

Report from the Council and the Executive Board (revised)

The Bank's strategic development and key events in 2023

JSC "Rietumu Banka" (hereinafter - the Bank) concentrates on providing services to large and medium-sized enterprises and affluent individuals in Latvia, the Baltic States and other Member States of the European Union. The rationale behind the choice of the business model and the Bank's long-term development goals are outlined in the long-term Business Development Strategy 2023–2028 devised and approved by the Bank's senior management in 2023¹.

The key directions of the Business Development Strategy 2023–2028 envisage that the Bank:

1. predominantly provides services in Latvia, the Baltic States, and member countries of the European Economic Area (EEA);
2. sets out the principal direction of the development, namely the increase in the volume of lending services in Latvia and the Baltic States;
3. is planning to diversify geographic and customer segmentation within the deposit portfolio across Latvia, the Baltic States, and the EEA;
4. is planning to stabilise the volume of the Bank's investment portfolio and the inherent risks;
5. continues to develop the Bank's business process and digitalisation of customer service channels;
6. actively focuses on sustainability issues and corporate governance while integrating „green“ initiatives and environmental, social and governance (ESG) factors in the Bank's all-encompassing aspects;
7. in HR management, the Bank stays oriented towards a purposeful professional development of the personnel and encourages employee involvement in strengthening the Bank's values and shaping of an inclusive culture;

When setting the Bank's and the Bank's group (hereinafter – the Group) strategic objectives and tasks, the senior management has them quantified through the following key performance indicators (KPIs) (the implementation deadline is 31.12.2028:

- growth of the Group's total assets: up to EUR 2.4 billion;
- growth of the volume of the Bank's deposits: up to EUR 1.9 billion;
- growth of the volume of the Bank's loan portfolio: up to EUR 1.5 billion;
- growth of the Group's operating income: up to EUR 100 million;
- growth of the volume of the Group's annual net profit: up to EUR 33 million;
- growth of the Group's return on equity (ROE): up to 7.8%;
- reduction of the percentage of the Bank's non-performing loans (NPLs): below 10%.

To strengthen the Bank's overall business development strategy 2023–2028, in 2023 the Bank additionally devised and approved governance documents, including the strategies: Investment Portfolio Construction and Management Strategy, Marketing Strategy, Risk Management Strategy, the Money Laundering and Terrorism and Proliferation Financing Risk Management Strategy, Sustainability Strategy, Information Technology Development Strategy, NPL Management Strategy, and Strategy for Management of Repossessed Real Estate.

Implementation of strategic objectives in 2023

When commencing to implement the Business Development Strategy 2023–2028, the Bank has already accomplished two tangible achievements in 2023: the total amount of the Bank's assets exceeded EUR 1.5 billion (31.12.2023: EUR 1.51 billion). The total volume of the Bank's deposits exceeded EUR 1 billion (31.12.2023: EUR 1.011 billion).

The achievements are based on the professional work of the Bank's management and employees, offering clients a broad array of top-quality financial services while placing a special emphasis on funding business projects in Latvia and acquiring investments specifically for the projects. The Bank's essential advantages include a bespoke approach to its clients, Latvia-based decision-making bodies, and professional expertise and experience accumulated by the Bank over the past 30 years. Such an approach enables the Bank to raise financial resources for its clients and hence jointly implement new and innovative projects; increase

¹ the initial Report from the Council and the Executive Board was published on March 28, 2024. The reference included in the initial Report from Council and the Executive Board regarding approval of the Bank's long-term Business Development Strategy 2023-2028 by representatives of the Bank of Latvia has been deleted from the revised Report from the Council and the Executive Board.

economic value of the invested and managed assets in the long term, both for the Bank itself, and for its clients.

Along with a range of traditional lending and deposit services, the Bank also develops services based on new-generation financial technologies. The Bank offers 24/7 customer service. Its clients can receive daily banking services via a modern mobile application and can avail of video identification support. The Bank acquires deposits from European individuals with intermediation of the EU's fintech deposit platforms.

A vast work experience and knowledge accumulated by the Bank over 30 years equip the Bank with advantages and enable the Bank to provide services to local clients in Latvia, regional clients in Baltic States, and clients of EU Member States representing all traditional and innovative sectors of economy, as well as public institutions and companies of Latvia. Sectors of paramount importance include transport and logistics, energy, construction, development of infrastructure and immovable property, information technologies, agriculture, light industry, processing industry, wholesale, and other sectors. The main Latvia's economic sectors financed by the Bank in 2023 encompass development of commercial and residential immovable property, renewable energy, light industry, non-banking and alternative financial services, development and management of hotels, and transport services.

Lending is one of the Bank's important strategic directions. The Bank is planning to develop cooperation with large and medium-sized enterprises in Latvia while the Bank thoroughly analysing feasibility, viability and business potential of each project. The Bank therefore continued in 2023 to pursue Bank-specific conservative lending policy with a focus on financially stable businesses and support of new development projects. In 2023, the volume of loans granted to Latvia's enterprises totalled EUR 214 million.

The Bank is categorised as other systemically important institution (O-SII). As of 31 December 2023, the Bank ranked 4th in terms of assets and capital volume among Latvia's credit institutions. The Bank was included on TOP101 of Latvia's most valuable companies of 2023. TOP 101 is compiled by Prudentia in cooperation with Nasdaq Riga Stock Exchange. The Bank ranks fifth in the TOP101 ranking of Latvia's private local-capital companies. The Bank ranks 21st in the overall list of companies operating in Latvia.

In 2023, the Bank devised and approved the Marketing Strategy 2023–2025 which sets forth the guidelines based on which the Bank implements all marketing and PR events in accordance with the Bank's mission and the goals envisaged by the Business Development Strategy 2023–2028.

In 2023, the Bank commenced its changeover to the new visual identity. The Bank's new visual identity includes a lot of innovations, including the new logo, advertising mock-ups/models, website design, design of forms and seals, and other elements of visual image. Bank has also new slogans which resonate with the Bank's business philosophy: *Rietumu. A bank for Latvian business that appreciates every nuance. Quality is never an accident.*

After implementing the new visual identity, the Bank enjoys the new modern brand image while remains sticking to its fundamental principle, namely, to be courageous, sustainable, professional and responsive partner for each client.

External factors exerting impact on business activities

In 2023, the U.S. Federal Reserve System (FRS) and the European Central Bank (ECB) continued to use their tools of monetary policy, frequently revised and raised their key interest rates in an effort to stop inflation and reduce it to 2% target. In 2023, the ECB's EUR interbank deposit rate was raised and held at 4.00%, thus ensuring that the annual inflation indicator in the eurozone declines to 2.9%, and the FRS set its USD key interest rate at 5.33%, thus ensuring decrease of the annual inflation in the USA to 3.4% level.

In 2023, the outbreak of the Russia-Ukraine war continued to adversely affect and change geopolitical and economic environment in the world, the European Union and Latvia. Because of the sanctions imposed in 2022 and 2023 by the governments of the EU, the USA, and other leading jurisdictions on Russian and Belarussian financial institutions, banks in the Baltic States were required to revise their operational risk management models. The Bank made great efforts to manage the impact and implications of the external circumstances on the Bank, the Group and the clients and to effectively manage other related risks and to maintain their respective liquidity coverage ratios at high level.

In 2023, the Bank continued to implement its stringent strategic approach according to which the Bank refrains from unveiling any new investments and commencing any new projects in Russia and Belarus. Under the new Business Development Strategy 2023–2028, only redemption of previously made investments and previously disbursed (outstanding) loans is permitted. In 2023, the volume of repaid and recovered loans in Russia and Belarus totalled EUR 32,7 million. The Bank's senior management expresses its viewpoint that the Bank succeeds in attaining the target. According to the Business Development

Strategy 2023–2028, the Bank is planning to fully redeem its total exposure in Russia and Belarus by 2024.

The military conflict that had arisen in October 2023 and escalates in other Middle East countries affected and would continue to affect the restructuring of international and regional supply and logistics chains. In the long run, this will fuel increasing costs for goods shipments/transportation.

Although the average inflation rate in Latvia dropped to 8.9% in 2023 versus 17.3% in 2022, Latvia's GDP is expected (in the light of the still high ECB's deposit-facility rate of 4.0%) to shrink in 2023 by 0.4% (2022: surge by 2.0%). However, Latvijas Banka's projections for GDP growth and inflation decline to 2.0% target next year enable the Bank to remain optimistic regarding its growth outlook for the foreseeable future. The basis for such optimism lies in aspects such as the rising volume of exports and imports of Latvia's enterprises and hence enhancement of purchasing power of Latvia's public.

The Bank's management regularly and thoroughly keeps track of the previously described macroeconomic trends in Latvia and geopolitical developments worldwide in order to ensure a stable management process for the Bank and the Group and to envisage that significant strategic and operative decisions are made in a timely manner and implemented in accordance with the covenants and provisions of the Business Development Strategy 2023–2028.

Analysis of financial results

Operating and financial results attained by the Bank and the Group in 2023 are indicative of the Bank management's decisions related to choosing and shaping of the new strategy prove to be correct and far-reaching as the 2023 financial results and further forecasts ensure a stable basis, thus enabling the Bank and the Group to continue their development and growth.

Assets

Although amidst the aforesaid external geopolitical changes and economic instability the Bank made the decisions to re-orientate market segments and customer deposits to the Baltic States and EU Member States and to reinforce its more conservative approach used in assessing the new lending projects, in 2023 the Group's total assets increased by EUR 117 million (+8.4%) to stand at EUR 1.51 billion as of 31 December 2023. The Group's total loan portfolio (net) surged by EUR 77 million (+14%) to attain EUR 622 million as of 31 December 2023.

By 2023-end, the Bank's securities portfolio totaled EUR 332 million. The portfolio comprises top-quality government and corporate securities denominated primarily in EUR and USD. 71% of the portfolio's volume are invested in investment-grade securities; 17% are securities issued by U.S. issuers. The securities portfolio is diversified geographically and by sectors and ensures high-level risk control. The average securities coverage term is 2.03 years.

Funding, capital and expansion of the capital base

The total amount of the current accounts and deposits of the Bank increased per 59 million EUR (+6.2%) during 2023 and as of 31 December 2023 they have exceeded 1 billion EUR and amounted to 1.01 billion EUR. Deposits held on accounts of the Bank's clients accounted for 88% of the total liabilities. The sum total of term deposits on 31 December 2023 was 564 million euro.

The Bank continued to diversify its external-funding base in 2023 by attracting term deposits through deposit platforms from private individuals in other European Union member states. The average maturity of deposits on 31 December 2023 exceeded a year and was 1.23 years.

The total equity of the Group increased by EUR 31 million during 2023 and as of 31 December 2023 reached EUR 380 million which was supported by the gain of change in fair value of financial instruments at fair value through other comprehensive income of EUR 14 million and the total profit of the Group in 2023 of EUR 17 million. Tier 1 capital adequacy ratio of the Group (see Appendix 4 (h) Capital management) was 26.00% as of 31 December 2023 (in 2022: 24.85%) and the total capital adequacy ratio of the Bank (see Appendix 4 (h) Capital management) was 25.65% as of 31 December 2023 (in 2022: 24.66%)

Revenues and Profitability

Despite the external macroeconomic and geographical risks, the main operating income source of the Group – interest income – continued to grow in 2023 and compared with the previous year it increased by EUR 19 million and reached EUR 68 million. At the same time, although the costs of external funding were growing rapidly, i. e., interest expense rose from EUR 11.5 million in 2022 to EUR 16.1 million in 2023, the Group was still able to ensure a small net operating income increase by EUR 1.61 million by attaining EUR 74 million in 2023.

As a result, the pre-tax profit of the Group compared with the previous year increased by EUR 2.3 million and reached EUR 21.5 million. However, after amendments in the tax legislation of Latvia which prescribed the Bank and its affiliated company of the Group SIA "InCREDIT GROUP" to calculate the corporate income tax and recognise it in advance prior to dividend pay-out in the reporting year, the sum total of the income tax of the Group in 2023 amounted to EUR 4.49 million (2022: EUR 1.73 million). As a consequence, the total net profit of the Group was kept at the level of the previous year at the amount of EUR 17 million. Thus, the total profit of the Group as per one share in 2023 made EUR 0.13 (2022: EUR 0.14).

As a result, the return on equity ratio (ROE) of the Group after tax¹ was 4.67% (in 2022 – 4.96%), ROE of the Bank – 3.61% (in 2022 – 5.66%) and the return on assets ratio (ROA) of the Group after tax² was 1.17% (in 2022 – 1.18%), ROA of the Bank – 0.86% (in 2022 – 1.29%).

In 2023, the comprehensive income of the Group amounted to EUR 31.9 million, being the result of the change in the fair value of securities (debt securities in their fair value through comprehensive income) in 2023 compared with their fair value at the end of 2022. In 2024 and years to come, the Bank plans to continue to manage its securities portfolio according to the investment management strategy developed in 2023³ in order to provide positive cash flow ensured in investment horizon.

Companies of the Group

The companies of the Group operate in the area of financial services, consumer lending, energy, real estate development and rent, and others.

In 2023, the Bank embarked on optimising the structure of the Group by liquidating non-operating companies and merging companies of similar industries. Thus, the management and daily activities of the Bank's subsidiaries were integrated in the management and internal control processes of the Bank. Activities of the Bank's subsidiaries are mainly financed by the Bank by investing in the capital and/or granting loans.

The Bank partially owns the consumer lending company SIA "InCREDIT GROUP" which is registered and operates in Latvia. On 31 December 2023, the net loan portfolio of SIA "InCREDIT GROUP" totaled EUR 59 million.

SIA "RB Investments" is a part of the Group and owns a large number of the most significant real estate of the Group and other assets of the Bank. Most of the assets are located in Riga and Riga Region. At the present, a part of these assets of SIA "RB Investments" group is rented or leased which makes it possible for the Group to gain profit during their retention period.

Influenced by geopolitical instability, in the framework of the Group no new leasing financing transactions were concluded in Belarus in 2023. Amortization of the Belarus leasing company portfolio was continued to close the total exposition in Belarus in 2024.

Risk management

With an aim to ensure more effective availability of financial services and effective implementation of the risk-based approach in 2023 functions of the 1st and 2nd defense line of the Bank were strengthened by attracting additional experienced professionals and introducing new processes in onboarding and due diligence of clients' transactions.

Due to geopolitical circumstances and the new sanction regimes in order to be able to respond to emergencies in the external environment, the Bank continuously monitors the sanction risk level, the quality and effectiveness of controls and the adequacy of human resources. In 2023 unscheduled assessments of sanction risk level were performed by analyzing the changes in client behavior and their reasons, and regularly evaluating typologies of violation and circumvention of sanctions and scenarios of the necessary controls. The Bank continues to implement the comprehensive package of control and risk-mitigation measures in the management of sanctions risk.

The Bank ensures a high compliance level in the AML/CTF/CPF and sanctions area by implementing, in a quick manner, amendments in internal regulatory documents and processes according to changes in legislation, recommendations by external and internal audits and the best practice standards.

¹ the ratio of the reporting period after corporate income tax over the average capital and reserves in the beginning and the end of the year

² the ratio of the reporting period after corporate income tax over the average assets in the beginning and the end of the year

³ the initial report of the Council and the Board was published on March 28, 2024. The reference included in the initial Council and the Executive Board report regarding the approval of the Bank's Investment Management strategy by the Bank of Latvia has been deleted from the revised Report from the Council and the Executive Board

In 2023, the Bank continued to enhance the efficiency of due diligence and monitoring of clients and their transactions and launched new technological solutions for improvement of the internal processes in the area of ML/TF/PF risks and sanction risk management. It also paid significant attention to quality control assurance and increase of personnel competences and skills.

While continuing the attraction of the local clients and the implementation of the long-term cooperation policy, in 2023 the Bank established a business relationship with several hundreds of new clients – residents of Latvia. At the same time, in the light of the current sanction issues, the Bank has paid special attention to the analysis of its corporate clients by introducing supplementary monitoring and due diligence mechanisms.

Sustainability, social responsibility and well-being of the employees in the long run

The Bank and its subsidiaries set as the priority and continue to integrate the fundamental sustainability principles into their internal regulatory documents and un processes accordance with the Sustainable Development Goals of the United Nations for 2030 and in line with sustainability ambition levels defined by the Bank's Executive Board and to be reached by 2030.

In 2023, the Bank continued to implement measures, goals and targets, and priorities in environmental, social and governance (ESG) aspects in accordance with the Sustainability strategy. The Bank is planning to boost energy efficiency and to spur healthy and responsible lifestyle of its employees and their family members.

The Bank actively educates its employees on sustainability issues by organising training to enhance their awareness of ESG factors and sustainability overall, as well as of ESG regulation and assessment of sustainability risk inherent in the Bank's products and processes while strengthening employee expertise relating to sustainability in each of the three lines of defense.

The Bank's goal is to promote the positive impact of its products and services on the environment, and it will especially support cooperation with clients who consider ESG principles to be very important, just as the Bank does.

The Bank is firmly committed to reducing the intensity of climate change and in 2023 continued activities to reduce the impact of its operations on the environment, as well as started assessing the impact of customers and cooperation partners on the climate.

In 2023, the Bank paid special attention to the assessment of sustainability risks in the Bank's risk profile. An assessment of the sustainability risk profile of the Bank and the Group was carried out in the form of a questionnaire, determining the types of risks, as well as the main sustainability elements and transmission channels affecting them.

An assessment of the maturity of the Bank's Sustainability risk management was developed in seven dimensions of risk management: strategy and appetite, governance, culture, identification and assessment, management and monitoring, reporting, data and technology, and the planning of measures to increase the level of maturity.

The Bank updated the sustainability risk identification and assessment methodology for application to existing and new loans, anticipating both physical environmental and climate change-related risk factors, as well as potential significant transitional risks.

In 2023, the Bank obtained the status of "Family-Friendly Employer" and joined the "Mission Zero" initiative, which is a voluntary commitment to implement and comply with business principles oriented towards people, their health and safety, as well as to publicly define the goal - "0" workplace accidents.

The Bank continues to actively implement social responsibility measures, providing support to various groups of society in such areas as sports, art and culture projects, promotion of medicine and medical science, and social projects. In the fall of 2023, the Bank becomes a cooperation partner of the Daile Theatre, providing annual support of EUR 100,000 for new productions over a three-year period.

The Bank is actively working on measures to implement the Corporate Sustainability Reporting Directive (CSRD), which adjusts the evaluation of the Bank's performance criteria in accordance with the European Sustainability Reporting Standards (ESRS) and the EU Taxonomy Regulation.

The Bank prepares the Sustainability Report in accordance with the principles of the Global Reporting Initiative (GRI) General Standards. In doing so, the Bank also takes into consideration the principles stipulated in Regulation (EU) 2019/2088 of the European Parliament and of the Council and the Corporate Sustainability Reporting Directive and in compliance with other binding standards and recommendations in the field of sustainability.

One of the essential components of the Bank's and the Group's sustainability as a responsible employer is the professional and personal development of its employees, as well as their well-being in qualitative

and quantitative terms. During 2023, 90 new employees were hired by the Bank and the number of employees reached 388 as of 31 December 2023. In 2023, the Bank organised various well-being initiatives and activities to enhance employee awareness of importance of physical and mental health both in and outside the workplace environment. The Bank's personnel management will continue to focus on the targeted professional development of personnel in the long-term perspective, encourage employee involvement in shaping the Bank's values and an inclusive culture, as well as their involvement in support projects implemented by Nākotnes Atbalsta fonds (Future Supporting Fund) established by the Bank.

Support provided by the Bank in the field of social responsibility

In its Business Development Strategy 2023–2028, the Bank articulated that the social part of Bank's mission is to support Latvia's general public in developing traditional and new cultural currents, preserving historic heritage and improving the quality of life. To implement the social mission, the Bank has channelled EUR 667 thousand towards the social area during 2023 through the Future Supporting Fund established by the Bank.

One of the Bank's priorities is specific, multilateral and permanent assistance and support to Ukraine and Ukrainian refugees. Since the Russian invasion of Ukraine in February 2022, the Bank, employees, the Bank's charity foundation, shareholders and the Chairman of the Executive Board Jeļena Buraja have been actively involved in supporting Ukrainian defenders and Ukrainian refugees also in 2023.

In 2023, the Bank is one of the leaders of charity projects in the Latvian financial sector. The Bank and the Future Supporting Fund provide support in such areas as:

- support to Ukrainian refugees and community in Latvia;
- healthcare, including medical services for children;
- social projects geared towards the most the most vulnerable (economically disadvantaged) groups of population;
- environmental protection, ecology, wildlife conservation;
- urban development, sacral heritage of Latvia;
- Latvia's and Europe's arts and culture;
- support to children and young people in development of their talents; education opportunities;
- sports activities for children and young people, elite (high-performance sport).

Further development

The Bank and the Group, in accordance with its approved long-term development strategy for years 2023-2028, plan to continue implementing the chosen business model, becoming one of the leading financial service providers and knowledge centres in the Baltic region, which, through professional cooperation with large and medium-sized companies, creates values and new opportunities for the growth of the entire Latvian, Baltic and European society.

The results achieved by the Bank and the Group in 2023 confirm the effectiveness of the strategy and lay the foundation for its further implementation in 2024 and the following years, providing the necessary financial and intellectual resources, a robust capital base and state-of-the-art technologies.

In 2024 and the following years, the Bank plans to continue increasing the growth of the loan portfolio in Latvia, the other Baltic States and the European Union.

The Bank will continue to develop cooperation with international modern platforms, expand the range of counterparties for interbank deposits, improve brokerage services and individual securities portfolio management services, offer new financial services in the field of customer bond issue support, continue to develop correspondent relations with other financial institutions in the European Union and the USA.

The management of the Bank would like to thank its employees for the work involved and the Bank's shareholders for their support in ensuring the stable development of the Bank. The management of the Bank highly appreciates cooperation with the clients and business partners, and thanks them for the trust and support they have shown over many years. The year 2024 will be the basis for our common business growth, sustainable development and security.

The Sustainability Report for 2023 prepared by the management is created as a separate report and published on the Bank's website <https://www.rietumu.com>.

The Bank was founded in the Republic of Latvia as a joint-stock company. On 5 May 1992, the Bank obtained the general banking license, the license number 06.01.04.018/245. The legal address of the Bank's head office is Vesetas iela 7, Riga, Latvia, unified registration number 40003074497. The Bank's core activities are accepting deposits, maintaining customer accounts, lending, documentary operations, cash and settlement operations and operations with securities and foreign currency.

On behalf of the Management of AS "Rietumu Banka":

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

19 June 2024

THE DOCUMENT IS SIGNED USING A QUALIFIED ELECTRONIC SIGNATURE AND CONTAINS A
TIMESTAMP