we operate.

To this end, we have established several stakeholder engagement processes, including an internal ESG working group, regular meetings with customers and experts in sustainability, as well as employee surveys and employee representation in working group. We use this feedback to inform our strategies and practices, and to ensure that we are aligning with the needs and expectations of our stakeholders.

We are also committed to increasing transparency in our operations to shareholders, investors, and general public and reporting on our environmental and social impact and progress in our ESG journey. Our annual sustainability report provides a comprehensive overview of our efforts and achievements in responsible banking, including our strategies, policies, and practices related to sustainability, as well as our performance and impact data.

We are continuously working on improving our transparency efforts.

### Links and references

*See more on our interaction with stakeholders, communication channels and ways of engagement in 2022:*

[Sustainability report 2022](#), page 8

<sup>13</sup> Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

## Principle 5: Governance and culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

### 5.1 Governance Structure for Implementation of the Principles

**Does your bank have a governance system in place that incorporates the PRB?**

- Yes  
 In progress  
 No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as remuneration practices linked to sustainability targets.



Citadele has established robust strategies and governance structures to support our commitment to incorporating ESG into our operations. Our governance structure includes a dedicated ESG Office responsible for overseeing the implementation of the Principles for Responsible Banking (PRB) across the Bank. This department reports directly to the CEO and works closely with other business units to integrate sustainability considerations into all aspects of the Bank's operations. 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.

To support our responsible banking strategy and in line with regulatory expectations, we have developed and implemented several policies and processes, including an ESG policy, an ESG Risk policy, and an Environmental and social risk management process. These policies provide guidance on how to integrate sustainability considerations into our operations and ensure that we are in line with international regulations, standards, and our voluntary commitments.

We have also established an ESG risk management framework to ensure that environmental and social risks are integrated into our decision-making processes. Our framework includes a process for conducting environmental and social risk assessments and an integrated risk management system that enables us to monitor and manage these risks.

In addition, we regularly review and update our policies and procedures to ensure that they are in line with best practices in responsible banking. We also engage with stakeholders, including customers, regulators, and experts in the field, to gather feedback and insights to inform our strategies and practices.

#### Links and references

[Sustainability report 2022](#), page 26

## 5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

During 2022, ESG aspects have been further integrated into the culture and internal governance of Citadele:

- In addition to the ESG Policy introduced in 2021 and updated annually, we have introduced an ESG Risk Policy in 2022.
- Our approach to ESG risk has been defined in the Bank's Risk Strategy and key ESG risk drivers integrated in the Risk Appetite Framework.
- ESG risk, including transition risk and reputational risk, limits are set in Risk Appetite are monitored with quarterly frequency and included in CRO report to Management Board, Group's Risk Committee and Supervisory Board.
- We have made considerable additions to our Credit Policy by integrating climate-related and environmental risk assessment, extending the existing environmental and social risk assessments, and reviewing exclusion list of activities we do not finance.
- We have formalized our supplier assessment practices in ESG area with a publicly available Supplier Code of Conduct.
- Citadele does not tolerate any kind of prohibited conduct and has the same expectations towards its clients and business partners, which has been formalised in publicly available Prohibited Conduct document.
- Trainings to increase awareness and build expertise necessary to identify, assess and manage ESG risks at all three lines of defence.
- Establishing clear working procedures to ensure a sound and comprehensive approach to the incorporation of ESG risks into the business strategy, business processes and risk management.
- Integrating ESG into Group's culture and encouraging staff behaviour that is consistent with Citadele's ESG policy.

We are currently in the process of reviewing and renewing our Remuneration Policy and making ESG-related updates to Procedure for Strategy Development and Group Code of Ethics.

### Links and references

[Sustainability report 2022](#), page 27

## 5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio?<sup>14</sup> Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

Citadele environmental and social risk management is founded on the Banks strategy of developing our business with a 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 ensures alignment with the commercial strategy and helps embed environmental and social risk management in the organisational structure and culture.

In 2022, Citadele has introduced an ESG Risk Policy defining the principles and tools used for management of ESG risks in the Bank. In the process of integrating ESG aspects into the existing risk management framework, Citadele has defined acceptable C&E risk levels and portfolio concentration for high-risk industries in its Risk Appetite framework. Customer monitoring for potential ESG-related negative events is done on a regular basis.

Citadele has embedded C&E risks in Credit risk via physical risk assessment and monitoring that is performed on portfolio level, and by putting in place an updated process for Environmental, Social and Climate-related risk assessment on individual customer and exposure level (in the final stages of implementation), that will serve as basis to including the estimation of C&E and social risk

### Links and references

[Sustainability report 2022](#), page 17

<sup>14</sup> Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

aspects into credit decisions. All lending transactions for legal entities are screened for social risk according to thresholds and process outlined in the respective lending procedure and Environmental and Social risk assessment instruction. Applications falling within Bank's environmental and social exclusion list, which is based on EBRD guidelines and extended to cover no-go industries in line with the Bank's risk appetite, are rejected. Applications are further reviewed for environmental and social risk factors and social risk level is determined. Applications with particular social risk characteristics are further reviewed by EBRD.

Environmental and social risk events for exposures are regularly monitored and reported to EBRD in due course of loan monitoring process, with prescribed remediation actions followed-up.

The environmental and social risk assessment is carried out (i) when evaluating a new lending transaction for legal persons, as well as in (ii) assessing changes to the terms of the existing corporate lending transactions that require granting of an additional amount. As part of C&E risk mitigation while structuring transactions with higher C&E risk levels and financing thresholds, we are considering the existence and maturity our counterpart's C&E risk management action plan. It may affect the length, pricing, or other structuring conditions.

To embed C&E risk into Market risk management, an internal approach, linked to Industry Environmental risk level and based on GHG emissions is used for risk assessment and monitoring purposes. We use Environmental Risk score and external ESG rating scores for ESG risk management in corporate debt securities portfolio.

Citadele expects its suppliers to manage sustainability topics within the field of human rights, labour practices, business ethics and the environment. Expectations for supplier ESG risk management are published in Supplier Code of Conduct.

Social risk associated with exposures sensitive to social risks, such as clients or counterparties breaching labour law, human rights or other social laws or rights is monitored as part of regular media monitoring.

To ensure that ESG topics are properly incorporated into overall business activities and risk management, ESG Risk appetite limits are set based on the ambition of gradually improving the Group's ESG risks profile year over year. With the implementation of ESG limits, Group determines the current and future relevance of ESG topics for its own business activities. An environmental risk score is based on three factors: GHG emissions, timing (time to maturity), and weight of position in the portfolio.

### Self-assessment summary

**Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?**

Yes  No

**Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?**

Yes  No

**Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?**

Yes  In progress  No

Principle 6:

## Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

### 6.1 Assurance

**Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?**

Yes    Partially    No

If applicable, please include the link or description of the assurance statement.

Citadele is yet to reach this milestone in PRB implementation.

**Links and references**

n/a

### 6.2 Reporting on other frameworks

**Does your bank disclose sustainability information in any of the listed below standards and frameworks?**

- GRI
- SASB
- CDP
- IFRS Sustainability Disclosure Standards (to be published)
- TCFD
- Other: ....

2022 is the first year when Citadele is reporting in accordance with the GRI. We are committed to improve the maturity of our reporting and strive for greater transparency and a comprehensive sustainability reporting approach.

**Links and references**

[Sustainability report 2022](#), page 2

### 6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis<sup>15</sup>, target setting<sup>16</sup> and governance structure for implementing the PRB)? Please describe briefly.

Next 12-month period in Citadele's journey toward alignment with PRB will focus on target implementation and monitoring. One of the key goals for 2023 in ESG area will be estimating a baseline for our scope 3 financed GHG emissions, and setting a more specific roadmap for achieving our targets, and start setting business-specific ESG milestones aligned with our ambition.

**Links and references**

[Sustainability report 2022](#),

Page 3, page 4, page 12, page 27

<sup>15</sup> For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

<sup>16</sup> For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.

## Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

- |   |  |
|---|--|
| <input type="checkbox"/> Embedding PRB oversight into governance  | <input type="checkbox"/> Customer engagement             |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank                                      | <input type="checkbox"/> Stakeholder engagement          |
| <input checked="" type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input type="checkbox"/> Data availability               |
| <input type="checkbox"/> Conducting an impact analysis  | <input type="checkbox"/> Data quality                    |
| <input type="checkbox"/> Assessing negative environmental and social impacts                              | <input type="checkbox"/> Access to resources             |
| <input checked="" type="checkbox"/> Choosing the right performance measurement methodology/ies            | <input type="checkbox"/> Reporting                       |
| <input checked="" type="checkbox"/> Setting targets   | <input type="checkbox"/> Assurance                       |
| <input type="checkbox"/> Other: ...   | <input type="checkbox"/> Prioritizing actions internally |

If desired, you can elaborate on challenges and how you are tackling these: