AS Citadele banka

Risk management and capital adequacy report (Pillar 3 Disclosures)

For the six months ended
30 June 2026

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** Not being disclosed in accordance with the EBA No-Action Letter.*

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INTRODUCTION

This report provides an interim update on the qualitative and quantitative disclosures on the major risks of operations of AS Citadele banka and its risk management objectives, policies and information on capital adequacy as required by part eight of the Regulation (EU) No 575/2013 "On prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012" and other relevant regulations and laws.

This report should be read in conjunction with the latest annual report, the relevant quarterly financial statements, the report on remuneration policy and the statement on corporate governance as certain important information is disclosed in these reports and is not repeated in this report. These reports are available at www.cblgroup.com.

Refer to the separate report on remuneration policy for disclosures on remuneration prepared in accordance with the requirements of Articles 74(3) and 75(2) of Directive 2013/36/EU and Article 450 of Regulation (EU) No 575/2013, guidelines of European Banking Authority (including EBA/GL/2021/04), regulations issued by the supervisory authorities and other relevant rules.

AS Citadele banka has subsidiaries, which are financial institutions, thus it needs to comply with the capital adequacy, liquidity coverage ratio (LCR), Net stable funding ratio (NSFR), leverage ratio (LR) and other regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. However, in line with the pillar 3 disclosure requirements information in the Risk report is disclosed only at the Group's consolidated level. For key information on the Bank standalone position refer to the latest annual report and the relevant quarterly financial statements.

If not specified otherwise, all monetary figures in this report are presented in Euros. If not specified otherwise, all figures represent amounts as of period end.

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, while 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.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

a	b	c-g	h
Name of the entity	**Method of accounting consolidation**	**Method of regulatory consolidation**	**Description of the entity**
AS Citadele banka	Full consolidation	Full consolidation	Banking
SIA Citadele Leasing	Full consolidation	Full consolidation	Leasing
SIA Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
IPAS CBL Asset Management	Full consolidation	Full consolidation	Investment management company
UAB Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
SIA Hortus Residential	Full consolidation	Full consolidation	Support services
OU Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
SIA C Capital Markets	Full consolidation	Full consolidation	Other financial institution
AS CBL Atklātais Pensiju Fonds	Full consolidation	Full consolidation	Pension fund
SIA CL Insurance Broker	Full consolidation	Full consolidation	Support services
AAS CBL Life	Full consolidation	Deducted	Life insurance

There are no immediate or foreseeable legal obstacles for capital element transferability or liability repayment between the Group's parent company and its subsidiaries. All reserves are freely available to the respective company for unlimited and immediate use to cover risks or losses, when such are incurred. For certain Group's earnings tax on capital distribution applies. For more details refer to the latest annual report.

GOVERNANCE

In order to ensure that the Bank's Supervisory Board and Management Board members and key function holders are suitable for their position and represent diversity, the Bank has developed internal regulation "Policy on the Assessment of the Suitability of Members of the Supervisory Board, Management Board and Key Function Holders".

The policy has been developed in accordance with the Credit Institution Law of the Republic of Latvia and the recommendations of the supervisory authorities. The policy is reviewed and if necessary updated regularly.

The policy prescribes the procedure and the frequency of the assessment of the suitability of members of the Bank's Supervisory Board and Management Board and key function holders, as well as procedure for decision making on the suitability.

The initial suitability assessment is performed when a new member is nominated to the Bank's Supervisory Board or Management Board prior to his/her election or prior to the date of commencement of his/her duties, but not later than within 6 weeks after the election of the member of the Supervisory Board or the Management Board.

The reassessment of suitability is performed in the following cases:

- During the annual assessment of the suitability of a member of the Supervisory Board or the Management Board,
- If a member of the Supervisory Board or the Management Board is re-elected to his/her position,
- If changes are made to the responsibilities of a member of the Supervisory Board or the Management Board or in the competences required to carry out such responsibilities,
- If there is a doubt about the reliability, competence or reputation of a member of the Supervisory Board or the Management Board.

The suitability assessment is performed considering the overall composition of the Supervisory Board and the Management Board, as well as the knowledge and competence collectively necessary for the Supervisory Board and the Management Board, awareness and personal qualities in order to properly carry out the duties assigned to the members of the Supervisory Board in relation to the supervision of the Management Board activities and to the Management Board in relation to the Group's operational management.

The suitability assessment of the members of the Supervisory Board and the Management Board is performed by the Remuneration and Nomination Committee. The Supervisory Board approves the composition and also regulations of this committee. The suitability assessment of key function holders is performed by a special committee. The Management Board approves the composition and also regulations of this committee.

Each member of the Management Board is responsible for a specific scope of the Group operations. The suitability assessment process ensures that members of the Management Board have adequate level of necessary knowledge and competence in relation to specific scope of operations of the Group under responsibility of each member of the Management Board, as well adequate necessary collective knowledge and competence.

For full list of directorships held by the members of Supervisory Board and Management Board please refer to the "Committees" subsection of the "Governance" section of www.cblgroup.com.

RISK MANAGEMENT

The Group considers risk management to be an essential component of its management process. The Group pursues prudent risk management that is aligned with its business ambitions and aims to achieve effective risk mitigation. To assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of the risk committees represent various operations of the Group to balance business and risk within the respective risk committees. Annually Group defines its Risk Appetite Framework which sets acceptable risk-taking limits across all relevant risk types, considering business goals, macroeconomic environment, identified material risk drives and regulatory setting. Risk appetite limits are cascaded to all risk management strategies and implemented operationally through detailed internal regulations.

The Group's risk management principles are set out in its Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure that it maintains low overall risk exposure, diversified asset portfolio, limited risks in financial markets and low levels of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to their expected return. Risk exposures that are not acceptable are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise;
- Risk management is based on each Group's employee's responsibility for the transactions carried out by him/her and awareness of the related risks and adequate control framework;
- Risk limit system and strict controls are essential risk management elements. Control over risk levels and compliance with the imposed limits is achieved by the existence of structured risk limit systems for all material risks.

The aim of the risk management in the Group is to facilitate the achievement of the Group's goals, sustainable growth, long-term financial stability and to protect the Group from unidentified risks. The Bank appoints a Chief Risk Officer (CRO) who serves as a member of the Management Board or temporarily an employee who is not a member of the Management Board. Importantly, the CRO's role is distinct and independent from operational activities to ensure unbiased risk oversight. To facilitate effective governance, the CRO maintains direct access to the Bank's Supervisory Board The Risk Committee, which is subordinated to the Bank's Supervisory Board, has been established in the Bank. The main task of the Risk Committee is to provide support to the Bank's Supervisory Board in relation to the monitoring of the Group's risk management system. The Risk Committee established by the Bank's Supervisory Board provides recommendations to the Bank's Management Board regarding improvements of the risk management system. Risk management function within the Group is controlled by an independent unit – the Risk Division.

The main risks to which the Group is exposed are credit risk, market risk (including interest rate risk), liquidity risk, currency risk, operational risk (including ICT and fraud), ML/TF/PF risks and Sanctions risk, compliance risk and environmental and climate-related risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Bank's Supervisory Board approves risk management policies and ensures the control of efficiency of the risk management system. The Bank's Management Board and CRO ensure implementation of the risk management policies and development of internal regulations for the management of each material risk within the Group. In order to assess and monitor material and complex risk exposures, the Bank's Management Board establishes risk committees. Members of risk committees represent various units of the Group to ensure the balance between the units responsible for risk monitoring and control and the units with business orientation.

The Group continuously assesses and controls risks – both on an individual basis by type of risk and by performing a comprehensive assessment within the internal capital adequacy assessment process (ICAAP). Each member of the Group is responsible for risk control and management. Each employee of the Group is responsible for the compliance with the principles set out in the Group's internal regulations.

Risk management process includes the following elements: risk identification, risk assessment and decision making, risk management and control, risk oversight and reporting. The Group regularly, at least once a year, identifies and describes the types of material risks inherent in its operations by assessing what types of risks may have a negative impact on achieving its performance targets and projected financial results. To identify the types of material risks, quantitative and qualitative criteria are used and the results of the process are documented. For all types of identified material risks the aims of risk management are defined and risk appetite is determined. In addition, the development of internal regulations in relation to risk management of those risks is ensured, including risk identification and assessment methods, adequate risk restriction and control procedures, such as quantitative restrictions and limits, or control measures that reduce unquantifiable risks, risk appetite, procedures for reporting the information on risks, risk levels assumed and trends thereof to the Group's management bodies, as well as other information necessary for decision making, risk management policy and control procedures, including procedures for control of compliance with the restrictions and limits set, segregation of duties, approval rights and responsibilities. A robust risk management system has a profound impact on entire operations, empowering the Group to make informed decisions regarding risk, return, and market conditions.

Risk assessment and decision making include selection, approval and documentation of risk assessment methodology, regular risk assessment, establishment of the risk restriction and controlling system and setting the acceptable level of risks within this system, decision making on assuming the risks. Risk assessment includes the determination of qualitative and quantitative impact of the source of each identified risk using generally accepted methodology, which is adequately documented. The Group makes a decision in relation to each identified and assessed risk on whether the Group accepts such risk or takes the necessary measures for its mitigation, or ceases activities related to this risk. The Group does not assume risks with the impact exceeding the risk appetite determined for each respective type of risk regardless of the economic benefits that might result from assuming such risk.

Risk management and control include the compliance with the level of risk acceptable for the Group including the compliance with the limits restricting the amount of risk. Monitoring and reporting include regular assessment of the existing level of risk against the desirable level of risk, trend analysis, regular reporting to the relevant unit heads, the Bank's Management Board and the Supervisory Board. An integral part of risk management is risk stress testing. Stress testing process ensures regular identification and assessment of risks inherent to the Group's current and future operations, as well as assessment of the impact of different extraordinary and adverse events on the Group's operations, in order to provide support to responsible employees of the Group in management decision-making process at different levels of management (e.g., strategic planning, determination and correction of the risk appetite, capital planning, liquidity management).

The Group's Internal Audit Division regularly monitors the implementation of risk management policies and other internal regulations, as well as provides recommendations regarding improvements of the risk management system.

MAIN REGULATORY RATIOS WITH INCLUSION OF THE INTERIM PROFITS

Throughout the report figures as of 30 June 2026 are presented with included auditor's reviewed profits for the period, which have been decreased by foreseeable charges and dividends.

Per regulations, Bank may include interim or year-end profits in capital before taking a formal decision confirming the final audited profit for the year only with a prior permission of the competent authority. Any foreseeable charges or dividends must be deducted from those profits. Submission of documents for permission takes time and such permission is requested only after the publishing of the financial report for the respective period and completion of the audit verification. Such permission of the competent authority for inclusion of the 6m 2026 interim profits, which have been decreased by foreseeable charges and dividends, has been received for the six months period end 30 June 2026.

The consolidated Group for regulatory purposes is different from the consolidated Group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidated Group for capital adequacy purposes. Thus, net profit for the regulatory Group excludes net result of AAS CBL Life versus net result for the accounting Group. Consequently, net result of AAS CBL Life is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Key regulatory ratios scenario (including net result for the period, which is decreased in line with the dividend policy and ECB Decision (EU) 2015/656)

	EUR thousands	
	30/06/2026 Group	**31/12/2025 Group**
Common equity Tier 1 capital	513,793	544,583
Total own funds	623,793	604,583
Total risk exposure amount	2,888,770	2,716,369
Common equity Tier 1 capital ratio	**17.8%**	**18.2%**
Tier 1 capital ratio	**19.5%**	**20.0%**
Total capital adequacy ratio	**21.6%**	**22.3%**
Leverage Ratio – fully phased-in definition of Tier 1 capital	**10.3%**	**10.0%**
Total available stable funding	4,218,533	4,153,057
Total required stable funding	3,053,228	2,940,393
Net stable funding ratio	**138%**	**141%**

CAPITAL ADEQUACY CALCULATION

Capital adequacy is calculated in accordance with the current global standards of the bank capital adequacy as implemented by the European Union via a regulation (EU) 575/2013 and a directive 2013/36/EU, rules and recommendations issued by supervisory authorities and other relevant regulations and amendments. Capital adequacy is a measure of sufficiency of the Group's eligible capital resources to cover credit risks, market risks, operational risk and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. For credit risk Citadele applies standardised approach.

The regulations require credit institutions to maintain a minimum Total Capital adequacy ratio, minimum Common Equity Tier 1 capital ratio and minimum Tier 1 capital ratio. These include additional pillar 2 capital requirement which is re-assessed annually by the supervisory authority. Total SREP capital requirement (TSCR) requires capital to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the supervisory authority. The supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations and other relevant inputs. Pillar 2 additional own funds requirement is to be held in the form of 56.25% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital.

On top of the minimum capital adequacy ratios and the Pillar 2 additional capital requirements (TSCR), the Group and the Bank must comply with the capital buffer requirements. The buffer requirements must be met with Common Equity Tier 1 capital. For the Group and the Bank, the capital conservation buffer applies. Citadele is identified as “other systemically important institution” (O-SII), thus the Group must also comply with the O-SII capital buffer requirement set by the supervisory authority. Besides those Countercyclical capital buffer requirements for the Bank and the Group are calculated based on the actual risk exposure geographical distribution and the country specific countercyclical buffer rate. Increases in the countercyclical capital buffer requirement, when announced by the respective countries, become effective with a delay, but decreases take effect immediately.

The Pillar 2 Guidance (P2G) is a Citadele specific regulatory recommendation that indicates the level of capital that the supervisory authority expects banks to maintain in addition to their binding capital requirements and mandatory reserves. The P2G serves as a buffer for banks to withstand stress. The Pillar 2 Guidance is determined as part of the Supervisory Review and Evaluation Process (SREP).

The Bank has to comply with the regulatory requirements both at the Bank’s standalone level and at the Group’s consolidated level. As of the period end both the Bank and the Group have sufficient capital to comply with the capital adequacy requirements. The long-term regulatory capital position of the Group and the Bank is planned and managed in line with these and other expected upcoming regulatory requirements.

Regulatory capital requirements of the Group on 30 June 2026

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital adequacy ratio
Common equity Tier 1 ratio	4.50%	4.50%	4.50%
Additional Tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Pillar 2 additional own funds requirement (individually determined by the supervisory authority in the SREP, P2R)	1.35%	1.80%	2.40%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer	1.25%	1.25%	1.25%
Systemic risk buffer	0.07%	0.07%	0.07%
Countercyclical capital buffer	1.08%	1.08%	1.08%
Capital requirement	**10.75%**	**12.70%**	**15.30%**
Pillar 2 Guidance (P2G)	1.50%	1.50%	1.50%
Non-legally binding capital requirement with Pillar 2 Guidance	**12.25%**	**14.20%**	**16.80%**

OWN FUNDS

The capital of AS Citadele banka consists of two types of instruments – ordinary shares and subordinated debt securities issued. For more information on the bondholders and shareholders of the Bank refer to the latest annual report.

CREDIT RISK AND CREDIT RISK MITIGATION (CRM)

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and transaction activities, as well as in respect of the guarantees issued to or received from third parties and other off-balance sheet commitments to third parties.

Credit risk management is safeguarded through a comprehensive set of control mechanisms, including well-defined underwriting standards, key risk indicators (KRIs) and limits, and a governance framework that promotes an effective risk culture and sound decision-making. The framework is further reinforced by systematic risk identification and assessment processes, as well as robust data governance and reporting practices.

Lending decisions are grounded in an assessment of the borrower's repayment capacity, supported by the availability of an alternative recovery option in the event of default or a material deterioration in the borrower's risk profile.

When significant credit risk is to be undertaken, the credit risk analysis is carried out by units independent of loan origination. Credit analysis includes comprehensive risk identification, probability-of-default (PD) calculation, and an assessment of the borrower's creditworthiness, collateral quality, and collateral liquidity.

For legal entities, the creditworthiness assessment covers risk identification, an evaluation of the shareholder structure and management, industry and peer analysis, the business model and financed project, as well as an assessment of the entity's credit history, current and projected financial position, sensitivity to key risk drivers, and relevant ESG factors.

For private individuals, the assessment focuses on credit history and affordability analysis.

For significant exposures, loan origination decisions are taken by the Credit Committee and approved by the Bank's Management Board.

For the acquisition of corporate bonds, the Group conducts a thorough assessment of the issuer's business profile and financial performance. This includes consideration of credit ratings assigned by international rating agencies or, where no external rating is available, an internal counterparty financial analysis supported by relevant market-based indicators.

Sovereign bonds are evaluated using a similar approach, with emphasis placed on fundamental country-level factors, including economic strength, institutional quality, government fiscal capacity, political risk, and other material macro-financial indicators.

After loan origination, the borrower's financial position, early-warning indicators, payment discipline, and overall ability to meet contractual obligations are regularly monitored. This ongoing monitoring enables the timely identification of credit quality deterioration and the implementation of appropriate classification measures and action plans, which may include enhanced monitoring, forbearance solutions, and strengthening the Group's creditor position where necessary.

The Group continuously monitors the quality of its loan and securities portfolios, assessing their structure, concentration levels, performance trends, and overall risk profile. To mitigate concentration risk, the Group diversifies its exposures and applies a comprehensive system of credit risk concentration limits. These include individual counterparty and issuer limits, maximum exposure limits based on the counterparty's or issuer's risk class, limits on internally risk-weighted exposures within specific country or sector combinations, limits for groups of connected clients, large exposure limits, related-party transaction limits, and industry-specific limits.

Credit risk management follows the three lines of defence governance model. The first line of defence, comprising business units, is responsible for assuming and managing credit risk in day-to-day operations and for implementing first level controls. The second line of defence is responsible for maintaining and overseeing the risk management framework, including the monitoring, analysis, and reporting of risks, as well as ensuring compliance with internal and regulatory requirements. The third line of defence carried out by Internal audit.

In addition to the credit risk, which is inherent in the Group's loan portfolio and fixed income securities portfolio, the Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. The Group manages its exposure to commercial banks and brokerage companies by monitoring on a regular basis the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the Financial Market and Counterparty Risk Committee (FMCRC). The Group's exposures to derivative counterparties arise from its activities in managing foreign exchange risk and interest rate risk. The Group executes counterparty risk assessment and accepts only counterparties which are within its risk appetite limits.

COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Group's counterparty credit risk arises primarily from currency and interest rate derivatives transactions. The Group applies Simplified Standardised Approach (Simplified SA CCR) to calculate counterparty credit risk.

LEVERAGE RATIO

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure. As of period end Citadele is not applying transitional provisions. The minimum requirement is 3%. The exposure measure includes both non-risk based on-balance sheet and off-balance sheet items calculated in accordance with the capital requirements regulation. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining the minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

MARKET RISK

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

The position risk of financial instruments is managed through diversification by country, sector, industry and elaborate limit control. Issuers are internally risk graded. The exposure level limits, after in depth analysis, are set by the FMCRC, observing concentration risk levels set in the Group's Risk Strategy and other rules set by and specified in the Risk Strategy. The Bank's Management Board approves the decisions of the FMCRC.

To assess position risk the Group uses sensitivity and scenario analysis, which identifies and quantifies the negative impact of adverse events on the portfolio of the Group taking into consideration regional, sector profiles of the portfolio and credit rating risk profiles of issuers.

Group Treasury manages market risk applying the measures set by the Group's Risk Strategy, including through interest rate swaps, which are used for risk management purposes only. The Group also applies IFRS 9 hedge accounting to mitigate interest-rate risk and reduce earnings volatility. Hedging relationships are established and maintained under strict eligibility, effectiveness and governance criteria.

Exposures in equities not included in the trading book

None of the Group's investments in equity exposures has trading intent. Information on the Group's investments in the equities, which are not held for trading, including carrying value, applied valuation techniques, fair value hierarchy level and estimated fair value, is disclosed at AS Citadele banka latest financial report which is available at www.cblgroup.com.

The prudential consolidation group does not include AAS CBL Life. The Group's investment of EUR 4,269 thousand in the capital of this subsidiary is accounted at cost and is not revalued.

Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with Market Risk and Counterparty Credit Risk Management Policy and limits set in the Group's Risk Appetite Framework and Risk Strategy. FMCRC oversees and assess currency risk level within the Group, monitors compliance and the fulfilment of the limits, and sets limits for individual dealing desks within the overall risk limits. The Bank's Management Board authorizes the decisions of the FMCRC.

Intraday currency risk management is the responsibility of the Treasury Division, while risk monitoring and reporting is the responsibility of the Risk Management Division.

The Group has a low-risk appetite for foreign exchange risk. The Group aims to keep exposures at levels that would produce a small net impact even in periods of high volatility. Several well-known methodologies are used to measure and manage foreign exchange risk including a conservative limit for a daily value-at-risk exposure. The Group is in full compliance with the currency position requirements of Latvian legislation and sets its internal limits more prudently than the regulatory limits.

Interest rate risk

Interest rate risk is related to the possible negative impact of changes in general interest rates on the Group's income and economic value. Interest rate risk management in the Group is carried out in accordance with Market Risk and Counterparty Credit Risk Management Policy

Interest rate risk is assessed, and decisions are taken by the Assets and Liabilities Management Committee (ALCO). The decisions of the ALCO are approved by the Bank's Management Board. Acceptable interest rate risk level accompanied with the relevant limits is defined in the Group's Risk appetite framework and Risk strategy, ALCO monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of the Treasury Division, while the Risk Management Division ensures proper oversight and prepares analytical reports to the ALCO and the Bank's Management Board.

The Group manages interest rate risk by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis of assets and liabilities as well as stress testing. Group sets limits for the impact of interest rate shock on economic value, net interest income and market value changes. Based on the market analysis and the Group's financing structure, the ALCO sets the interest rates for customer deposits.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets to cover any possible gaps between cash inflows and outflows as well as to secure sufficient funding for lending and investment activities.

The Group manages its liquidity risk in accordance with Liquidity Risk Management Policy and Liquidity Buffer Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Division, and the risk is assessed and decisions are taken by the ALCO. The decisions of the ALCO are approved by the Bank's Management Board. The Enterprise Risk Management Department on a monthly basis provides information to the ALCO and the Bank's Management Board and Supervisory Board about the level of the assumed risk as part of the reporting and supervision process.

Liquidity risk for the Group is assessed in each currency in which the Group has a significant amount of transactions. Liquidity risk limits are reviewed at least once a year and also when there are major changes to the Group's operations or external factors affecting its operations. A liquidity contingency plan has been developed and is updated on a regular basis.

One of the crucial tools used to evaluate liquidity risk is scenario analysis. Several scenarios of different severity and duration are employed by the Group with risk tolerances defined for the outcomes of those scenarios. Furthermore, the Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares cash flow forecasts which incorporate assumptions about the most likely flow of funds over the period of two years. For general assessment of existing gaps between contractual maturities of assets and liabilities without any assumptions on customer behaviour, the Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

The Group's balance sheet structure is planned for at least a one-year period and is aligned with development plans for the current period. The major current and potential funding sources are regularly analysed and controlled across the Group. The Group maintains regular contact with its interbank business partners and creditors with the aim of projecting possible deadlines for repayment or prolongation of funding sources as well as absorption of excess liquidity.

The general principles of the liquidity coverage ratio (LCR) as measurements of the Bank's and the Group's liquidity position is defined in the Regulation (EC) No 575/2013. The Commission Delegated Regulation (EU) 2015/61 defines general LCR calculation principles in more details. The minimum LCR requirement is 100% and it represents the amount of liquidity available to cover calculated net future liquidity outflows. The Bank and the Group is compliant with LCR requirements.

EU LIQB on qualitative information on LCR, which complements template EU LIQ1

in accordance with Article 451a(2) CRR

Row number	Qualitative information	
(a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	The LCR is affected by depositors' activities – that is inflows and outflows of funds for operational or economic reasons, and corresponding changes in the HQLA.
(b)	Explanations on the changes in the LCR over time	The Group is primarily deposit funded with deposits diversified across Retail and Corporate segments. Additional diversification is achieved through the ongoing use of German deposit gathering platforms and through the planned issuance of covered bonds.
(c)	Explanations on the actual concentration of funding sources	The Group is primarily deposit funded. Deposits are diversified among Retail and Corporate segments.
(d)	High-level description of the composition of the institution`s liquidity buffer	Mainly comprised of central bank balances and high-quality debt securities.
(e)	Derivative exposures and potential collateral calls	The Group's exposures to derivative counterparties arise from its activities in managing foreign exchange risk and interest rate risk. Collateral pledged and received can be volatile over time and depends on the underlying risk factor dynamics, but for the Group is not substantial in absolute terms.
(f)	Currency mismatch in the LCR	The Group predominantly operates in EUR currency and has low levels of assets and liabilities in foreign currencies. Low currency mismatch in LCR is observed.
(g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	N/A

OPERATIONAL RISK

The Group has adopted the Basel Committee on Banking Supervision's definition of operational risk: the probability of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is divided into the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control, and reporting of operational risk. The Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group.

The Group's aim is to ensure that each of its employees knows not just how to perform specific transactions but also understand the key areas where risk can arise and the processes and steps required to prevent or otherwise mitigate such risk.

The goal of the Group's operational risk management framework is to maintain low level of risk while ensuring that any residual risk is economically justified in light of the need to sustain the Group's performance and profit in the long term. The Group maintains a low tolerance for operational risks that may result in actual or forward-looking losses exceeding EUR 0.55 million annually. The Group does not accept operational risks that are unquantifiable or cannot be effectively managed, irrespective of any potential financial benefit. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

The Group applies following approaches for operational risk management:

- Assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- Measuring operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;

- Measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- Maintaining robust ICT operations by promptly addressing ICT incidents and continuously improving ISs stability and availability;
- Conducting scenario and sensitivity analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals;
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk; and
- Establishing a robust Gen AI governance framework that includes policies, procedures, and controls to ensure compliance with the EU AI Act (2024/1689).

PRUDENTIAL DISCLOSURES ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS

Prudential disclosures on Environmental, Social and Governance (ESG) aspects are prepared in line with the requirements of the Article 449a of the CRR.

Table 1 – Qualitative information on Environmental risk

Row number		Qualitative information
	Business strategy and processes	
(a)	Institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on institution's business environment, business model, strategy and financial planning	As part of the regular business planning process of the Group, Citadele identifies and assesses relevant climate-related and environmental risks expected to affect the Group in short, medium and long term. Climate-change scenario analysis is performed in addition to assessing the business environment, including macroeconomic variables, competitive landscape, regulatory, societal and geopolitical trends. Current primary climate-related and environmental (C&E) risk focus is on physical risks at portfolio and counterparty level, and transition risk.
(b)	Objectives, targets and limits to assess and address environmental risk in short-, medium-, and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes	Citadele has committed to aligning its operations and portfolio with the goals and the timeline of the Paris Agreement. To achieve this objective, Citadele has set the ambition to reach net-zero operations, including financed emissions, by the year 2050. Citadele is working on establishing the baseline, identifying decarbonisation pathways, developing practical plans for achieving the emissions reductions, reporting and monitoring progress against the climate-related targets. Risk appetite and climate-related exclusion policies enable us to monitor and achieve climate-related targets and commitments. Citadele's Risk Appetite considers transition and physical risk thresholds. Citadele has carried out an initial climate change scenario analysis to assess the future implications of potential climate change pathways on Citadele's business model and strategy. Citadele is using the NGFS scenario framework to evaluate how different climate pathways could affect its business model over the short, medium, and long term set of scenarios and their potential impact on our business model. The analysis shows that Citadele's portfolio is well-positioned for the transition while highlighting areas of both opportunities and risks for further analysis.
(c)	Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities	The Group is committed to financing the transition to low-carbon economy and has set an annual green lending targets. Citadele developed Green Lending Framework to define green products aligned with specific environmental criteria, and EU Taxonomy Substantial Contribution criteria-aligned projects and assets.
(d)	Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks	Counterparty C&E risk factor assessment is an integral part of large client onboarding process and the monitoring process of existing clients. Within the credit risk assessment process, Citadele considers climate-related and environmental risks, both physical and transitional, and including over time horizon (short, medium, and long term). Citadele introduced portfolio-level Biodiversity risk assessment approach for Agricultural and Forestry industries focusing on future advancements in monitoring and assessment granularity. Citadele is continuing work on improvements in ESG data collection process and data quality. Citadele has published a Supplier Code of Conduct setting its expectations toward its suppliers and sharing good practice in environmental issues, social standards and good governance.
	Governance	
(e)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels	Citadele ESG Policy sets the framework and main principles for managing ESG-related topics within Citadele Group and sets the ESG governance structure. The Supervisory Board of Citadele is responsible for overseeing the formation and implementation of the ESG strategy. ESG risks are considered when developing Citadele's overall business strategy, business objectives, and risk management framework. The Supervisory Board exercises comprehensive oversight of climate-related and environmental risks. The Management Board is responsible for developing ESG strategy and execution of the strategy and ensures comprehensive implementation of the ESG Risk Policy in the Group. The Management Board provides regular reporting to the Supervisory Board of the Group on the ESG risk management aspects in the Group.
(f)	Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions	Governance of ESG risk management in Citadele Group follows the overarching principle of three lines of defence: - The first line of defence comprises business and support functions. It is ultimately accountable for the ESG risk management related to its activities and within its area of responsibility.

		- The second line of defence is the risk management function, performing independent risk oversight and control. The risk management function facilitates implementation of a sound ESG risk management framework throughout the Group. It has responsibility for further identifying, monitoring, analysing, measuring, managing, and reporting on the ESG risk exposures and forming a holistic view of all risks on the individual and the consolidated basis. In addition, the risk management function challenges and assists in implementation of the ESG risk management requirements by business lines. It also ensures that there are processes and controls in place at the first line of defence and that these are appropriately designed and implemented and operate well. - The third line of defence is Internal Audit Department of the Group – an independent and objective assurance function overseeing implementation of the ESG risk framework and controls in the first and second lines of defence.
(g)	Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels	ESG Working Group ensures transparent and efficient driving of the overall ESG agenda. The ESG Working Group is composed of dedicated representatives from key functions. The ESG Working Group has a responsibility to ensure that procedures and controls are in place in order to implement and adhere to the ESG objectives, strategy and policies set by the Management Board. The ESG Working Group is led by ESG Officer of the Group. Responsibilities of the ESG Officer of the Group include defining the ESG framework and key goals related to the ESG area in cooperation with heads of the departments affected by the ESG; developing and regularly updating the ESG Policy; training employees in the ESG area; increasing awareness of the ESG matters by ensuring respective external and internal communication; cooperating with the Risk Management Division and heads of units and departments in developing ESG strategic targets and KPIs. Risk Management Division participates in developing, reviewing, and updating ESG Risk Policy; integrates key ESG risk drivers in the Risk Management Framework, Risk Appetite Framework, and relevant Risk Strategies; implements the principles set in the ESG Risk Policy and other regulatory requirements into existing policies, procedures, and processes; cooperates in defining ESG framework, key goals, and critical drivers; and ensures all their employees are familiar with these new processes and adhere to them. All employees of the Group are responsible for ESG risk identification, mitigation, management, and reporting within their area of activity.
(h)	Lines of reporting and frequency of reporting relating to environmental risk	Information exchange on climate-related issues has been integrated into regular management reporting processes. Climate-related risk reporting and risk appetite threshold monitoring is part of monthly and quarterly internal reporting cycles to the Management Board, along with tracking of green lending target fulfilment.
(i)	Alignment of the remuneration policy with institution's environmental risk-related objectives	Allocation of variable remuneration component takes into account all types of current and future risks of the Bank, Group and Group entities respectively, including ESG-related risks. Variable remuneration component is based on a combination of assessment of individual and Company goals. Management scorecard includes ESG-related goals in line with Group's ESG policy. Before paying out the deferred part of any variable remuneration, a reassessment of the long-term performance and, if necessary, risk adjustment (including ESG risks) is applied to align variable remuneration to additional risks that have been identified or may have materialised after the award.
	Risk management	
(j)	Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework	When considering climate-related risks and opportunities, the Group assesses them in three timescales: short (less than 3 years), medium (3 to 5 years), and long-term (more than 5 years), to account for the changing nature of the ESG risks and their materialization horizon.
(k)	Definitions, methodologies and international standards on which the environmental risk management framework is based	C&E risk management framework of the Group is based on the ECB guide on climate-related and environmental risks, Climate-related financial risks – measurement methodologies and Climate-related risk drivers and their transmission channels - both published by Bank for International Settlements, EBA Guidelines on the Management of ESG Risks and EBRD Environmental and Social Risk Management Procedures.
(l)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels	Transition risk materiality assessment is performed at industry level, based on GHG emission intensity and forecoming sectoral climate-related policy changes. Physical risk assessment is performed semi-annually, covering assessment of material physical risks to collateralized real estate. Quantification of exposure to Climate & Environmental risks is part of stress testing procedures, with scenarios developed for Credit Risk (both Physical and Transition risk scenarios), Market risk (combined Physical and Transition risk scenario), Strategic risk and Operational risk (Physical and Transition risk scenarios).

		Risk drivers and transmission channels are identified as part of C&E risk materiality assessment and inform risk management practices. Credit risk is the key prudential risk category through which C&E risk is likely to materialize for the Group, given its business profile and asset composition. Climate risk drivers can impact households, corporates, SMEs, and sovereigns, reducing income or wealth. As most impacts of climate-related and environmental risk drivers affect multiple areas and materialize in complex ways, we are considering C&E risks in existing categories of risk individually as well as jointly, and in the short-, medium- and long-term.
(m)	Activities, commitments and exposures contributing to mitigate environmental risks	Setting ESG risk limits in Risk Appetite and establishing long-term portfolio GHG emissions goals serves as a proactive mitigation action for C&E transition risk. While structuring transactions with elevated ESG risk levels and exceeding a predetermined threshold of financed amount, the counterparts ESG action plan is considered. It may affect the length, pricing, or other structuring conditions.
(n)	Implementation of tools for identification, measurement and management of environmental risks	Identification, measurement and management tools for environmental risks: - ESG Risk Policy; - Risk Appetite and Risk Strategy – C&E risk limits set and monitored in Lending and Securities portfolios; - Climate physical risk assessment for collateralized real estate; - Client Environmental and Climate-related risk assessment; - Environmental and Climate-related risk materiality assessment; - Real Estate collateral energy performance (EPC) data collection ongoing.
(o)	Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile	Environmental risk assessment is included in ICAAP. ESG risk scenarios are considered as additional scenarios in Credit, Market, Operational and Strategic risk. For Liquidity risk profile: Climate-related and Environmental risk materiality assessment for consolidated Deposits and Non-Maturity Deposits portfolio is performed. Citadele has been working on reinforcing the Climate-related Materiality assessment process. The extended C&E risk assessment includes operational, strategic, liquidity risk assessment in addition to credit and market risk assessments, and a detailed sectoral and geographic climate risk assessment.
(p)	Data availability, quality and accuracy, and efforts to improve these aspects	Improvements in the quality of collateral address data have been carried out to standardize data and enable geolocation mapping and connection to external physical risk maps. EPC data collection has been started as standard practice for new lending, with new data fields introduced in data systems. General availability of EPC data remains the biggest challenge as a relatively low proportion of properties have received EPC labels.
(q)	Description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits	Material climate-related and environmental risk drivers are included in Risk Appetite and Risk Strategy framework within the prudential risk areas in accordance with the Group's ESG Risk Policy. Citadele's Risk Appetite considers transition and physical risk thresholds. This also includes Key Risk indicators (KRI), regular monitoring and reporting, and escalation process in the case of breaching these limits. Group regularly monitors transition risk via Industry Environmental risk level KRI (internal methodology) which is based on GHG emission intensity of industry and sensitivity of industry to climate-related regulatory changes. Physical risk monitoring is conducted, monitoring real estate collateralized portfolio exposure to material physical risks. Citadele monitors exposure concentration by levels of industry environmental risk score, real estate collateralized portfolio physical risk levels and exposure to material physical risk types as C&E Key Risk Indicators in Lending portfolio. For corporate debt securities portfolio KRIs include industry environmental risk level and weighted external ESG rankings. In addition, Citadele has defined industries that it does not finance due to significant negative environmental and/ or social impact.
(r)	Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework	Credit risk: - Physical and transition risk drivers increase Bank's credit risk through both the income effect and wealth effect. The Bank identifies income effect as a transmission channel of physical risk when physical hazard events have a negative effect on a borrower's ability to repay and service debt via loss or reduction of income from affected real estate or manufacturing equipment. The Bank recognizes the wealth effect as transmission channel via reduced ability to fully recover the value of an exposure in default because of the reduction in the value of the pledged collateral. Requirement of continuous insurance of collateral is a means of mitigating the risk. - Bank assesses that climate risk drivers can impact households, corporates and SMEs, with a lesser degree of impact to sovereigns in the Bank's portfolio. - Climate-related increases in human mortality and declines in labour productivity are projected to be key drivers of long-term transmission channel of climate-risk through reductions in output and resulting economic implications.

- In medium to long term increased borrowing costs due to factoring in C&E risks could lead to higher taxes, lower government spending and reduced economic activity, which may indirectly impact Bank's credit risk.

Market risk:

- Physical and transition risks can alter or reveal new information about future economic conditions or the value of real or financial assets, resulting in downward price shocks and an increase in market volatility in traded assets.
- Climate risk could also lead to a breakdown in correlations between assets or a change in market liquidity for particular assets, undermining risk management assumptions.
- Changes in asset values may be driven by a policy change that affects an individual borrower, or by the effect that policy change may have on the economy more broadly.

Liquidity risk:

- Climate risk drivers may impact liquidity risk directly by affecting Bank's ability to raise funds or liquidate assets, access to stable sources of funding could be reduced as market conditions change.
- Climate risk drivers may cause indirect impact through affected counterparties drawing down deposits and credit lines.

Operational risk:

- If physical hazards disrupt critical services and telecommunications infrastructure, Bank's operational ability may be impacted.
- Increasing legal and regulatory compliance risk associated with climate-sensitive investments and businesses may affect the Bank indirectly or directly.
- Increasing direct and indirect (via counterparties) reputational risk based on changing market or consumer sentiment.

Reputational risk:

Failure to reach sustainability-related targets may result in negative customer reaction and loss of market share.

Table 2 – Qualitative information on Social risk

Row number		Qualitative information
	Business strategy and processes	
(a)	Adjustment of the institution's business strategy to integrate social factors and risks taking into account the impact of social risk on the institution's business environment, business model, strategy and financial planning	Citadele environmental and social risk management is founded on the Bank's strategy of developing business with a long-term perspective and in line with social, environmental, and economic goals in the decisions made, products offered, and services provided. This ensures alignment with the commercial strategy and helps embed environmental and social risk management in the organisational structure and culture. Social risk identification is part of the Group's strategy setting process, and includes analysing changes in consumer behaviour, demographic trends, changes in labour force and technological change. Citadele believes that a financial institution's social impact is based on the ability to leverage its expertise, financial products and services to enable people and communities to prosper and grow. Citadele acts based on high ethical and professional standards towards its clients, partners and employees. Being a socially responsible bank, Citadele stands up for: - responsible provision of banking services to promote the Baltic economy; - promoting financial education and literacy in society; - promoting tolerance in society and supporting charity projects for people, animals and nature support; - increasing customer trust in banking and Citadele Group; - making banking services accessible for people at any time and place convenient for them through our digital channel offering; - constantly increase internal ESG competence and promote it in society; - engaging in partnerships with relevant stakeholders to achieve society's goals. Citadele acknowledges its responsibility in contribution to sustainable economic development, which includes responsible, fair, and ethical business practices from its suppliers.
(b)	Objectives, targets and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes	Citadele is managing social risk factors in both own operations and its value chain affecting the Group. Citadele has a social responsibility towards its employees, customers, and the wider society. Citadele abides by high ethical standards and inclusive approach toward all employees, customers, business partners, and investors.

		Citadele's employee relations is a significant area for the Group. Citadele provides safe and secure working conditions to its employees, in line with labour-related standards and requirements, national employment, social insurance, occupational health and safety standards. Citadele supports working environment that is free from any discrimination, prejudice, harassment, abuse of powers and undignified attitude. Citadele employment policy framework includes Code of Ethics, and Diversity and Inclusion policies stating the Groups practices and expectations from employees in these vital areas. All Citadele Group employees receive regular mandatory trainings covering AML, sanctions, corruption and fraud risk management. Social risk aspects are integrated into Operational risk management. The Group has set targets and limits for Key Risk Indicators within social risks in regard to employment practices, employee behaviours, incidents, code of ethics breaches, and data security with monthly and quarterly monitoring. Citadele has processes in place to ensure that clients are treated fairly and professionally. Our customer servicing standard sets the professional requirements we expect from our employees when dealing with customers. The Bank is continuously working to make its services accessible. Service continuity and accessibility are regularly monitored against the targets set. Citadele applies the highest standards to its IT infrastructure and security, and it has a dedicated, group-wide cyber security team. Incident management process is defined and followed, including process of identification, mitigation, documentation, and analysis of incident root causes.
(c)	Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities	Citadele ESG and ESG Risk Management Policies in place that reflect the Bank's commitment to managing social risk factors. The ESG Policy outlines Citadele's approach to ESG factors in Group's own operations, while the ESG Risk Policy outlines approach in the Group's business activities. The Group maintains good human resources management policies and practices appropriate to the business. Work on building employee capacity and engagement is constantly ongoing, including relevant trainings on ESG. Citadele is performing social risk assessments in accordance with EBRD social risk guidelines of new lending projects above predetermined thresholds. Citadele has been monitoring social risk exposure in line with EBRD expectations since 2010 when EBRD became a stakeholder in the Group. The Bank has adopted systematic Climate-related, Environmental and Social risk management processes for business activities in line with the level of risk associated with the business activities. Social And Environmental Risk Assessment is an integral part of the bank's lending process and is conducted for all legal person lending transactions in line with instruction on Environmental, Social and Climate-related Risk Assessment. The Environmental and Social Risk Assessment is carried out (i) when evaluating a new lending transaction for legal persons, or in (ii) assessing changes to the terms of the existing corporate lending transactions that require granting of an additional amount. A publicly available Supplier Code of Conduct summarizes the Bank's requirements in supplier selection, covering environmental practices, labour policies, and good governance. The Supplier Code of Conduct includes good practice guidelines for the environmental, social, and governance areas.
	Governance	
(d)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of social risk management covering counterparties' approaches to:	Citadele maintains good governance practices, with a clear organisational structure and accountability, defined roles and responsibilities, organisation-wide objectives, and progress monitoring, while ensuring adequate resource management. Supervisory Board is responsible for overseeing the Management Board tasked with establishment and implementation of ESG strategy. Chief Executive Officer is governing body member responsible for the execution of the ESG strategy and implementation of the governance structure set by the Management Board. ESG Officer develops a roadmap for achieving the ESG strategy and objectives and ensures its implementation within the Bank. ESG Officer is a central point of contact for overall sustainability project coordination and is responsible for increasing awareness of ESG matters by ensuring respective external and internal communication. ESG Officer leads the ESG Working Group, composed from representatives of all functions involved in ESG risk management integration into Group's operations. Representatives of functions involved in social risk management are all part of the ESG Working Group:
(i)	Activities towards the community and society	(i) Activities towards the community and society are coordinated by Head of Marketing and Communication department;
(ii)	Employee relationships and labour standards	(ii) Employee relationships and labour standards are managed by Head of HR and Legal divisions;
(iii)	Customer protection and product responsibility	(iii) Customer protection and product responsibilities are with the heads of Business lines and Products;

(iv)	Human rights	(iv) Human rights are embedded into core of the Banks operations and all relevant documentation under the responsibility of Head of Legal division.
(e)	Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body	The Group has developed a robust internal legal framework which sets a clear and transparent corporate governance. For timely identification and understanding of corruption risk in operations of its counterparties, the Bank ensures explicit and unequivocal internal rules for risk screening, identification and continuous monitoring, described in a number of policies and procedures, including Corporate Governance Policy, Code of Ethics, Anti-corruption Policy, Anti-Money Laundering and Counter Terrorism and Proliferation Financing Policy, Transactions Monitoring Procedure, Procedure for the Procurement Process and more. All employees are regularly trained in the fields of identifying and preventing bribery, corruption risk and fraud risk. Employees are tested on their knowledge of the relevant risk management policies and procedures annually. Risk Committee monitors the level of risks to which Citadele Group is exposed and the compliance of its operations with permitted level of risks, including C&E and social risks
(f)	Lines of reporting and frequency of reporting relating to social risk	Risks associated with social factors in Group's internal operations are monitored continuously and reported to management bodies in monthly and extended quarterly CRO report, under Operational risk.
(g)	Alignment of the remuneration policy in line with institution's social risk-related objectives	The Group's remuneration policy is in line with the Group's business and risk strategy, objectives, culture and values as well as long-term interests of the Group and its stakeholders. Any paying out of the deferred part of any variable remuneration includes reassessment of the long-term performance and, if necessary, risk adjustment to take into account additional risks, including social, identified or materialised after the award.
	Risk management	
(h)	Definitions, methodologies and international standards on which the social risk management framework is based	Social risk management framework in the Group is based on EBRD Environmental and Social Risk Management Manual and procedures recommended by the EBRD, in line with best international practice in the commercial financial sector.
(i)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels	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. 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.
(j)	Activities, commitments and assets contributing to mitigate social risk	Citadele is committed to ensure supportive work environment that is aligned with today’s requirements and standards, with no discrimination, equal opportunities, good working conditions, supporting professional skill and competence development, and employee well-being. Citadele is monitoring employee satisfaction via regular eNPS surveys and Mood Barometer. Citadele is committed to remain among the most desirable employers in the Baltics. The Group's lending exposures are screened and monitored in line with our commitment to EBRD. Citadele is a signatory of UNEP FI Principles for Responsible Banking and is committed to aligning the Bank's strategy and practice with the Sustainable Development Goals.
(k)	Implementation of tools for identification and management of social risk	Managing social and governance risks in addition to C&E risks is important for Citadele, to protect the Group’s reputation, avoid legal and regulatory risks, achieve long-term strategic objectives, and contribute positively to society and the environment. Social risk screening in the lending portfolio follows EBRD guidelines. It is integrated in C&E assessment and monitoring process. Social risk in own operations is identified and assessed as part of Operational risk and control self-assessment process. In addition, reputation monitoring is ongoing and includes external sources as well as employee feedback and employee net-promoter-score (eNPS) assessments.

(l)	Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits	Social risk is monitored under operational risk, and risk limits set within the relevant categories, such as availability and security of Bank's digital services, employee risk, reputational risk. Limit breaches and escalations managed in accordance with procedure for relevant operational risk category.
(m)	Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework	The Bank has assessed that materialization of social risk within its lending portfolio may manifest: - in credit risk if social risk events prevent or delay the operation of development projects thus delaying or stopping planned income stream for the repayment of Bank's funds, and / or negatively affecting the value of affected collateral; changes in consumer sentiment following a social risk event may negatively affect demand for a borrower's product or service thus negatively impacting its income and repayment of Bank's funds. - social risk drivers may impact liquidity risk through affected counterparties drawing down deposits and credit lines, or if manifesting directly, by affecting Bank's ability to raise funds or liquidate assets, access to stable sources of funding could be reduced as market conditions change. - materialization of social risks for Bank's suppliers may cause a disruption in availability of goods or services purchased. - Reputation may be affected if clients or other counterparties are involved in unacceptable social practices.

Table 3 – Qualitative information on Governance risk

Row number		Qualitative information
	Governance	
(a)	Institution's integration in their governance arrangements governance performance of the counterparty, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics	The Bank's operation is based on transparent and sustainable actions in the financial markets. The Bank has a zero tolerance for corruption, and expects the same from its employees, customers, and business partners. The Bank has developed internal legal framework which sets a clear and transparent corporate governance framework. Citadele is committed to avoid corruption and has no tolerance towards financial crime and non-compliance. For timely identification and understanding of corruption risk in operations of its counterparties, the Bank ensures explicit and unequivocal internal rules for risk screening, identification and continuous monitoring, described in a number of policies and procedures, including Corporate Governance Policy, Code of Ethics, Anti-corruption Policy, Anti-Money Laundering and Counter Terrorism and Proliferation Financing Policy, Conflict of Interest Policy, Transactions Monitoring Procedure, Procedure for the Procurement Process and more. All employees are trained in the field of the prevention of corruption risk and fraud risk, as well are attested annually of their compliance with the principles prescribed in Anti-corruption policy.
(b)	Institution's accounting of the counterparty's highest governance body's role in non-financial reporting	Non-financial reports of counterparties are identified in due course of process, either procurement or lending, and further analysed manually, including taking into account the role of the counterparty's highest governance body in non-financial reporting.
(c)	Institution's integration in governance arrangements of the governance performance of their counterparties including:	The Group's Risk Appetite framework integrates governance of counterparty assessment, including tolerance of risks related to counterparty governance arrangements. The Bank adheres to strict know-your-customer procedures, which include requirements and good practice expectations for counterparty internal governance processes, including ethical considerations, anti-bribery and anti-corruption measures, internal controls, risk management policies and management of conflicts of interest. The Group refrains from engaging in activities or cooperation with counterparties that entail or might potentially entail raised reputational risks irrespective of financial benefits and rewards. Transparency and inclusiveness disclosures are expected to be included in counterparty non-financial reporting in line with the level mandated by regulatory requirements pertinent to the counterparty.
(i)	Ethical considerations	
(ii)	Strategy and risk management	
(iii)	Inclusiveness	
(iv)	Transparency	
(v)	Management of conflict of interest	
(vi)	Internal communication on critical concerns	
	Risk management	
(d)	Institution's integration in risk management arrangements the governance performance of their counterparties considering:	A publicly available Supplier Code of Conduct is binding for any new suppliers. The Supplier Code of Conduct summarizes the Bank's requirements in supplier selection, covering environmental practices, labour policies, and good governance, including good practice guidelines for these areas. Governance areas considered include ethics; no tolerance for bribery and corruption; management of conflict of interest; inclusiveness and transparent governance. The Bank itself adheres to Code of Ethics, based on regulatory requirements and industry good practices. The Code of Ethics includes selection of and cooperation with counterparties, management of conflict of interest and whistleblowing arrangements.
(i)	Ethical considerations	
(ii)	Strategy and risk management	
(iii)	Inclusiveness	
(iv)	Transparency	
(v)	Management of conflict of interest	
(vi)	Internal communication on critical concerns	

ATTESTATION

AS Citadele banka Risk management and capital adequacy report (Pillar 3 disclosures) provides an interim update on the qualitative and quantitative disclosures on the major risks of AS Citadele banka and its risk management objectives, policies and information on capital adequacy as required by the Regulation (EU) No 575/2013 and other relevant regulations and laws. AS Citadele banka has implemented a comprehensive system of internal policies and processes, controls and IT systems to comply with these disclosures requirements.

This report has been authorised by the Management Board of AS Citadele banka.