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JSC “Rietumu Banka” Executive Board
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Minutes No 81

# PRE-CONTRACTUAL DISCLOSURE OF TRANSPARENCY INFORMATION RELATED TO PROMOTION OF ENVIRONMENTAL AND SOCIAL CHARACTERISTICS AND SUSTAINABLE INVESTMENT TO CLIENTS

In accordance with Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector, JSC "Rietumu Banka" (hereinafter – the Bank) informs clients prior to entering into the Client's Financial Instruments Individual Portfolio Management Agreement about the transparency approach implemented by the Bank, disclosing the following:

1) transparency information for the promotion of environmental and social characteristics;
2) sustainable investment transparency information.

## 1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CHARACTERISTICS PROMOTED BY THE FINANCIAL PRODUCT OR ESG FACTORS

TRANSPARENCY OF SUSTAINABLE INVESTMENTS (NOT APPLICABLE)

| DESCRIPTION OF FACTORS | TRANSPARENCY IN PROMOTING ENVIRONMENTAL AND SOCIAL CHARACTERISTICS | |
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| **DESCRIPTION OF ENVIRONMENTAL FACTORS** | – Biodiversity;<br>– Building materials;<br>– Climate strategy;<br>– Co-processing;<br>– Electricity generation;<br>– Environmental policy and management system;<br>– Reflection of environmental factors;<br>– Fuel efficiency;<br>– Genetically modified organisms;<br>– Carbon Dioxide Emissions Reduction Program;<br>– Mineral fertilizer management; | – Operational eco-efficiency;<br>– Packaging Reduction Program;<br>– Effective product management;<br>– Extraction of raw materials;<br>– Waste recycling program;<br>– Conservation and efficient use of resources;<br>– Sustainable forest management;<br>– Transmission and distribution policy;<br>– Water use;<br>– Risks associated with the use of water. |
| **DESCRIPTION OF SOCIAL FACTORS** | – Cost burden management;<br>– Management of asset liquidation;<br>– The company's contribution to society and philanthropy;<br>– Financial equality;<br>– Providing healthcare facilities;<br>– Human capital development;<br>– Respect for human rights;<br>– Indicators of the working environment;<br>– Local influence from the company's activities;<br>– Safety at work and health effects; | – Cooperation on sustainable healthcare;<br>– Passenger safety;<br>– Content Liability;<br>– Social impact on society;<br>– Social inclusion and renewal;<br>– Social reporting; shareholder engagement;<br>– Strategy to improve access to medicines or products;<br>– Attracting and retaining talent. |

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| **DESCRIPTION OF MANAGEMENT FACTORS** | – Anti-crime policies and measures;<br>– Brand management;<br>– Code of ethics of the company's work;<br>– Compliance of export control regimes;<br>– Corporate governance;<br>– Customer relationship management;<br>– Efficiency;<br>– Energy diversification;<br>– Financial stability and systemic risk;<br>– Transport fleet management;<br>– Health and nutrition;<br>– Security of information systems/cybersecurity and availability of systems;<br>– Innovation management; | – Market opportunities;<br>– Marketing practice;<br>– Materiality;<br>– Network reliability;<br>– Policy impact;<br>– Sustainable insurance principles;<br>– Privacy security;<br>– Product quality and return management;<br>– Reliability;<br>– Risk and crisis management;<br>– Strategy for emerging markets;<br>– Supply chain management;<br>– Sustainable construction;<br>– Sustainable finance. |

The annual report will be published on the Bank's website.

## 2. OBJECTIVE OF SUSTAINABLE INVESTMENT IN A FINANCIAL PRODUCT

To maximize the ESG rating of the sustainability indicator in the Portfolio, increasing the sustainability of the Portfolio, while not reducing the profitability of the Portfolio and not increasing the risk of the Portfolio. Not applicable to transparency in promoting environmental and social characteristics.

| | | TRANSPARENCY IN PROMOTING ENVIRONMENTAL AND SOCIAL CHARACTERISTICS | TRANSPARENCY OF SUSTAINABLE INVESTMENTS |
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| 3 | **INVESTMENT PROPORTION** | Each FI included in the Client's Portfolio is evaluated and assigned an ESG value. All Portfolios are assigned an overall Portfolio ESG rating. There is a possibility that one of the FI does not have or does not have enough data to be given an ESG valuation of more than 0, that is why such a FI could be considered as a FI that does not correspond to a sustainable investment. However, there is no fixed proportion between sustainable and unsustainable FI's. For individually designed Portfolios, FI's are selected individually based on risk/return maximization. In the case of similar FI's, a FI with a better ESG rating is selected. However, the Bank retains the option of making an investment that does not comply with ESG factors, informing the client that the respective Portfolio will have a low ESG rating and therefore a higher sustainability risk. | Investments are created on the basis of the principle of good governance, evaluating the risk profile of the portfolio and creating a Portfolio that corresponds to the desired degree of risk, maximizing the profitability of the Portfolio, investing in a diversified manner, as well as minimizing the sustainability risk of the Portfolio, i.e. maximizing the ESG rating of the Portfolio. |

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| | | The distribution of proportions found in Client's portfolios:<br>i. total investments that are sustainable and the distribution of these sustainable investments between environmental and/or social objectives: <u>All investments</u><br>ii. total investments other than those referred to in point (i) which contribute to the achievement of environmental and/or social characteristics promoted by the financial product and the distribution of these investments among environmental or social characteristics <u>: Not detected;</u><br>iii. remaining part of the investment: <u>Not detected</u> | Not applicable |

## 4. PORTFOLIOS WITHOUT A SUSTAINABLE INVESTMENT TARGET

The ESG rating of FI's issued by tobacco companies, gambling and alcohol distributing companies is assigned as 0 as for the companies with negative social impact. This is done if it is not possible to exclude the mentioned FI's from the Client's Portfolio. If possible, FI's issued by tobacco companies, gambling and alcohol distributing companies are excluded from the Portfolio.

## 5. INVESTMENT STRATEGY

In portfolio management, profitability versus risk is always assessed as the most important factor, while the Portfolio is adjusted to the appropriate level of risk according to the Client's risk profile. Sustainability risk is integrated into the overall risk assessment process with the aim of achieving the highest possible ESG rating score, while not reducing the Portfolio's profitability and without increasing the overall risk level of the Portfolio. Sustainability risk is assessed on the basis of an ESG rating which is inversely related, i.e. the higher the ESG rating, the lower the sustainability risk.

| | | TRANSPARENCY IN PROMOTING ENVIRONMENTAL AND SOCIAL CHARACTERISTICS | TRANSPARENCY OF SUSTAINABLE INVESTMENTS |
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| **6** | **MONITORING OF ENVIRONMENTAL AND SOCIAL CHARACTERISTICS** | The data is collected from the BLOOMBERG platform, which is based on the ESG rating results of S&P Global when evaluating securities issued by companies. Data on valuations of securities issued by the Government and its institutions are collected from the Global Risk Profile company's annually published national ESGI ratings. | Not applicable |

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| 7 | **MONITORING SUSTAINABLE INVESTMENT TARGETS** | Not applicable | When creating an individually developed portfolio, each FI to be included in the Portfolio is evaluated. In order to maximize the overall ESG rating of the Portfolio as much as possible, the FI ESG rating is determined before the acquisition of FI. After the acquisition of FI, the total ESG rating of the Portfolio is calculated. The portfolio's ESG rating is reviewed each time changes are made to the Portfolio. The ESG rating of FI's issued by Governments or their institutions are updated annually when national ESGI rating data published by the Global Risk Profile company is available. Once a year, a random check is carried out on the basis of whether the ESG rating corresponds to the specific Portfolio. |

## 8. METHODOLOGIES USED

### 8.1. General description of the corporate ESG model

The ESG rating is based on data from the rating provider S&P Global available on the BLOOMBERG platform. S&P Global ESG's factor scoring model is based on the relative-within-subsector valuation principle. The S&P Global ESG factor evaluation model uses the industry classification criterion for evaluation, which provides for 61 subsectors to form unified corporate groups in each industry. For each industry, S&P Global determines the weights of sustainability factors based on their expected impact (degree of impact) and the likelihood of their impact (probability and timing of impact) on the company's financial condition in terms of growth, profitability, capital efficiency, and other risk sizes. The factors are additionally evaluated in terms of their overall environmental impact and importance to shareholders in order to create systematicity in the final ESG rating. To get the final score, S&P Global is taking several steps to collect and process data. First, S&P Global collects 1000 data points for a particular company, then sends 130 industry-specialized questions to the company, on the basis of which a basic data model is built. Summing up the results, 30 criteria scores are obtained, which evaluates each sustainability section – corporate governance (G), climate strategy (E) and human rights (S). From these ratings, a result is obtained for each of the ESG section, based on which the total ESG rating is calculated.

### 8.2. General description of the ESG model for Government and their bodies

The ESG rating is based on the company's Global Risk Profile's annual report on the national ESGI (Environmental, Social and Governance Index) risk score, which is measured on a scale from 0 to 100. Namely, the lower the indicator, the lower the risk of sustainability. The GRP ESGI rating is based on 65 variables that are obtained from internationally recognized organizations. These variables are included in 3 independent sub-indices. Summarizing all data collected, the GRP model converts the result obtained on a scale from 0 to 100, where 0 denotes the lowest risk, and 100 corresponds to the highest risk. Country indicators are then calculated for each sub-index (environment, human rights, health and safety) using the arithmetic mean by weights of 0.2, 0.5 and 0.3, respectively. To obtain the final risk indicator covering all three sub-indices, the scores are compiled using the geometric mean calculation method. The resulting final value gives each country an ESGI sustainability risk mark on a scale from 0 to 100, where the lowest indicator indicates a low risk, and the highest indicates a high risk. Based on this sustainability risk scale, the Bank obtains the relevant national ESG rating by subtracting the GRP model national sustainability risk rating from the 100 according to the following formula: ESG=100-ESGI.

### 8.3. ESG valuation of the funds

For each investment fund, the 10 largest investments are obtained from the BLOOMBERG platform and evaluated according to ESG factors based on the method of valuation of companies or the state, obtaining the final result in terms of their proportional weight among themselves. This result is assigned to the entire investment fund. This method is used because for most investment funds it is impossible or difficult to determine the full composition of the assets and their respective proportions. When choosing an index investment fund FI, there is no way to do negative screening and pick out companies with a negative impact on ESG factors.

### 8.4. ESG valuation of the bonds

If the bonds are sovereign or quasi-sovereign, then their ESG rating is calculated according to the ESG model of the Government and their bodies. If the bond is a multi-country issue, then the rating is calculated according to the ESG model of the Government and their bodies in proportion to the involvement of each country. If the bonds are corporate, then the ESG valuation is carried out according to the ESG model of the companies as the ESG rating after the parent company of this issue.

### 8.5. "Calculation" of missing variables

Those FI's that do not have the data necessary to determine the ESG rating are rated with 0 points, but are still included in the calculation of the ESG rating of the total portfolio.

### 8.6. Overall Rating

The overall Portfolio ESG rating is calculated by aggregating the ESG ratings of the FI's in the Portfolio on a scale from 0 to 100 and determining the weighted average rating of the FI's in the Portfolio. The higher the result, the lower the risk of sustainability.

### 8.7. ESG valuation of the portfolio

In each Portfolio, absolutely all FIs are evaluated, with the exception of cash, which is not included in the esg assessment of the total portfolio. Those FIs that do not have the data necessary to determine the ESG rating are rated with 0 points, but are still included in the calculation of the ESG rating of the total portfolio. The overall Portfolio ESG rating is calculated by aggregating the ESG ratings of the FIs in the Portfolio on a scale from 0 to 100 and determining the weighted average rating of the FIs in the Portfolio. The higher the result, the lower the sustainability risk.

## 9. DUE DILIGENCE

Once a year, the Bank performs a random ESG rating compliance check on a sample basis.

## 10. ENGAGEMENT POLICY

The Bank only carries out an assessment of the sustainability risks of companies and countries, since investments in the FI's of these issuers are characterized as minoritary, which does not provide an opportunity to influence sustainability risk or participate in influencing it.

## 11. DATA SOURCES AND PROCESSING

i. Data sources used to derive each environmental and/or social characteristics promoted by the financial product: *All the data on the company's ESG rating is obtained from the BLOOMBERG platform, ESG rating data published by S&P Global. All the data on the ESG rating of Governments and their bodies is obtained from the data published in the Global Risk Profile ESGI rating;*

ii. Measures taken to ensure data quality: The ESG rating data of the companies S&P Global and Global Risk Profile companies are used, the assessment of which ESG indicators is considered to be true and unquestionable;

iii. How data is processed: The MS Excel application incorporates an ESG rating assessment model;

iv. Estimated ratio: In individual portfolios, all assets are valued, but some of them may have a rating of 0.

## 12. LIMITATIONS OF METHODOLOGIES AND DATA

For each investment fund, the 10 largest investments are evaluated and a result is obtained in terms of their proportional weight among themselves. This method is used because for most investment funds it is impossible or difficult to determine the full composition of assets and their respective proportions. When choosing an Index Investment Fund FI, there is no way to carry out negative screening and distinguish companies with a negative impact on ESG factors.

## 13. REFERENCE BENCHMARK CHOSEN (Not applicable)

| | | TRANSPARENCY IN PROMOTING ENVIRONMENTAL AND SOCIAL CHARACTERISTICS | TRANSPARENCY OF SUSTAINABLE INVESTMENTS |
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| **14** | **ACHIEVING THE SUSTAINABLE INVESTMENT TARGET** | Not applicable | The Bank's sustainable investment approach is currently assessed as good, but in the future, with the emergence of more and more sustainability-oriented products, clients' funds will be increasingly invested in these products, improving the overall sustainability indicator of investments. |