

AS Citadele banka

Remuneration Report

For the year ended
31 December 2021

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opportunities**

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Citadele**

INTRODUCTION

In accordance with the Regulation (EU) No 575/2013 and Financial and Capital Market Commission "Regulation on remuneration policy principles and application" No.154 Citadele Group must disclose information on remuneration policy at consolidated level. Citadele Group 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 2021 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 at period end for which information is provided in this report

Name of the company	Business profile	Bank's share (%)	Country
AS Citadele banka	Banking	100	LV
Kaleido Privatbank AG	Banking	100	CH
SIA Citadele Factoring	Leasing and factoring	100	LV
OU Citadele Factoring	Leasing and factoring	100	EE
UAB Citadele Factoring	Leasing and factoring	100	LT
SIA Citadele Leasing	Leasing	100	LV
IPAS CBL Asset Management	Investment management company	100	LV
AS CBL Atklātais Pensiju Fonds	Pension fund	100	LV
SIA Citadeles moduļi	Support services	100	LV
SIA Hortus Residential	Support services	100	LV
SIA CL Insurance Broker	Insurance brokerage	100	LV

Consolidated Group subsidiary in liquidation process in foreign jurisdiction (included in this report)

Name of the company	Business profile	Bank's share (%)	Country
OOO Mizush Asset Management Ukraina	Investment management company	100	UA

Subsidiary which is not included in the consolidation Group for the regulatory purposes, but which is included for consolidation for the 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 and Nomination 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 professional level. The Remuneration and Nomination Committee's meetings are organized on a quarterly basis with minimum four 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, head 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 the performance of the Group's employees annual goals (key performance indicators) are set at the beginning of the year. Individual performance goals 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 operational risks;
- The disbursement corresponds to the financial performance 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 performance;
- 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 has implemented equity-based Long-Term Incentive Plan for its employees. Within the programs a specific number of personnel options were granted. Personnel options were granted 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 performance is measured over in the period ranging from three-year to five-year period. At the end of the performance measurement period, the Remuneration and Nomination Committee of the Supervisory Board has 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 and Nomination 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. The first vesting occurred in 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.

For additional information on options outstanding which have been issued within the Long-Term Incentive plan refer to AS Citadele banka annual report.

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 THE REPORTING YEAR

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.

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 undertake 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

EU REM1 - Remuneration awarded for the financial year

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Number of identified staff	18	18	35	96
2	Total fixed remuneration	343	3,198	2,470	4,734
3	Of which: cash-based	343	3,198	2,470	4,734
4	(Not applicable in the EU)	-	-	-	-
EU-4a	Fixed remuneration	-	-	-	-
5	Of which: shares or equivalent ownership interests	-	-	-	-
EU-5x	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
6	Of which: other instruments	-	-	-	-
7	(Not applicable in the EU)	-	-	-	-
8	Of which: other forms	-	-	-	-
9	(Not applicable in the EU)	-	-	-	-
9	Number of identified staff	-	16	34	95
10	Total variable remuneration	-	1,621	625	847
11	Of which: cash-based	-	886	510	781
12	Of which: deferred	-	185	182	249
EU-13a	Of which: shares or equivalent ownership interests	-	736	115	66
EU-14a	Of which: deferred	-	672	105	66
EU-13b	Variable remuneration	-	-	-	-
EU-14b	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14x	Of which: deferred	-	-	-	-
EU-14y	Of which: other instruments	-	-	-	-
15	Of which: deferred	-	-	-	-
16	Of which: other forms	-	-	-	-
16	Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)	343	4,819	3,095	5,581

EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	a	b	c	d	
	MB Supervisory function	MB Management function	Other senior management	Other identified staff	
Guaranteed variable remuneration awards					
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	1	-
2	Guaranteed variable remuneration awards -Total amount	-	-	20	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	20	-
Severance payments awarded in previous periods, that have been paid out during the financial year					
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	1
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	100
Severance payments awarded during the financial year					
6	Severance payments awarded during the financial year - Number of identified staff	-	-	2	6
7	Severance payments awarded during the financial year - Total amount	-	-	28	111
8	Of which paid during the financial year	-	-	28	111
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	26	25

EU REM3 - Deferred remuneration

	a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to explicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1 MB Supervisory function	-	-	-	-	-	-	-	-
2 Cash-based	-	-	-	-	-	-	-	-
3 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4 Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5 Other instruments	-	-	-	-	-	-	-	-
6 Other forms	-	-	-	-	-	-	-	-
7 MB Management function	1,737	845	892	10	-	-	835	-
8 Cash-based	337	337	-	10	-	-	327	-
9 Shares or equivalent ownership interests	1,400	508	892	-	-	-	508	-
10 Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11 Other instruments	-	-	-	-	-	-	-	-
12 Other forms	-	-	-	-	-	-	-	-
13 Other senior management	149	83	66	3	-	-	83	-
14 Cash-based	83	83	-	3	-	-	83	-
15 Shares or equivalent ownership interests	66	-	66	-	-	-	-	-
16 Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17 Other instruments	-	-	-	-	-	-	-	-
18 Other forms	-	-	-	-	-	-	-	-
19 Other identified staff	169	134	35	16	-	-	134	-
20 Cash-based	134	134	-	16	-	-	134	-
21 Shares or equivalent ownership interests	35	-	35	-	-	-	-	-
22 Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23 Other instruments	-	-	-	-	-	-	-	-
24 Other forms	-	-	-	-	-	-	-	-
25 Total amount	2,075	1,082	993	29	-	-	1,052	-

EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Management body remuneration			Business areas						Total
	a MB Supervisory function	b MB Management function	c Total MB	d Investment banking	e Retail banking	f Asset management	g Corporate functions	h Independent internal control functions	i All other	
1 Total number of identified staff										167
2 Of which: members of the MB	18	18	36							
3 Of which: other senior management				3	8	1	11	6	6	
4 Of which: other identified staff				8	14	6	13	20	35	
5 Total remuneration of identified staff	343	4,819	5,162	589	1,854	358	1,924	1,467	2,484	
6 Of which: variable remuneration	-	1,621	1,621	84	402	51	288	193	452	
7 Of which: fixed remuneration	343	3,198	3,541	505	1,452	307	1,636	1,274	2,032	

Investment banking - Including corporate finance advice services, transactions with regular market traded and non-traded financial instruments, and services related to financial instrument trading and sales. Retail banking - Lending to private persons and enterprises. Asset management - Management of individual investment portfolios and other asset management. Corporate functions - All functions operations of which relate to the institution as a whole, i.e. information technology, human resource management. Independent internal control functions - Internal audit, compliance and risk control functions. All other - Employees whose professional activities may not be included in the previous categories.