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EXCERPT FROM POLICY ON INTEGRATION OF ESG FACTORS INTO INDIVIDUAL PORTFOLIO MANAGEMENT

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1. Policy objective

1.1. Joint stock company "Rietumu Banka" (hereinafter – the Bank) *Excerpt from Policy on Integration of ESG Factors into Individual Portfolio Management* (hereinafter – Policy) determines the guidelines of the Bank on the assessment of Sustainability risks in the process of Individual portfolio management, its supervision and control, and the responsibility of the involved structural units.

1.2. The Policy provides the basic conditions for the disclosure of information specified in the Regulation No 2019/2088 on the integration of ESG factors in the process of Individual portfolio management.

2. Terms and Abbreviation Used

BLOOMBERG – operational IS of securities and currency quotations.

ESG factors – environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

ESG rating – in accordance with the methodology provided for in the Policy, the rating of each FI to be included in the Portfolio is determined in numerical terms.

Financial instruments (FI) – financial instruments in the sense of the Financial Instrument Market Law of the Republic of Latvia; including, but not limited to: transferable securities (share, bond), money market instruments, investment or alternative fund investment certificates; as well as: options and futures contracts, over-the-counter futures, swaps, contracts for difference in prices, etc. instruments.

Sustainability risk – a risk factor related to an existing or potential environmental, social or governance principal adverse impact on the value of the investment. It is evaluated as a factor affecting other financial and non-financial risks (risk driver), not as a separate type / subtype of risk.

Sustainable investment – an investment in an economic activity that contributes to an environmental or social objective, do not significantly harm an environmental or social objective, the investee companies follow good governance practices.

Individual portfolio management – portfolio management service, i.e. management of the Client's cash funds and/or FI, carried out by the Bank in accordance with the conditions of the *Client's Financial Instruments Individual Portfolio Management Agreement* in the Client's interests and at the Client's risk and expense.

Client – a private individual or a corporate entity, or a legal arrangement, or an association of such individuals/entities/arrangements to whom the Bank provides Individual portfolio management services in accordance with the *Client's Financial Instruments Individual Portfolio Management Agreement*.

Portfolio – a set of FI and cash belonging to the Client, which the Bank holds and manages within the framework of the Individual portfolio management service.

Regulation No 2019/2088 – Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, and delegated and implemented regulations that supplement the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

Regulation No 2022/1288 – Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

3. Goals and Objectives

3.1. The Policy is developed with the aim of ensuring transparency by integrating ESG factors in the process of Individual portfolio management and providing sustainability-related information on the Individual portfolio management service provided by the Bank.

3.2. In order to achieve the set goal, the Bank
1) discloses information on how Sustainability risks are integrated into its investment decision-making processes;
2) discloses information on the assessment of possible negative effects when evaluating the Client's Portfolio;
3) provides information on environmental and social characteristics and sustainable investments before entering into the agreement.

4. Guidelines

4.1. The Bank establishes the following guidelines for the Individual portfolio management and the integration of the possible negative impact of Sustainability risks or the assessment of the positive impact of ESG factors into the Bank's investment decision-making process:

4.1.1. in the Individual portfolio management, the most important factor is always the return versus the risk, but the Portfolio is applied to the degree of risk appropriate for the Client;

4.1.2. Sustainability risk is integrated into the overall risk assessment process with the aim of achieving the highest possible ESG rating without reducing the Portfolio's profitability and without increasing the Portfolio's risk level. Sustainability risk is assessed based on ESG rating, which are inversely related, i.e. the higher the ESG rating, the lower the Sustainability risk.

4.2. The Bank is aware that taking ESG factors into account in making investment decisions can have an impact on the risk and profitability of financial products and tries to prevent the relevant decisions from causing or contributing to a negative impact on the Portfolio's overall risk and profitability.

4.3. In the process of Individual portfolio management, the Bank constantly assesses not only financial risks, but also Sustainability risks, which might have a relevant material negative impact on the return of an investment.

4.4. For each individually designed Portfolio, FI are matched individually based on risk/return maximization. In an individually designed Portfolio, each FI is assessed against ESG factors, and the Portfolio is assigned an ESG rating. In case of similar FI, the FI with a better ESG rating is selected. However, the Bank retains the option for the Client to make an investment that does not comply with ESG factors, informing the Client that the relevant Portfolio will have a low ESG rating and thus a higher Sustainability risk.

4.5. The Bank takes the following measures to determine the possible impact of Sustainability risk:
1) analyses the ESG ratings of the FI to be included in the Portfolios, assessing each FI individually and the Portfolio as a whole;
2) before the FI is purchased and included in the Portfolio, each FI is evaluated and assigned an ESG rating in accordance with Section 5;
3) evaluates each Client's Portfolio once a year to determine its compliance with the established ESG rating.

4.6. The Bank assesses the potential negative impact of Sustainability risk on Portfolio profitability by using the screening method and identifying areas where investments contribute to negative impact, create negative consequences and increase the likelihood of Sustainability risk. In order to avoid financing companies that have a clear negative impact on sustainability, the Bank excludes companies of the relevant sector from the investment target market or reduces investments in relevant sectors, such as gambling, alcohol and tobacco trade.

4.7. In order to assess the negative impact of Sustainability risks, the Bank determines an appropriate ESG rating according to the methodology defined in Section 5 hereof.

4.8. In order to assess the positive impact of the integration of ESG factors in investment decision-making, the Bank determines the ESG rating according to the methodology specified in Section 5 hereof.

4.9. The requirements for the application of ratings are provided for in the internal regulatory documents, which determine the process of Individual portfolio management.

4.10. The assessment of the impacts of Sustainability risks and its integration into the overall risk assessment is provided by the Bank, determining the ESG rating according to the methodology defined in Section 5 hereof.

4.11. The Sustainability risk is included in the Bank's remuneration policy.

5. ESG Rating Methodology

5.1. The ESG rating for each FI is determined taking into account the FI's issuing company, country or public institution, as well as the proportions of these issuers in the investment fund.

5.2. ESG rating by issuing company.

5.2.1. The data of the rating provider S&P Global available on the BLOOMBERG is used to determine the ESG rating. S&P Global's ESG factor valuation model is based on the relative-within-sub-sector valuation principle.

5.2.2. The S&P Global ESG factor evaluation model uses a sector classification criterion for evaluation, which foresees 62 sub-sectors to form single groups of companies in each sector.

5.2.3. For each industry, S&P Global determines the weights of ESG factors based on their expected size of impact (degree of impact) and the likelihood of their impact (probability and timing of impact) on the company's financial position in terms of growth, profitability, capital efficiency and other risk dimensions. Factors are additionally evaluated in terms of their overall impact and importance to shareholders and the environment in order to create regularity in the final ESG rating.

5.2.4. In order to obtain the final rating, S&P Global goes through several steps in data collection and processing. First, S&P Global collects more than 1,000 data points for a given company, then sends the company on average 120 industry-specific questions, the answers to which build a basic data model. From the obtained results more than 30 criteria evaluation points are evaluated for each of the sustainability sections, such as corporate governance (G), climate strategy I and human rights (S). From these ratings, a score is obtained for each of the ESG sections, after which the overall ESG rating is calculated.

5.2.5. S&P Global evaluates several characteristics in the rating of each factor, which are included in the overall calculation, which are:

1) Environmental factor:

Biological diversity; building materials; climate strategy; joint processing; electricity generation; environmental policy and management system; reflecting environmental factors; fuel consumption efficiency; genetically modified organisms; carbon dioxide emissions reduction program; management of mineral fertilizers; operational eco-efficiency; package reduction program; effective product management; extraction of raw materials; waste recycling program; conservation and efficient use of resources; sustainable forest management; transmission and distribution policy; water use; risks related to water use.

2) Social factor:

Approach to cost burden; asset liquidation management; company contribution to society and philanthropy; financial equality; provision of healthcare opportunities; human capital development; respect for human rights; work environment indicators; local impact from the company's operations; occupational safety and health effects; cooperation aimed at sustainable healthcare; passenger safety; content responsibility; social impact on society; social integration and rehabilitation; social reporting; shareholder engagement; a strategy to improve access to medicines or products; talent attraction and retention.

3) Governance factor:

Anti-crime policies and measures; brand management; the company's work ethics code; compliance with export control regimes; corporate governance; customer relationship management; efficiency; energy diversification; financial stability and systemic risk; transport fleet management; health and nutrition; information system security/cyber security and system availability; innovation management; market opportunities; marketing practices; materiality; reliability of networks; policy implications; sustainable insurance principles; privacy security; product quality and return management; reliability; risk and crisis management; strategy for emerging markets; supply chain management; sustainable construction; sustainable finance.

5.2.6. The S&P Global ESG rating is expressed on a value scale of 0-100, which reflects the company's overall assessment according to ESG factors.

5.2.7. If a company lacks an S&P Global rating, then that company is assigned a value of zero. Such an approach gives a conservative bias to the assessment, but the Bank believes that such a condition is reasonably prudent.

5.2.8. The negative industry screening assigns a value of 0 to companies operating in the tobacco and gambling industries to reflect their negative impact on society. The Bank minimizes the inclusion of such issuers in Clients' Portfolios as much as possible, thus reducing the Portfolio's overall Sustainability risk.

5.2.9. The overall rating of ESG factors determined for the company is the ESG rating of the FI issued by the relevant company.

5.3. ESG rating by FI issuing country.

5.3.1. The ESG rating is determined based on the company's Global Risk Profile (GRP) annual report on the country's ESGI (Environmental, Social and Governance Index) risk assessment, which is measured on a scale from 0-100. Namely, the lower the indicator, the lower the Sustainability risk.

5.3.2. GRP's ESGI rating is based on 65 variables that are sourced from internationally recognized organizations. These variables are included in 3 independent sub-indexes:

5.3.2.1. The environment sub-index covers 191 countries and includes two indicators:

1) Air and climate
2) Ecosystem health

5.3.2.2. The human rights sub-index covers 182 countries and includes 4 indicators:
1) Convention ratification status
2) Social rights
3) Civil and political rights
4) Collective rights

5.3.2.3. The health and safety sub-index provides a score for 185 countries. It is divided into 3 indicators:
1) Health
2) Security
3) Inequality by residential areas

5.3.3. After summarizing all the collected data, the GRP model converts the obtained result into a scale from 0 to 100, where 0 represents the lowest risk and 100 corresponds to the highest risk. Then the country scores for each sub-index (environment, human rights, health and safety) are calculated using the arithmetic mean with weights of 0.2, 0.5 and 0.3 respectively. To arrive at a final risk score covering all three sub-indices, the scores are summed using the geometric mean method. The final result gives each country an ESGI Sustainability risk score on a scale of 0-100, where the lowest score indicates low risk, and the highest score indicates high risk.

5.3.4. Based on this Sustainability risk scale, the Bank obtains the country's ESG rating by subtracting the country's Sustainability risk assessment from 100 GRP, according to the formula ESG=100 - ESGI.

5.4. ESG rating for investment fund.

5.4.1. For each fund, the top 10 investments are obtained from the BLOOMBERG and evaluated according to ESG factors by the company or country valuation method, obtaining the final the result in terms of their proportional weight among themselves. This score is assigned to the entire fund.

5.4.2. This method is used because for most funds it is impossible or difficult to find the full composition of assets and their respective proportions.

5.4.3. When choosing an index fund, FI does not have the opportunity to perform negative screening and weed out companies with adverse effects on ESG factors.

5.5. ESG rating for bonds.

5.5.1. If the bonds are sovereign or quasi-sovereign, then their ESG rating is determined in accordance with Clause 5.3 herein. If the bond is issued by several countries, then this rating is calculated according to Clause 5.3 herein in proportion to the involvement of each country.

5.5.2. If the bonds are corporate, the ESG rating is determined in accordance with Clause 5.2 herein, as an ESG rating according to the parent company of this issue.

5.6. Determining the ESG rating of the Portfolio.

5.6.1. In each Portfolio, absolutely all FIs are assessed, except cash, which is not included in the ESG rating of the overall Portfolio. Those FIs that do not have the necessary data (Clauses 5.1-5.5.2) to determine the ESG rating are evaluated with 0 points but are still included in the calculation of the overall Portfolio's ESG rating.

5.6.2. The overall ESG rating of the Portfolio is calculated by summing up the ESG ratings of the FIs included in the Portfolio on a scale from 0-100 and determining the total weighted average rating of the FIs included in the Portfolio. The higher the score, the lower the Sustainability risk. The obtained final result on a scale from 0-100 is converted into the Bank's internal ESG rating scale from Very low to Very high:

Very low	Low	Medium	High	Very high
0-20	20-40	40-60	60-80	80+

5.6.3. The Bank believes that for the Portfolio of FI to be promoting sustainability it should meet the following criteria:

1) The Investment Portfolio whose ESG rating corresponds to a very high, high or medium level of ESG risk is considered a sustainability-promoting Portfolio;
2) The Investment Portfolio whose ESG rating corresponds to a low level of ESG risk is considered sustainably neutral;
3) The Investment Portfolio whose ESG rating corresponds to a very low level of ESG risk is considered an unsustainable Portfolio.

6. Sustainability Risk Management and Monitoring

6.1. The first-time FI ESG rating and ESG rating of the Portfolio is determined by an employee of the Bank, developing individual Portfolios and evaluating each FI before its inclusion in a certain Portfolio.

6.2. An employee of the Bank reviews the ESG rating of the Portfolio every time changes are made to the Portfolio and updates the rating of each FI every year when a new GRP ESGI rating is available.

6.3. The Bank once a year performs a random check of the compliance of the ESG rating assigned to the Portfolio.

6.4. The procedure and requirements for informing Clients about ESG ratings assigned to Portfolios and changes in them are determined in the internal regulatory documents that regulate the process of Individual portfolio management.

6.5. The Enterprise Risks Management Department ensures independent control and monitoring of risk management as part of the overall risk management process, including Sustainability risk, in accordance with internal regulatory documents.

7. Disclosure of Information

7.1. In accordance with the requirements of the Regulation No 2019/2088, the Bank prepares information on the integration of Sustainability risks in its investment decision-making process and in the process of Individual portfolio management, by preparing a report "Transparency of the promotion of environmental or social characteristics and of sustainable investments in pre-contractual disclosures", including:

1) the manner in which Sustainability risks are integrated into the Bank's investment decisions-making processes;
2) assessment results of the expected impact of Sustainability risks on the return of the FIs that the Bank makes available.

7.2. The information to be included in the report is prepared in such a way that Clients or potential Clients can understand the nature of the offered investment service and the specific type of FI and thus make investment decisions based on the information received.

7.3. The report prepared according to Clause 7.1 is approved by the Executive Board before disclosure and is published on the Bank's website section “Sustainability-related Information” and is updated as necessary, but not less than once a year.

7.4. According to the Regulation No 2022/1288, in the format of the template specified in Annex I, the Bank prepares "Statement on principal adverse impacts of investment decisions on sustainability factors".

7.5. The statement referred to in Clause 7.4. is prepared for the period from January 1 to December 31 of the previous year, approved by the Executive Board before disclosure and published on the Bank's website in the section "Sustainability-related Disclosures" by June 30 of the following year.