

## Statement on corporate governance in 2019

The statement of AS Citadele banka, unified registration No 40103303559, (hereinafter the Bank), on corporate governance in 2019 is prepared in accordance with the requirements of Article 56<sup>2</sup> (3) of the Financial Instrument Market Law.

### Information on the core elements of the internal control and risk management system of AS Citadele banka that are applied in the preparation of the financial statements

#### Internal controls

The purpose of the internal control system is to provide reasonable assurance that the assets of the Bank and the Group (consolidation of the Bank and its subsidiaries) are safeguarded against loss, unauthorised use, operational risks are identified and managed on an ongoing basis, amount of capital is adequate to cover inherent and probable risks of the Bank and the Group, transactions are performed in line with the procedures established in the Bank and the Group, the Bank and the Group act reasonably, prudently and effectively in full compliance with the requirements of laws and regulations, and the weaknesses identified in the management processes of the Bank and the Group are resolved.

The Management Board and the Supervisory Board of the Bank, which is the main entity of the Group, are responsible for creating and executing effective internal control system. Proper accounting policies, as approved by the Supervisory Board, are applied to ensure preparation of financial statements that provide true and fair view and impartiality and complete disclosure of information.

The Bank has established Audit Committee, Risk and Governance Committee, Remuneration and Nomination Committee and Technology Committee, which mostly comprise members of the Supervisory Board which are elected by the shareholders meeting.

The committees of the Supervisory Board:

*The Audit Committee is responsible for providing support to the Supervisory Board in its supervision of audit matters. This includes reviewing the terms of reference and policies and procedures of the Internal Audit Division as well as providing recommendations thereon to the Supervisory Board. The Audit Committee is responsible for review of the Internal Audit Division's developed annual risk assessment and the review of the audit plan which is based on the annual risk assessment, quarterly review of Internal Audit Division's findings and supervision of implementation of Internal Audit Division's recommendations. In addition, the Audit Committee supervises the Group's relations with external auditors and makes recommendations in relation to their appointment, re-appointment or removal, provides recommendations regarding any issues identified by Financial and Capital Market Commission (the FCMC), and provides annual assessments to the Supervisory Board. In 2019 the Audit Committee had seven members, including one independent expert and six member of the Supervisory Board. The Audit Committee meets four times per year, or more frequently if required.*

*The Risk and Governance Committee is responsible for providing support to the Supervisory Board by monitoring the level of risk to which the Group is exposed and the compliance of its operations with permitted level of risk, as well as ensuring that remuneration schemes take into account liquidity, capital and operational risk. It also checks that risk is sufficiently priced into the Group's products and services, and provides recommendations regarding any areas identified by the FCMC for improvement. In 2019 the Risk and Governance Committee had six members; all were members of the Supervisory Board. The Risk and Governance Committee meets four times per year, or more frequently if required.*

*The Remuneration and Nomination Committee is responsible for providing support to the Supervisory Board in the process of selecting prospective members of the Supervisory and the Management Boards as well as the Head of Internal Audit. In particular, the committee assists in: (i) ensuring sufficient diversity (including gender representation) in the composition of the boards and the Head of Internal Audit position; (ii) reviewing the remuneration policies for the Group; and (iii) assessing the suitability of prospective members of the Supervisory Board or the Management Board, or Head of Internal Audit, as applicable. At least once per year it performs an assessment of the organisational structure of the Supervisory and the Management Boards, including their size, composition and efficiency, as well as periodic assessment of the individual and collective knowledge, skills and expertise of the members of the Supervisory and the Management Boards. The Remuneration and Nomination Committee meets four times per year, or more frequently if required. In 2019 the committee composed of five members.*

*The Technology Committee is responsible for providing support and advice to the Supervisory Board in relation to technology and technological innovation, including in relation to the Group's strategic approach to technical and commercial innovation, the acquisition of technology to ensure ongoing growth, the development of measurement and tracking systems, and proposals to upgrade the Supervisory Board's oversight function. The Technology Committee reports to the Supervisory Board on an annual basis. The Technology Committee meets four times per year, or more frequently if required. In 2019 the committee had five members; all were members of the Supervisory Board.*

Group's Internal Audit monitors and assesses the internal control system of the Bank and the Group. The Group's Internal Audit reports findings and suggestions for improvements to the Bank's Management Board, Supervisory Board and the Audit Committee, which oversees the effectiveness of the internal control and risk management system. The Group's Internal Audit acts in accordance with the applicable laws and regulations, the International Standards for the Professional Practice of Internal Auditing and the internal regulations of the Bank and the Group.

The accounting system of the Bank and the Group complies with the applicable laws and regulations issued by the accounting standard setting bodies. The objective of the accounting policy of the Bank and the Group is to determine principles, methods and rules for the

accounting, valuation and disclosure of transactions, facts, events and other relevant items in the financial statements. The Bank's management chooses accounting policy which ensures that the financial statements provide reliable and useful information in decision making for the financial statement users. The current accounting policy ensures that the information disclosed in the financial statements of the Bank and the Group is true, comparable, timely, significant, explicit, adequate and complete. The Bank and the Group have developed internal regulations specifying the principles of preparation of financial statements. According to the resolution of the Bank's shareholders, Audit Committee also performs functions of the Council's Audit Committee as defined by the law, including oversees the process of the preparation of financial statements of the Bank and the Group in line with the requirements of the Law on the Financial Instruments Market and performs other legally required activities.

An independent audit of the financial statements of the Bank and the Group is performed by an external auditor who provides auditor's opinion on whether the separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position of the Bank and the Group, respectively, as at period end, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Risk management**

Information on the elements of the risk management system is available in AS Citadele banka's separate and the Group's consolidated annual report for the year ended 31 December 2019 and in the Risk Management and Capital Adequacy Report published on the Bank's website [www.cblgroup.com](http://www.cblgroup.com).

The Group's consolidated and the Bank's separate annual report for the year ended 31 December 2019 is available on AS Citadele banka's website [www.cblgroup.com](http://www.cblgroup.com).

This statement is available on AS Citadele banka's website [www.cblgroup.com](http://www.cblgroup.com).

Riga, 13 March 2020