

AS Citadele banka

Sustainability Report

for the year ended
31 December 2020



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 2020. Our report summarizes 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 a wide range of banking products to our retail, SME and corporate customer base. The Bank also provides wealth management, asset management, life insurance, pension, leasing and factoring products. Alongside traditional banking services, Citadele offers a range of services based on next-generation financial technology, incl. a modern Mobile App, contactless and instant payments, modern client onboarding practices and technologically enabled best-in-class customer service.

Main market – the Baltic states

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.

As of 31 December 2020, Latvia accounted for 57% of the total loan portfolio (EUR 876 million), followed by Lithuania at 32% (EUR 494 million) and Estonia at 10% (EUR 149 million).



Citadele had a total market share in Latvia of 12.2% in total loans, 18.5% in total deposits and 18.0% in total assets, according to data as of 31 December 2020 published by the Finance Latvia Association.

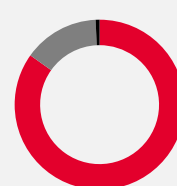
Stable client base

Active customers reached all time high of 326 thousand clients as of 31 December 2020, or 4% growth y-o-y. Mobile App users and Internet bank customers increased by 9% and 1% y-o-y, respectively, reaching 143 thousand active Mobile App users and 195 thousand active Internet Bank customers.

Active customers by country



326k
Active
clients



■ Latvia
■ Lithuania
■ Estonia

Distribution network

AS "Citadele banka" has 20 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of 31 December 2020. AS Citadele banka has 2 client consultation centres in Latvia. The Lithuanian branch has 5 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 rating - Baa3, positive

International credit rating agency Moody's Investors Service has assigned Baa3 rating with positive outlook. The main credit strengths are:

- Strong capitalization
- Improved governance, with selective growth in its home markets, and reduction of the non-resident segment

Moody's (17 February 2021)

Long term deposit	Baa3
Long term counterparty risk rating	Baa2
Short term deposit	P-3
Short term counterparty risk rating	P-2
Outlook:	Positive

Detailed information about ratings can be found on the web page of the rating agency www.moody.com

Group's Vision and core values

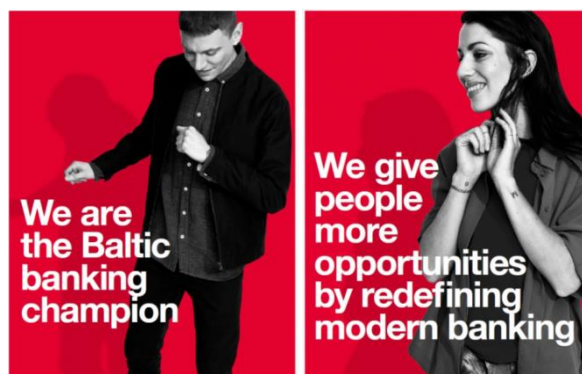
Citadele Group's commitment to highest ethical standards is the foundation of the Company's vision and core values. The Group's vision is "To be the Baltic banking champion". It represents the main purpose of Group's existence. The Group's core Values are – **Aspire**, **Personalize** and **Innovate**. As part of ongoing culture transformation, the fourth value – **Act** – was introduced and communicated throughout the organization in December 2020.

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 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 actions is how Citadele Group strengthens its culture, delivers a superior customer experience and represents Citadele. The Group aims to facilitate and maintain working environment which supports and ensures an open dialogue and 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 customers decently, fairly, professionally and behave with respect to all persons.



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

Act

Real actions deliver a superior customer experience

Products and services of the Group

Private customers

Private individuals are serviced in Latvia, Lithuania and Estonia. The segment includes full banking and advisory services provided through branches, internet bank and mobile banking application.

SME

Micro, small and medium-sized companies in Latvia, Lithuania and Estonia are serviced through branches, internet bank and mobile banking application. Offerings in e-commerce and financing for SME businesses.

Corporates

Large corporate customers serviced in Latvia, Lithuania and Estonia. Customers are serviced individually across Baltics are offered complex financing solutions as well e-commerce services.

Leasing

Leasing and factoring services provided to private individuals and companies in Latvia, Lithuania and Estonia.

Wealth management

Private banking, advisory, investment and asset management services provided to wealthy individuals serviced in Latvia, Lithuania and Estonia.

Investment management

CBL Asset Management is one of the leading investment management companies in the Baltics servicing state-funded pension plans, proprietary investment funds and asset portfolios of private individuals and companies.

Financial Highlights

EUR millions	2020	2019	2018
Net interest income	67.5	84.6	82.6
Net fee and commission income	30.2	30.9	33.4
Net financial and other income	(3.1)	8.4	11.2
Operating income	94.7	123.9	127.2
Operating expense	(80.0)	(82.8)	(85.4)
Net credit losses and impairments	(10.5)	(3.7)	(7.0)
Net profit	3.6	36.5	34.8
Return on average assets (ROA)	0.09%	1.07%	1.10%
Return on average equity (ROE)	1.05%	11.5%	12.3%
Cost to income ratio (CIR)	84.5%	66.8%	67.1%
Cost of risk ratio (COR)	0.6%	0.2%	0.5%
<i>Adjusted for one-time item¹:</i>			
Operating income	123.5	123.9	127.2
Net profit	32.4	36.5	34.8
Return on average assets (ROA)	0.78%	1.07%	1.10%
Return on average equity (ROE)	9.5%	11.5%	12.3%
Cost to income ratio (CIR)	64.8%	66.8%	67.1%
EUR millions (Reclassified)			
	31 Dec 2020	31 Dec 2019	31 Dec 2018
Total assets	4,597	3,743	3,052
Loans to public	1,541	1,568	1,396
Deposits from customers	3,671	3,290	2,645
Shareholders' equity	344	341	297
Loan-to-deposit ratio	42%	48%	53%
Total capital adequacy ratio (CAR), transitional (including period's result)	26.0%	22.2%	20.1%
Common equity Tier 1 (CET1) capital ratio, transitional (including period's result)	22.1%	18.8%	16.7%
Full time employees	1,230	1,369	1,492

¹2020 is adjusted for one-time losses related to the tail risk defensive measures in the amount of EUR (28.8) million, included in "Net financial and other income".

Key highlights

The **Group's assets** stood at EUR 4,597 million as of 31 December 2020, representing a 23% increase from year end 2019 (EUR 3,743 million).

The **net loan portfolio** stood at EUR 1,541 million as of 31 December 2020, remaining stable vs. year-end 2019. New lending in 2020 reached EUR 477 million.

The main source of funding, customer deposits, grew by 12% vs. year-end 2019. Baltic residents' deposits increased by EUR 458 million (+18% y-o-y). As of 31 December 2020 total Group customer deposits were EUR 3,671 million.

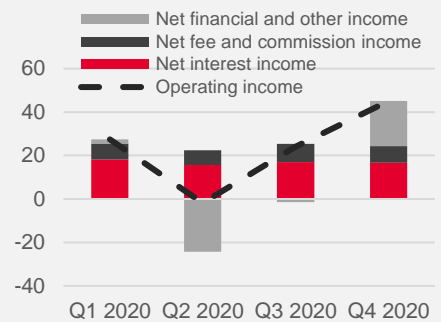
Operating income during the period was affected by Covid-19-related disruption to economic activity. The defensive and proactive measures taken during H1 2020 had negative impact on the Bank's profitability.

Business activity resumed in the second half of the year, and net profit in Q4 2020 reached EUR 24.1 million. Year 2020 was closed with EUR 3.6 million in net profit.

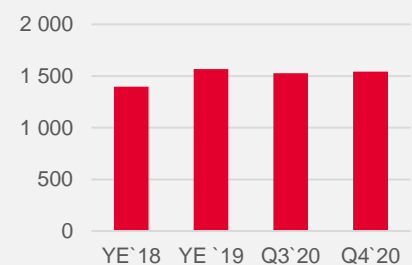
The Bank continues to operate with **strong capital and liquidity ratios**. Group's CAR reached 26.0% and LCR was 356% as at 31 December 2020.

Detailed information about Citadele financial performance is published on the Group's website www.cblgroup.com.

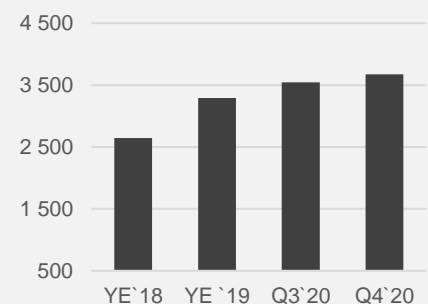
Operating income, EURm



Loans, EURm



Deposits, EURm



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 regulations.

The Shareholders meeting elects the members of the Supervisory Board, which is responsible for the supervision and appointment of the Management Board. The Supervisory Board shall consist of 9 members, elected for the term of 5 years. The Management Board shall consist of 8 members. As of 31 December 2020 the 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 Group's annual accounts, profits distribution decision, amendments of the Group's share capital and/or Article of Association, appointment and dismissal of the Supervisory Board members, auditors and other matters.

Supervisory Board members as a 31/12/2020

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 31/12/2020

Name	Position	Responsibility
Johan Åkerblom	Chairman of the Management Board	Chief Executive Officer, Chief Financial Officer
Valters Ābele	Member of the Management Board	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
Kaspars Jansons	Member of the Management Board	Chief Operations Officer
Vaidas Žagūnis	Member of the Management Board	Chief Corporate Commercial Officer

As from 2 March 2020, Johan Åkerblom, previously Chief Financial Officer of the Bank, is Chairman of the Management Board. Effective from 2 March 2020, the long-time Chairman of the Management Board, Guntis Belavskis, resigned. On 1 March 2020, Vaidas Žagūnis joined the Management Board and is responsible for the development and management of the corporate business in the Baltics. After the year-end on 1 January 2021 Vladislavs Mironovs is refocusing on Strategy execution, Digital evolution and Business development, Valters Ābele takes Chief Financial Officer role and Slavomir Mizak runs merged IT and Operations organization. Former Chief Operations Officer Kaspars Jansons resigned on 1 January 2021. Kaspars Jansons will remain in Citadele working with the shareholders. Effective from 1 February 2021, Rūta Ežerskienė joined the Management Board. Rūta Ežerskienė is responsible for the Retail business.

Sustainability

Within the area of sustainability Citadele have the following three main directions

- ✓ Responsible provision of banking services to promote the Baltics economy
- ✓ Socially responsible bank
- ✓ Offer banking services supporting the environment friendly business and green economy

Responsible business

To provide banking services responsibly, we develop purposeful communication with our clients to increase their awareness of banking services and the opportunities, obligations and underlying risks. To lend responsibly we carefully evaluate the ability of each potential customer to repay the loan. In business financing the Bank, in addition to industries prohibited by law, also does not support financing of tobacco and strong alcohol production or export, as well as gambling industries for the care of physical and mental health of the population.

The Group also is taking all measures necessary to comply with the banking supervision regulations, specifically in the anti-money laundering, anti-corruption and international and national sanctions regime compliance areas.

To contribute to the sustainable growth of the Baltics economy our business strategy is focused on promoting development of small and medium businesses in a various industries including production, construction, professional services, and others.

When developing and launching innovative banking solutions, we intend to simplify and upgrade customers access to best in class banking services. 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 2020 Citadele continued to extend remote services and products to meet customer expectations across multiple channels and markets. Citadele launched ApplePay and new e-commerce solution Klix, enabling a streamlined e-commerce experience for customers. Customers in Latvia get instant individual offers from Citadele for mortgages and consumer loans via digital channels. X smart cards were introduced for students and juniors, and new innovative X card introduced based on subscription model.

Social responsibility

To promote tolerance in society the Bank involves and launches charity projects for people, animals and nature support. Citadele has set a goal to expand opportunities for people with disabilities and empower their involvement in society.

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

To support young talented people, 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).

Citadele's co-operation with its brand ambassadors - world class basketball players Kristaps Porziņģis and Mindaugas Kuzminskas, tennis player Aļona Ostapenko and rally cross driver Reinis Nitišs - aims to inspire people and businesses to grow and achieve great results.

In 2020 Citadele supported charity to low-income families and "food banks" in the Baltics.

To increase understanding regarding financial services and products, Citadele organized camps for kids where Citadele experts shared their knowledge regarding budget planning, principles of economy, bank operations – information giving children basics of financial education.

The environment friendly business and green economy

Climate change and climate related risks are becoming a key priority for a wide range of industries, including financial institutions. Citadele has both direct and indirect impact on climate:

- direct impact through own operations, and
- indirect impact through providing bank's products and services.

Citadele has decreased business traveling by company cars in 2020 by 43% y-o-y (317 thousand km driven). Electricity consumption has decreased 23% y-o-y (3,555 thousand kWh). Citadele supports alternative transport and employees at the bank's central office building have access to convenient and secure bicycle parking and showers. In daily operations the Group is moving towards a completely "paperless" approach, digitalizing both documents in customer service and in internal processes. To decrease environmental impact employees are encouraged to limit printing or sort waste, as well use of remote communication tools, data exchange and storage solutions are promoted within the Group to transform to "paperless company". Number of printers have been decreased in 2020 by 80% (42 printers in Latvian headquarters building).

Financial sector can redirect capital flows to achieve more sustainable economy. In Q4 2020 Citadele launched new campaigns to stimulate companies to

renew their car park with environment friendly electrical cars, thus helping economy to access sustainable assets for more attractive price. The Bank will continue to develop new offers supporting the green transformation.

The Bank assesses the environmental impact of potential projects when evaluating loan application. Environmental and social risks evaluation is included as part of the loan origination to legal persons due diligence. To promote increase in quality of life and energy efficiency, we particularly support agriculture and manufacturing process efficiency projects and building insulation.

Noting the importance of sustainability considerations in financial system, the Bank's subsidiary, and pension manager - CBL Asset Management has created 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. By signing this declaration, CBL AM has committed to the principles of responsible investment - the company gives 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.

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. 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 sustainability throughout the Bank's business activities, Citadele operates in accordance with a number of procedures and policies, for example - the environmental impact of potential projects is assessed based on "Loan origination to legal persons" procedure and "Environmental and social risk inspection" regulation. In social responsibility area Citadele among other internal documents, operates in accordance with Procedure for Donation and Sponsoring Activities, which outlines Citadele goals and principles of donation, 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, customers 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. 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.

Employees

As of 31 December 2020 the Group had 1,230 (2019: 1,369) and the Bank had 1,152 (2019: 1,292) full time equivalent active employees. The number of employees decreased reflecting the progress of ongoing efficiency initiatives.

Working towards Employer of Choice

Citadele Group continuously invests resources in its employees' well-being and motivation, as well as implements programs for new talent attraction and its employees' retention. Engagement survey is organized on annual basis for all Citadele Group's employees, and focus groups are organized to improve the survey quality.

Citadele Group monitors the market trends to offer a competitive employment environment. Citadele Group aims to be the most desirable employer in Baltics 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, motivate, retain 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 Group also provides trainings, seminars and external certification to its employees enabling development and growth opportunities within the company. Employees can also use the e-learning system, retrieving the study materials and taking the respective examinations.

Well-being

Citadele supports an active lifestyle, 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.

Following Covid-19 pandemic in 2020, daily operations were successfully adjusted to ensure business continuity and safety under Covid-19 conditions. Citadele has taken extensive precautionary measures to protect the Bank's employees, clients and partners and implemented a series of actions to minimize disruption to the Group's operations during the Covid-19 outbreak, e.g.: response team was set up to effectively manage pandemic situation and ensure fast decision-making and communication. All employees were provided with Covid-19 health insurance and opportunity to work remotely (avg. 75% of employees worked remotely). On-site employees were organized in split teams. Most part of 2020 Citadele worked by "visit by appointment" principle in branches. All precautionary measures were taken to keep clients and employees safe, incl. virus anti-contagion protection kits (face masks, individual hand disinfectants) to front-office employees.



1,230

Employees

31 December 2020, Group

Working towards Employer of Choice

Talent development

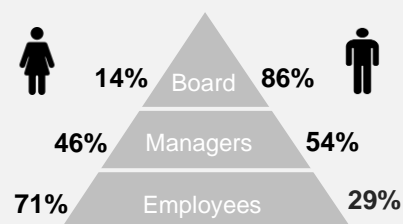
- Personalized development plans
- Solid training curriculum
- Leadership skills development programs

Citadele Employer brand to become an employer of choice

- Competitive remuneration
- Internal activities & initiatives
- Attractive benefits

Gender distribution by position and country

Citadele Group, excl. Swiss, as of 01/01/2021



	Female	Male
Latvia	68%	32%
Lithuania	69%	31%
Estonia	74%	26%
Total	68%	32%

Age distribution by country

	<30	30-40	40-50	50+
Latvia	22%	40%	25%	13%
Lithuania	29%	39%	21%	10%
Estonia	19%	40%	34%	6%
Total	23%	40%	25%	12%

More information about Citadele

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 website.

Risk management Information on the elements of the risk management system is available in AS Citadele banka Annual report for the year ended 31 December 2020 and Risk management and capital adequacy report (Pillar 3 disclosures) published on the Bank’s website www.cblgroup.com (section “About us”, subsection “Corporate governance”).

Learn more about Citadele



On our website

www.cblgroup.com



In our financial reports

www.cblgroup.com/en/investors/financial-reports/



In our risk and capital adequacy reports

www.cblgroup.com/en/about/governance/risk-management/