

AS Citadele banka

Remuneration policy

for the year ended
31 December 2018

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opportunities**

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INTRODUCTION

In accordance with the Regulation (EU) No 575/2013 and FCMC "Regulation on remuneration policy principles" No. 126 Citadele Group has to disclose information on remuneration policy at consolidated level as it is supervised on a consolidated level. The information is disclosed taking into consideration confidentiality and individuals' data protection principles.

This report is prepared in thousands of Euros (EUR th.). If not mentioned otherwise, the data is shown as at 31 December 2018 or for the year then ended.

CONSOLIDATION GROUP

AS Citadele banka (thereon – the Bank), registration number 40103303559, is the parent company of the Group. In the consolidation group for regulatory purposes (thereon – the Group) companies are included as per requirements of Regulation (EU) No 575/2013; in the consolidation group for the accounting purposes companies are included in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The consolidation Group for regulatory purposes as at 31 December 2018 for which information is provided in this report consists of:

Name of the company	Business profile	Bank's share (%)	Country
AS Citadele banka	Banking	100	LV
AB Citadele bankas	Banking	100	LT
AP Anlage & Privatbank AG	Banking	100	CH
SIA Citadele līzings un faktoringas	Leasing	100	LV
OU Citadele Leasing & Factoring	Leasing	100	EE
UAB Citadele faktoringas ir lizingas	Leasing	100	LT
IPAS CBL Asset Management	Investment management company	100	LV
AS CBL Atklātais Pensiju Fonds	Pension fund	100	LV
Calenia Investments Limited	Support services	100	CY
OOO Mizush Asset Management Ukraina	Investment management company	100	UA
SIA Citadeles moduļi	Support services	100	LV
SIA RPG interjers	Support services	100	LV
SIA Hortus Land	Support services	100	LV
SIA Hortus Residential	Support services	100	LV
SIA Hortus RE	Support services	100	LV

The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 with an intention to transform AB Citadele bankas (Lithuania) from subsidiary to branch. The decision was taken to ensure increased operational efficiency across the Group and allow Citadele to maximize its client offerings and service output across the Baltics. On 1 January 2019 all assets, liabilities, employees and business were transferred from AB Citadele bankas (Lithuania) to the Lithuanian branch of AS Citadele banka. The Group continues to operate in Lithuania as the Lithuanian branch of AS Citadele banka.

Subsidiary which is not included in the consolidation Group for regulatory purposes, but which is included for consolidation for IFRS purposes (including annual report):

Name of the company	Business profile	Bank's share (%)	Country
AAS CBL Life	Life insurance	100	LV

REMUNERATION POLICY

The purpose of the Remuneration policy is to define core principles and policy of remuneration of employees of AS Citadele banka and its Group. The purpose of the Remuneration Policy of the Group is to retain, attract, motivate and develop professional and talented employees and to promote accomplishment of short-term and long-term goals. This policy is compulsory to all employees of the Bank and the Group. The Bank has established Remuneration committee, which also oversees Group's remuneration policy aspects, approves key decisions on the Group's remuneration, reviews the Group's remuneration philosophy and structure each year to ensure that the remuneration framework remains effective in supporting the Group's strategic objectives and fairly rewards individuals for the contribution that they make to the business, having regard to the size and complexity of the Group's operations and the need to motivate and attract employees of the highest calibre. The Remuneration committee's meetings are organized on a quarterly basis with minimum 4 meetings held per year. The committee is established by the Bank's Supervisory Board and it comprises of Supervisory Board members.

OBJECTIVES OF THE REMUNERATION POLICY

The purpose of the Remuneration policy is to define remuneration system in the Group, which would ensure:

- Remuneration which corresponds to each employee's performance;
- Consistency and integrity of remuneration across the Group;
- Compliance and competitiveness of remuneration in the labour market;
- With respect to categories of staff having an impact on the risk profile:
 - Does not encourage risks taking which exceed the levels defined in the Group's risk strategy and related documents and for each individual risk as defined in the policies for respective risk;
 - Does not limit the Group's ability to strengthen its regulatory capital (in accordance with bonus pool policy rules);
 - Complies with the business targets and values defined in the Group's development strategy, e.g. code of ethics, long-term goals, business objectives of the long-term development strategy, as well as complies with and encourages prudent and effective risk management and prevention of conflicts of interest;
 - Does not contradict with client, investor and other stakeholder interests;
 - Guaranteed amount of variable part of remuneration is not permitted and such practice would not comply with prudent risk management and requirements of the procedures. This may not be incorporated in the future remuneration plans. Guaranteed variable part of remuneration as an exception may be permitted only for newly hired employees during their first year with Citadele, if this does not preclude the Bank and the Group to sustain appropriate capital basis.

Remuneration for employees which perform internal control functions (risk control, compliance and internal audit functions) is set in accordance with the defined level of internal function's objectives, independently from achieved results in the internal control functions direct responsibilities.

ELEMENTS OF REMUNERATION'S STRUCTURE

Remuneration in the Group includes:

- Fixed part of remuneration or salary, which mainly represents professional experience and level of responsibility of the employee which is established in the employee's job description and work agreement. Fixed part of remuneration is salary and special payments to employees not related to performance, but other factors.
- Variable part of remuneration represents performance of the employee, which exceeds duties defined in the job description, their persistence and the related and probable risk evaluation. Variable part of remuneration is sales commissions, bonuses for achievement of qualitative and quantitative indicators and targets (monetary and in a form of financial instruments), specific bonuses for extraordinary achievements, long-term incentive plans and other monetary benefits.

PRINCIPLES FOR SETTING THE FIXED PART OF REMUNERATION

The decision on the fixed part of remuneration for the Bank's employees is made by:

- For chairman of the Management Board, members of the Management Board, head of the Group's internal audit function, and employees whose remuneration is the same or greater than member of the Management Board lowest salary boarder – the Supervisory Board.
- For other employees, including other Bank's risk profile affecting employees, in accordance with employee mandate in human resource functions.

The decision on the fixed part of remuneration for other Group's employees is made by:

- For the Group's subsidiaries' members of the Supervisory Boards – the Bank's Management Board as the respective subsidiary's direct or indirect shareholder's or equity participant's representative.
- For the Group's subsidiaries' members of the Management Board – the Group's subsidiary's Supervisory Board, if such exists, or the Bank's Management Board.
- Other Group's subsidiaries' employees, including other risk profile affecting employees, in accordance with employee mandate in human resource functions in the respective Group's subsidiary.

For employees, excluding the Bank's and the Group's subsidiaries' members of the Supervisory Board and members of the Management Board, fixed part of remuneration is calculated based on the work done or hours worked.

- Remuneration for hours worked is dependent on the hours worked irrespective of the amount of work done;

- Remuneration for work done is dependent on the tasks performed irrespective of the time spent.

The Bank's Management Board establishes groups of positions and for each group of positions, including employees, whose professional activities have a material impact on its risk profile, ranges of fixed part of remuneration, taking into consideration findings of financial institution remuneration surveys carried out by competent organisations.

Fixed part of remuneration for each employee is established individually, in accordance with the level of competence and experience and in line with the range established for the respective group of positions. Management Board of the Bank has a right to decide in which cases fixed part of the remuneration may exceed or be less than the range established for the respective group of positions.

To objectively evaluate employee's fixed part of remuneration level versus job market, the Bank and the Group's subsidiaries regularly participate in both industry and interdisciplinary remuneration surveys.

PRINCIPLES FOR SETTING THE VARIABLE PART OF REMUNERATION

Variable part of remuneration may be disbursed in monetary form (bonuses for qualitative or quantitative indicators and achievement of targets, sales commission etc.) and as financial instruments.

The decision on variable part of remuneration for employees of the Bank is made by:

- Members of the Management Board, employees of the Group's internal audit – Supervisory Board of the Bank;
- Employees whose professional activities have a material impact on institutions risk profile – Management Board of the Bank;
- Other employees – employees in accordance with the internal procedures of the Group.

The decision on variable part of remuneration of employees of the Group's subsidiaries is made by:

- Group's subsidiaries' members of the Supervisory and Management Boards – the Bank's Management Board;
- Group's subsidiaries' employees whose professional activities have a material impact on risk profile – the Group's Management Board;
- Other Group's subsidiaries' employees – the employee of the respective subsidiary in accordance with the mandate in human resource functions.

To evaluate Group's employees performance, annual goals (key performance indicators) are set at the beginning of the year, that are directly linked to the Bank's annual goals or for the Group's subsidiary goals. The following performance indicators according to employee's job duties are included:

- Financial targets – ratios which are applicable for the department or structure of the employee, e.g. budget fulfilment, profit or loss, liquidity;
- Client service targets – both internal and external permanent and recurring satisfaction indicators, attraction of new clients etc.;
- Process targets – client service speed, document turnaround speed, compliance indicators, i.e. compliance with relevant internal or external regulatory or legal requirements which might impact risk profile or financial results of the Group, the Bank or other subsidiaries of the Group.

The business and individual goals are set once a year and are documented.

If as a result of employee's actions or negligence an incident happens, as a result of which the Group's reputation is endangered, especially, if non-compliance with anti-money laundering and terrorism financing procedures is observed, a variable part of remuneration of the relevant employee may not be disbursed.

PRINCIPLES FOR SETTING VARIABLE PART OF REMUNERATION FOR EMPLOYEES WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTION'S RISK PROFILE

Variable part of remuneration for employees having an impact on the risk profile can be paid-out in accordance with the achievement of key performance indicators once per year, after the Bank's and the Group's audited financial statements are approved by the shareholders of the Bank.

If the variable part of remuneration is set:

- up to 35% from the respective employee's fixed part of remuneration in the reporting year – than up to 40% from variable part of remuneration is deferred for one year in accordance with the defined deferral proportion for the respective position with a material impact on institution's risk profile;
- from 35% (including) up to 100% (excluding) from the respective employee's fixed part of remuneration in the reporting year – not less than 40% from variable part of the remuneration is deferred up to three years;
- 100% and more from respective employee's fixed part of remuneration in the reporting year – no less than 60% from variable part of the remuneration is deferred up to three years.

When calculating variable part of remuneration for employees whose professional activities have a material impact on institution's risk profile consider:

- Individual performance of the employee in combination with performance of his operating unit and overall performance of the Group, the Bank and other subsidiaries of the Group;
- Bank's risk expert's expressed evaluation about persistence of the results in a two years period.

Before disbursement of deferred variable part of remuneration for employees whose professional activities have a material impact on institution's risk profile, the results which were basis to establish the variable part of remuneration and their persistence and related risks are evaluated. Use of instruments and methods which encourage evasion of requirements established in policies and in other relevant legal documents are not permissible. The risk control function provides to the Bank's Management Board evaluation of persistence of operating results.

Disbursement and vesting of variable part of remuneration for positions whose professional activities have a material impact on institution's risk profile are conditional on:

Variable part of remuneration (including disbursement and vesting of deferred part) is granted if all these conditions are fulfilled:

- It corresponds to operating unit's key performance indicators fulfilment and covers operating risks;
- The disbursement corresponds to the financial situation of the business unit for which the respective employee is responsible; if appropriate, also considering the Group's, the Bank's or other subsidiaries of the Group financial situation;
- It corresponds to employees' performance of the operating unit.

If financial results of the business unit worsen or are negative, the variable part of remuneration (including deferred part) is reduced.

If variable part of remuneration is based on data, which later is identified to be intentionally manipulated (malicious behaviour) than the Bank or the respective subsidiary of the Group requires the employee to repay the disbursed variable part of the remuneration and also fully or partially decrease the deferred variable part of the remuneration.

The Bank or subsidiary of the Group decreases deferred variable part of remuneration which has not yet vested based on the actual achievement of performance targets of the respective unit of business according to the scorecard.

The variable part of remuneration vests proportionally to the period (number of years) to which the remuneration is deferred, but not sooner than in 12 months since variable part of remuneration is set. Before vesting of deferred variable part of remuneration, if necessary, it is adjusted (decreased) for risks, which have become known in the period over which the variable part of remuneration was deferred. The adjustment is made for risks which are related to operating result achievement which was measurement basis for variable part of remuneration.

When adjusting variable part of remuneration, situations as a result of which the Bank or the subsidiary of the Group incurred substantial loss are considered. Also situations when the employee did not comply with the relevant compliance standards are taken into account. Deferred variable part of remuneration may be disbursed to employee only after it has vested. No dividends or interest is calculated or paid on the non-vested deferred variable part of remuneration.

LONG-TERM INCENTIVE PLAN

The Group's 2018 Long-Term Incentive Plan is the only long-term equity-based incentive scheme in place for the senior management. The program was launched on 31 May 2018 by the Grant Decision of the Meeting of shareholders, where 1,690,131 personnel options were issued in line with the meaning of Article 248¹ of the Latvian Commercial Law. Each option has the following parameters: registered share with the nominal value of EUR 1 (one euro); convertible to the ordinary shares of Citadele (all Citadele's ordinary shares have equal voting rights, equal rights to dividend and equal liquidation quota). Clawback and malus provisions apply in the event of a material misstatement, an act of gross misconduct or an error in the assessment of performance targets. For options granted in 2018 performance is measured over the five-year period commencing in 2018 and ending in 2023. The expense is recognised as the service is rendered. At the end of the performance measurement period, the Remuneration Committee of the Supervisory Board will have absolute discretion to determine the extent to which the awards will vest, if at all, on account of underlying Group, individual and share price performance. The Remuneration Committee of the Supervisory Board may, in its absolute discretion, adjust upwards or downwards and including to nil the number of options which would otherwise vest. If discretion is applied, the level and reasons for its application will be fully disclosed in the following year's Annual Remuneration Report. The first vesting will occur not earlier than 2021. Performance targets relate to both financial and non-financial measures linked to the long-term business strategy of the Group, including but not limited to: Group net income, return on capital, and strategic objectives of the Group. The maximum options granting level for 2018 has been set at 175% of the base salary for the Chief Executive, the Finance Director and other directors. This is the aggregated maximum covering five years.

MANAGEMENT OF THE POLICY

The Supervisory Board of the Bank is responsible to establish core principles of the Remuneration policy and approve the policy as well as for development, revision and supervision of its implementation.

REMUNERATION OF THE EMPLOYEES IN 2018

The table contains the Group's paid remuneration to its employees, excluding mandatory state social tax contributions or other similar tax payments. In accordance with the regulation, the information is disclosed for the consolidation group for the regulatory purposes, thus information on AAS CBL Life is not included.

Table 1 Information on employee remuneration

EUR th.	Supervisory Board	Management Board	Investment services ¹	Private person and small and medium enterprise servicing ²	Asset management ³	Corporate support functions ⁴	Internal control functions ⁵	Other operations ⁶
Number of employees as at year end ⁸	20	22	40	759	15	589	89	5
Net profit / (loss) after tax	34,894							
Total remunerations	485	3,259	1,818	16,114	725	15,814	2,575	261
<i>Including: non-fixed remunerations</i>	48	627	248	2,188	85	1,421	233	42

Table 2 Information on institution's employees whose professional activities have a material impact on its risk profile

Employees whose professional activities have a material impact on institutions risk profile are these which collectively or individually may significantly impact the institutions risk profile. For example, positions like members of the Management Board and top level executives, which are authorised to take on risk on behalf of the institution, which may significantly affect the risk profile of the institution, positions which perform internal control functions, as well as positions which remuneration is equal or exceeds the lowest level bucket of remuneration for institution's members of the Management Board or positions in which are authorised to take on risk on behalf of institution, which significantly affects the risk profile of the institution

EUR th.	Supervisory Board	Management Board	Investment services ¹	Private person and small and medium enterprise servicing ²	Asset management ³	Corporate support functions ⁴	Internal control functions ⁵	Other operations ⁶
Number of employees whose professional activities have a material impact on risk profile as at year end⁸	17	21	13	64	6	74	23	-
<i>including employees in the top management positions whose professional activities have a material impact on risk profile⁸</i>	-	-	5	40	1	51	14	-
Fixed part of remuneration	420	2,626	562	2,600	295	2,736	700	-
<i>including in cash</i>	420	2,626	562	2,600	295	2,736	700	-
<i>including in shares and similar instruments</i>	-	-	-	-	-	-	-	-
<i>Including other instruments⁷</i>	-	-	-	-	-	-	-	-
Variable part of remuneration	48	627	82	334	46	358	80	-
<i>including in cash</i>	48	627	82	334	46	358	80	-
<i>including in shares and similar instruments</i>	-	-	-	-	-	-	-	-
<i>Including other instruments⁷</i>	-	-	-	-	-	-	-	-
Deferred variable part of remuneration	-	278	54	140	15	120	32	-
<i>including in cash</i>	-	278	54	140	15	120	32	-
<i>including in shares and similar instruments</i>	-	-	-	-	-	-	-	-
<i>Including other instruments⁷</i>	-	-	-	-	-	-	-	-

	Total undisbursed deferrer variable part of remuneration, which was awarded before reporting year	-	95	4	6		5	-	-
	<i>Including vested part</i>	-	95	4	-	-	4	-	-
	<i>Including not vested part</i>	-	-	-	-	-	-	-	-
	Total disbursed deferred part of remuneration in the reporting year	-	115	23	99	36	71	23	-
Correction of variable part of remuneration	The correction applied in the reporting year to the variable part of remuneration which relates to the variable part of remuneration in the previous periods	-	-	-	-	2	-	-	-
Guaranteed variable part of remuneration	The number of employees receiving guaranteed sign-on payments	-	-	-	-	-	-	-	-
	The amount of guaranteed sign-on payments	-	-	-	-	-	-	-	-
Remuneration for termination of employment	Number of employees, which have received remuneration for termination of employment in the reporting year	-	1	-	6	-	5	-	-
	The amount of remuneration for termination of employment paid out in the reporting year	-	**	-	53	-	10	-	-
	The amount of the largest compensation paid for termination of employment to one employee	-	**	-	**	-	**	-	-
Pension benefits	Number of employees which receive pension benefits	**	**	**	**	**	**	**	**
	The amount of pension benefits	**	**	**	**	**	**	**	**

1 Including corporate finance advice services, transactions with regular market traded and non-traded financial instruments, and services related to financial instrument trading and sales.

2 Lending to private persons and enterprises.

3 Management of individual investment portfolios, investment in accordance with Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) requirements on investment funds, managing of UCITS and other asset management.

4 All functions operations of which relate to the institution as a whole, i.e. IT, human resource management.

5 Internal audit, compliance and risk control functions.

6 Employees which professional activities may not be included in the previous categories. The main professional duties of the employees included in this category are management of real estate and services of other Citadele Group's subsidiaries.

7 Instruments, which comply with the requirements of paragraph 18.2.2 of the FCMC "Regulation on remuneration policy principles" No. 126; including instruments mentioned in the paragraph 63 of the Regulation (EU) No 575/2013 or other instruments which may be fully converted to CET1 instruments or may be written down and which in all cases adequately reflect the credit quality of an institution as a going concern and are appropriate to be used for the purposes of variable remuneration.

8 Number of employees are shown in full time equivalent as at period end. The exception is members of Supervisory Board and Management Board for which the actual number of members is shown. In accordance with the regulations, in this report employees which are in a long term leave (for example in maternity leave) are excluded.

** In accordance with principles governing the use of personal information of private individuals, certain information is not disclosed.

CONTACT DETAILS

AS Citadele banka
Republikas laukums 2A, Rīga,
LV-1010, Latvia

www.citadele.lv
www.cblgroup.com

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv