

AS Citadele banka

# Sustainability Report

for the year ended  
31 December 2019



# Sustainability Report

**Sustainability for Citadele Group means developing our business with long term perspective and in line with our social, environmental and economic goals in the decisions we make, products we offer and services we provide.**

This document outlines our principles of sustainability in 2019. Our report summarises how we manage sustainability, both in terms of incorporating aspects of sustainability throughout our business and how our sustainability commitments shape the way we do business.

## About Citadele Group

As “Citadele banka” (Citadele, Bank) is a Latvian-based bank offering retail, private banking, asset management, lending, leasing and other commercial banking services. On 31 December 2019 the Bank operates branches in Latvia, Lithuania and Estonia. AS “Citadele banka” is the parent company of the Group, which has subsidiary bank in Switzerland and several subsidiaries which include financial services companies. The Group’s main market is Baltics (Latvia, Lithuania and Estonia). Citadele was registered as a joint stock company on 30 June 2010. Citadele commenced its operations on 1 August 2010.

As of 30 September 2019, Citadele has the third highest number of customers (above 371,000), the third highest number of internet banking customers (approx. 182,000 active users) and the third largest network of branch offices in Latvia, according to the Finance Latvia association (FLA). Furthermore, as of the same date, Citadele had a total market share in Latvia of 11.8% in total loans, 17.0% in deposits and 14.7% in total assets, according to data published by the FLA.

In Latvia, Citadele Group operates through three main segments according to customer profile:

- the Retail and SME segment provides a wide range of daily banking products and services, current and deposit accounts, debit and credit cards, mortgages and consumer loans to private individuals, as well as card acquiring services for small merchants, short and long term credit facilities to legal entities;
- the Corporate segment serves corporate customers with an annual turnover in excess of EUR 5 million, a loan exposure of more than EUR 1 million, or total assets comprising more than EUR 5 million. Core products include business development loans, short term credit lines, trade finance products, card acquiring services and general deposit and cash management services;
- the Wealth Management segment provides a wide range of private banking and wealth management services to high net-worth local and international customers through dedicated relationship managers.

In addition to its operations in Latvia, Citadele offers banking, leasing and wealth management operations in Lithuania and Estonia, and it offers private banking and wealth management services through its subsidiary in Switzerland.

To enable the quicker introduction of new digital banking services to Citadele’s Lithuanian customers, and to improve the Group’s operational efficiency, Citadele bankas (Lithuania) was merged with Citadele banka (Latvia), continuing its operations as Citadele banka Latvia branch as of 1 January 2019.

## Distribution network

Citadele Banka distribution network as of 31 December 2019 comprises a total of 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania. The Lithuanian branch has 7 customer service units in Lithuania. The Group has online and mobile banking platform, which is available in Latvia, Lithuania and Estonia.

### Geographical footprint

	LV	LT	EE	CH
Banking	■	■	■	■
Leasing	■	■	■	
Asset Management	■	■	■	■
Pension Fund mgmt.	■			
Life insurance	■			

LV – Latvia, LT – Lithuania, EE – Estonia, CH – Switzerland

## Citadele ratings under review for upgrade

International credit rating agency Moody’s Investors Service has assigned Citadele bank a deposit rating of Ba1, currently under review for upgrade (3 January 2020). The main credit strengths are:

- Continued improvement in capitalisation, signalling a commitment by its owners to continue building a viable bank
- Improved governance, with selective growth in its home markets and exiting non-resident segments

### Moody’s

Long term deposit	Ba1
Long term counterparty risk rating	Baa3
Short term deposit	NP
Short term counterparty risk rating	P-3
Outlook:	Under review/ possible upgrade

Detailed information about ratings can be found on the web page of the rating agency [www.moody.com](http://www.moody.com)

## Group's Vision and core values

Citadele Group's commitment to highest ethical standards is the foundation of the Company's vision and core values. The Group's vision is "To be the Baltic banking champion". It represents the main purpose of Group's existence. The Group's core Values are – Aspire, Personalize and Innovate.

We aspire for excellence for every client and the entire Baltic economy. We take care of clients, consistently deliver high quality service and expertise to clients and demonstrate excellence in everything we do.

Personalize – we see people first and add human touch to banking. We work together; treat all team members in a respectful, courteous and professional manner. We understand the external environment, banking sphere and apply new trends and best practices to daily work.

We set the standard with innovative products. We think 'outside the box', take personal actions to innovate, modify practices and support the changing environment. We inspire others and act as a role model for the team in complying with integrity and ethics norms.

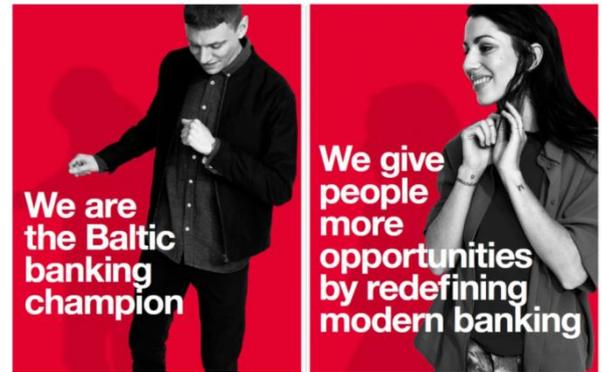
Demonstrating the Group's core values every day through real words and actions is how Citadele Group strengthens its ethical culture, delivers a superior customer experience and elevates the brand of Citadele. The Group aims to facilitate and maintain working environment which supports ethical conduct and ensures an open dialogue on ethical conduct, is free from any discrimination, prejudice, harassment in the workplace, abuse of power and undignified attitude. Employees are expected to perform their obligations to the Group and its clients decently, fairly, professionally and behave with respect to any and all persons.

## Strategic focus – Retail and SMEs

Citadele Group's strategy is to become the leading local bank of choice for individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States. The Group intends to further increase revenue from its existing customer base and to proactively target new customers in the retail, SME and micro SME sectors using the following strategies:

- ✓ delivering exceptional digital services;
- ✓ simplifying and consolidating its current account offering into a flagship current account product; and
- ✓ providing "premium feel" service by placing a high emphasis on the quality of service across customer segments.

Citadele's management believes that it is in a position to implement a focused growth strategy supplemented by digital offerings that fully utilises its established branch offices and distribution network, sophisticated IT infrastructure, innovative product offering, experienced management team, well-trained staff and comprehensive risk management systems.



### Aspire

We aspire for excellence for every client and the entire Baltic economy

### Personalize

We see people first and then human touch to banking

### Innovate

We set the standard with innovative products

Core values

## Bank with the best customer service in Latvia

Our commitment of providing the best customer service enabled Citadele to maintain the top position among banks in Latvia, according to the annual mystery shopper survey conducted by international customer service evaluation company DIVE. Citadele was announced as the bank with the best customer service in Latvia for the fifth time.

## Other information

More information on the business activities of the Citadele Group, financial performance, geographical markets, risk politics and the development of the Group is available in the "Investor Relations" and "About us" sections of [www.cblgroup.com](http://www.cblgroup.com) website.

## Corporate Governance

AS Citadele banka is the parent company of Citadele Group. Citadele bank is a joint stock company. 75% plus one share in Citadele bank is owned by a consortium of international investors represented by Ripplewood Advisors LLC. The European Bank for Reconstruction and Development (EBRD) owns 25% minus one share.

Citadele Group has a comprehensive corporate governance and risk management structure to operate in a transparent and prudent manner, to balance and protect the interests of its various stakeholders.

### Governing bodies

Corporate governing bodies of Citadele are the General Meeting of Shareholders, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with the Article of Association of Citadele, Latvian law, and other binding legislation.

The Shareholders meeting elects the members of the Supervisory Board, which, in turn, is responsible for

the supervision and appointment of members to the Management Board. Supervisory Board shall consist of 9 members, elected for the term of 5 years. Management Board shall consist of 8 members. As of 31 December 2019, Management Board consisted of 7 members. The decisions are made by open voting with a simple majority of votes of the present members of the Management Board.

The Management Board, which is an executive body, is responsible for the management of day-to-day operations of Citadele.

The Shareholders meeting is responsible for matters including the approval of the company's annual accounts, deciding on how profits are used, amending constitutional documents, changing the company's share capital, issuing and converting securities, appointment and removal of Supervisory board members, auditors, controllers, as well as other matters.

### Supervisory Board members as a 31/12/2019

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Dominic Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Sylvia Yumi Gansser Potts	Member of the Supervisory Board	29 October 2018

There were no changes in the Supervisory Board of the Bank in the reporting period.

### Management Board members as a 31/12/2019

Name	Position	Responsibility
Guntis Belavskis	Chairman of the Management Board, per procura	Chief Executive Officer
Valters Ābele	Member of the Management Board, per procura	Chief Risk Officer
Vladislavs Mironovs	Member of the Management Board	Chief Commercial Officer Retail
Uldis Upenieks	Member of the Management Board	Chief Compliance Officer
Slavomir Mizak	Member of the Management Board	Chief Technology Officer
Johan Åkerblom	Member of the Management Board, per procura	Chief Financial Officer
Kaspars Jansons	Member of the Management Board	Chief Operations Officer

Subsequent to the period end, effective from 2 March 2020, the long-time Chairman of the Management Board, Guntis Belavskis, resigned. As from 2 March 2020, Johan Åkerblom, Chief Financial Officer of the Bank, has been appointed as interim Chairman of the Management Board. On 1 March 2020, Vaidas Žagūnis became a member of the Management Board responsible for the development and management of the corporate business in the Baltics. As of 24 October 2019, Santa Purgaile resigned from the Management Board.

## Social Responsibility

### Within the area of social responsibility Citadele have the following three main directions

- ✓ Responsible provision of banking services to promote the economic development of the Baltics
- ✓ To increase opportunities for businesses and people
- ✓ To expand opportunities for people with disabilities and empower their involvement in society

### Responsible business

In order to provide banking services responsibly, we develop purposeful communication with our clients to increase their awareness of banking services and the opportunities, obligations and risks that they bring. To lend responsibly, we carefully evaluate the ability of each potential borrower to repay the loan. In business financing the Bank, in addition to industries prohibited by law, also does not offer loans for tobacco and strong alcohol production or export, as well as gambling industries; this in care of physical and mental health of the population. Similarly, when evaluating a loan application, we assess the environmental impact of submitted projects.

The Group also is taking all measures necessary to comply with the letter and spirit of law and regulations issued by the banking regulators, specifically in the AML, anti-corruption and international and national sanctions regime compliance areas.

### Increasing opportunities for businesses and people

To promote the development of the Baltic economy, our business strategy is focused on promoting development of small and medium businesses. We view these enterprises as the foundation of the nation's economic growth. Alongside this, to promote increase in quality of life and energy efficiency, we with business loans particularly support agriculture and manufacturing process efficiency projects and building insulation. In addition, Citadele's funding contributes to SME businesses in a variety of industries including professional services, real estate, construction, food production, and others.

When developing banking products and when introducing innovative solutions in banking, we intend to simplify and upgrade both business owners' and private individuals' access to quality banking services. Introducing innovative banking services is one of Citadele's crucial strategic operations. Citadele has introduced numerous digital innovations, such as mobile and NFC payments for customers, instant SEPA payments, online credit scoring and mobile on-boarding.

Throughout 2019, Citadele continued to develop and launch innovative digital solutions, products and services. We have launched consumer loans via Mobile App, expanded in-store payments by smartphone, instant card and POS terminal issuance, and P2P payments to mobile phone numbers for private customers, an interactive online platform, finoterapija.lv, offering free automated financial consultation.

### Launch of Sustainable Pension Plan

Noting the importance of sustainability considerations in financial system, the Bank's subsidiary and pension manager - CBL Asset Management has created Latvia's first Sustainable Opportunity Investment Plan, a pension plan where savings are invested in businesses that are sustainability leaders in their respective industries. CBL AM has also joined the UN-supported declaration on Principles for Responsible Investment, becoming the first Latvia-based pension management company to operate according to these principles. By signing this declaration, CBL AM has committed to the principles of responsible investment - the company will now give additional weight to its analysis of environmental, social and governance (ESG) considerations when evaluating and selecting which companies to invest in, as well as promoting this practice within the industry

### Expand opportunities for people with disabilities

As Citadele has set a goal to expand opportunities for people with disabilities and empower their involvement in society, 25 of the Bank's branches in Latvia are equipped with an entry/exit ramp for wheelchair access (in the remaining branches it is not possible to provide ramp due to technical reasons).

### Support projects

Since 2012 Citadele's key cooperation partner in the area of social responsibility is the Latvian and Lithuanian Paralympic Committees, which Citadele supports with the aim of improving opportunities for people with disabilities, helping them to better integrate into society and empowering them to achieve their personal goals.

To increase the opportunities for talented young people with disabilities to gain a higher education, Citadele has operated a special scholarship programme in cooperation with the Vitolu fonds foundation since 2015.

In 2019 Citadele has signed a sponsorship agreement to support the new interdisciplinary program of excellence under Riga Business School (RBS) "Computer Science and Organizational Technologies". Financial support covers scholarship and expenses of the necessary equipment for the RBS Business Intelligence Laboratory. Program is owned by the University of Latvia and Riga Technical University in cooperation with the University of Buffalo (USA).

## Internal control

The purpose of the internal control system is to provide justified assurance that the assets of the Bank and the Group are ensured against loss, unauthorised management, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the inherent and probable risks of the Bank and the Group, the transactions are performed in line with the procedures prescribed at the Bank and the Group, the Bank and the Group act reasonably, prudently and efficiently in full compliance with the requirements of laws and regulations, and the drawbacks identified in the management of the Bank and the Group are eliminated.

The Management Board and the Supervisory Board of the Bank bear responsibility for the creation of the overall internal control system and the efficient functioning thereof. In order to ensure due responsibility with respect to the preparation of financial statements and the truthfulness, impartiality, explicitness and completeness of the information disclosed therein, adequate accounting methods that are described in the internal regulations are applied at the Group.

The Internal Audit Division is involved in the monitoring and assessment of the internal control system at the Bank and the Group. The reports on the internal audit results prepared by the Internal Audit Division are sent to the Bank's Management Board, Supervisory Board and the Audit Committee thereof, which inter alia oversees the efficiency of the internal control and risk management system. The Internal Audit Division performs its responsibilities in accordance with the applicable laws and regulations, the standards for the professional practice in internal auditing and the internal regulations of the Bank and the Group.

## Procedures and policies

In order to implement social responsibility, Citadele operates in accordance with a number of procedures and policies, for example, Environment and Social Risks in Lending Transactions of Legal Persons, Procedure for Donation and Sponsoring Activities by AS Citadele banka Group, Anti-corruption policy, Data protection policy, and more.

## Anti-corruption framework

The Bank's operation is based on transparent and sustainable actions in the financial markets. The Bank has a zero tolerance for corruption, as well as expects a similar attitude and conduct from its employees, clients and business partners. The Bank follows the principle of not offering bribes or any other unauthorised payments, or incentives, not requesting bribes or any unauthorised payments from the current or prospective clients and business partners. The Bank's employees shall not accept or give bribes, act as intermediaries or become involved in any other manner in bribery in the interests of the employee itself, the employee's family or other persons.

### Internal rules to comply with anti-corruption principles and ensure transparency

For timely identification and understanding of corruption risk, the Bank ensures explicit and unequivocal internal rules for the priority areas enabling to comply with anti-corruption principles and ensure transparency, described in a number of policies and procedures, e.g. Code of Ethics, Policy for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism, Policy for a Conflict of Interest in the Rendering of Investment and Ancillary Investment Services, Procedures for Assessment of Reports on Breaches, Monitoring of Employee Transactions, Procurement and more.

Citadele also has an internal whistleblowing process where employees can anonymously report violations of internal or external rules sending the notification via the link of the Bank's internal website 'Report on Breach' or by sending a letter by mail or courier addressed to the respective contact person.

All employees shall undergo compulsory training courses dedicated to the prevention of corruption risk and fraud risk and all employees of the Bank shall submit an annual confirmation of their compliance with the principles prescribed in Anti-corruption policy.

## Employees

As of 31 December 2019, the Group had 1,369 (2018: 1,492) and the Bank had 1,292 (2018: 1,147) full time equivalent active employees. The number of employees of the Bank increased as a result of the transfer of the business and employees from AB Citadele bankas (Lithuania) to the Lithuanian branch of AS Citadele banka in January 2019.

### Working towards Employer of Choice

Citadele Group continuously invests resources in its employer branding, talent attraction and retention, as well as implements internal programs aimed at improvement of loyalty and motivation of its employees. Employees' engagement survey is organized on annual basis for all Citadele Group's functional units and focus groups are being organized to improve the survey results.

Citadele Group monitors the market trends to offer a competitive remuneration to its employees. Citadele Group aims to be the most desirable employer in Latvia, based on a set of values reflecting the performance-based nature of the organisation and the focus on strong profitability.

### Remuneration policy

Citadele's remuneration policy is designed to attract, retain, motivate and develop professional and talented employees so that it can achieve its short-term and long-term goals.

Citadele Group's remuneration policy includes basic compensation (fixed base salary), variable compensation (incentive schemes, performance based annual bonus, long-term incentive plan), and perks (health insurance, Citadele Group's products at a special employee rate).

### Employee training program

The Bank also provides trainings, seminars and external certification to its employees. Employees can also use the Bank's E-learning system, retrieving the study materials and taking the respective examinations. These additions improve each employee's development and growth within the company.

### Other

Citadele supports an active lifestyle and alternative transport; therefore, employees at the bank's central office building have access to convenient and secure bicycle parking and showers. Employees of the central office building also have access to special leisure zone. Thinking about employee and client convenience, the "Chef Rids Brunchery" lunch restaurant was opened at Citadele's headquarters in 2018, offering people high quality meals in modern and cosy surroundings.



**1,369**

**Employees**

31 December 2019, Group

### Working towards Employer of Choice

#### Talent development

- Personalized development plans
- Solid training curriculum (external & internal courses)
- Advanced leadership skills development programs

#### Citadele Employer brand to become an employer of choice

- Competitive remuneration
- Internal activities & initiatives
- Attractive benefits