

AS Citadele banka

Sustainability Report

for the year ended
31 December 2017

Sustainability for Citadele Group means developing our business for the long term by estimating social, environmental and economic considerations in the decisions we make, products we offer and services we provide.

This document outlines our principles of sustainability in 2017. Our report articulates 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.

CITADELE GROUP

AS Citadele banka in Latvia (Citadele Bank) is a parent company of the Group, and its subsidiaries and branches operate in Latvia, Lithuania, Estonia and Switzerland.

Citadele Group provides a wide range of banking services to a wide range of customers. Citadele Bank is the third largest bank in Latvia by number of customers. The three core areas of business activity undertaken by Citadele Bank in Latvia are retail and SME, corporate and private capital management.

In addition to its operations in Latvia, Citadele Group offers banking, leasing and private capital management operations in Lithuania and Estonia, and it offers private banking and wealth management services through its subsidiary in Switzerland. Citadele Group also has operations in relation to asset management, leasing, life assurance and pension fund management.

The Group's main areas of operation include:

- accepting deposits from customers,
- granting short-term and long-term loans to a wide range of customers,
- local and international payments,
- payment cards acceptance and issuance,
- foreign currency Exchange transactions,
- trust asset management and private banking services,
- leasing and factoring.

Geographical footprint

Country	Banking	Leasing	Asset Management	Pension Fund Management	CBL Life Insurance
Latvia	☐	☐	☐	☐	☐
Lithuania	☐	☐	☐		
Estonia	☐	☐	☐		
Switzerland	☐		☐		

As of 31 December 2017 Citadele Group was operating a total of 31 branch offices and client service centres in Latvia, 1 client service centre in Estonia, 8 branch offices in Lithuania and 1 branch office in Switzerland.

The Group has online and mobile banking platform, which is available in Latvia, Lithuania and Estonia.

Awards

Citadele has won local and international awards during 2017. In 2017, one of the leading customer service evaluation firms in Central and Eastern Europe, Dive, acknowledged Citadele as the bank with the best customer service in Latvia and Lithuania.

The Group's company's CBL Asset Management managed funds are repeatedly recognized by Lipper Fund Awards. In March 2017, for the second year running, international investment fund research company Lipper recognized CBL Eastern European Bond Fund R Acc USD as the best fund in 2016 in terms of returns and risks in the European Emerging Markets Bond's category over a three and five year period.

Other

In November 2017, the Bank completed its subordinated bonds program. The objective of the emission was to refinance the existing subordinated liabilities with European Bank for Reconstruction and Development and to continue improving the Group's capital adequacy ratio.

More information on the economic activities of the Citadele Group, financial condition, geographical markets, risk politics and the development of the Group can be found on the website www.cblgroup.com in the Investor Relations section.

CORPORATE GOVERNANCE

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

Governing bodies

Citadele's corporate governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Citadele's Articles of Association, 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. The Management Board, which is an executive body, is responsible for the management of Citadele's day-to-day operations. 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.

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.

Risk management

Information on the elements of the risk management system is available in AS Citadele banka's separate and the Group's consolidated annual report for the year ended 31 December 2017 and in the Risk Management and Capital Adequacy Report published on the Bank's website www.cblgroup.com (section 'About us', subsection 'Corporate governance').

The Group's consolidated and the Bank's separate report for the year ended 31 December 2017 are publicly available at AS Citadele banka's headquarters at Republikas laukums 2a, Riga, and on the website www.cblgroup.com in section 'For investors', subsection 'Financial statements'.

Other

The Supervisory Board of the Bank has elected Uldis Upenieks and Slavomir Mizak in the Bank's Management Board in 2017. The Bank has received the approval of the Financial and Capital Market Commission and both Board members have started their duties in August, 2017. Uldis Upenieks is responsible for Compliance area and Slavomir Mizak is responsible for the Group's IT and technology development.

David Shuman resigned of the Supervisory Board of Citadele in February 2017. Baroness Catherine Ashton joined the Supervisory board as of May 2017.

MISSION AND STRATEGY

Mission and vision

Mission of Citadele Group is to provide their clients with wide-ranging and best-in-class financial services, and to become the primary bank of choice for aspiring retail and small business customers across the Baltics.

Philosophy

The Group supports sustainable growth of local small and medium size enterprises, whilst contributing to stability and prosperity of Baltic economy. Citadele's employees act as true owners of the Bank, constantly striving to achieve the best possible result in whatever they do.

Strategy

Citadele Group's strategy is to become the leading local bank of choice for aspiring individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States.

Citadele Group intends to achieve this by enhancing its digital capabilities, distribution channels and network, current banking products by placing a high emphasis on quality of service across customer segments.

The strategy will be implemented using following tactical steps:

- Becoming the primary bank of choice for mass affluent retail customers by increasing new and existing customers that use Citadele as their primary bank and develop current account "hook" products, new card products and new online banking features
- Enhancing consumer lending products to retail customers by building strong relationships with retailers, offering card products, and improving the loan approvals process
- Driving growth in the underserved SMEs and micro-SMEs segments by expanding product offerings such as small business overdrafts, improving customer relationship management, and building advisory package for customers
- Expanding the scope of offer in Private Capital Management, Asset Management and Pension product offerings to promote product usage among Bank clients and commission income growth

SOCIAL RESPONSIBILITY

Within the area of social responsibility we have three main directions:

- Responsible provision of banking services to further 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 carry out the responsible provision of banking services, we develop purposeful communication with our clients to increase their awareness of banking services and the opportunities, obligations and risks that they bring. In lending responsibly, we carefully evaluate the ability of each potential borrower to take on a loan. In business financing, in addition to industries set in law which banks cannot finance, the Bank, caring about the physical and mental health of the population, also does not offer loans to the alcohol and gambling industries. Similarly, when evaluating a loan application, we assess the environmental impact of each submitted project.

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.

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

In developing various banking products, as well as in introducing innovative solutions in banking services, we increase both business owners' and private individuals' opportunities to complete projects and reach their goals. Introducing innovative banking services is one of Citadele's crucial strategic operations. Citadele is the first bank in the Baltics to

introduce smartphone payments, touchscreen ATMs, payment cards with an inbuilt e-talons function, among other products.

As Citadele has set a goal to expand opportunities for people with disabilities and empower their involvement in society, 26 of the Bank's branches in Latvia are equipped with a ramp for wheelchairs. In the 5 branches where it is not possible to provide a ramp for technical reasons, it is planned to introduce a bell for requesting assistance.

Supporting projects

In 2017, the Latvian Chamber of Commerce and Industry with the Bank's support organized several conferences and events for entrepreneurs and those who are interested in business to contribute development of business environment in regions.

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 Vītoli fonds foundation since 2015.

"New York Knicks" basketball players Kristaps Porziņģis and Mindaugas Kuzminskas, as well as tennis star Aļona Ostapenko, world boxing champion Mairis Briedis and world-class rallycross driver Reinis Nitišs are brand ambassadors of Citadele in the Baltics. By means of this cooperation, Citadele wishes to inspire people and businesses to grow and excel. Citadele hopes that its cooperation with Kristaps fosters enthusiasm, zeal, inspiration and pride for being part of Kristaps Porziņģis' home country that can deliver amazing results. Within this cooperation, Citadele has organized annual meetings for young basketball players - fans to meet Kristaps in person in Latvia, and inspire for trainings and achievements in sports.

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.

EMPLOYEES

As of 31 December 2017, Citadele Group had 1540 employees compared with 1694 employees as of 31 December 2016. 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).

Citadele Group aims to be the most desirable employer in Latvia. The Group continuously works under its employer branding, talent attraction and retention, implements internal programs that improves employee's loyalty and motivation. Employees engagement survey is organized on annual basis for all Citadele Group's functional units and focus groups organized to improve the survey results. The Group monitors the market trends to offer a competitive remuneration to its employees.

The Bank also provides trainings, seminars and external certification to its employees. These additions improve each employee's development and growth within the company.

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 were installed in 2017. At the same time in 2017, a special leisure zone was installed for employees at the central office building.