



PRINCIPLES FOR  
**RESPONSIBLE  
BANKING**

## Reporting and Self-Assessment Template

### 2<sup>nd</sup> report (2022)

LHV Group joined the UNEP FI Principles of Responsible banking initiative in early 2020. The report below is the first progress report explaining the Group's efforts in sustainability and in meeting the Principles. Our second Self-Assessment report gives insight into the past 12 months highlighting our progress as well as describing out future plans in sustainability governance, target setting & implementation, and accountability.



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

| Reporting and Self-Assessment Requirements  | High-level summary of bank's response (limited assurance required for responses to highlighted items)   | Reference(s)/ Link(s) to bank's full response/ relevant information |
|---|---|---|
| <p><b>Principle 1: Alignment</b><br/> <b>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</b></p>  |   |   |
| <p>1.1 <i>Describe</i> (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.</p> | <p>Established in 1999, LHV Group is the largest domestic financial group and capital provider in Estonia. LHV Group's key subsidiaries are LHV Pank (Bank), LHV Varahaldus (Asset Management), and AS LHV Kindlustus (Insurance). LHV Group is also present in the United Kingdom through its London Branch which provides banking services to companies whose goal is to increase the speed, convenience, and availability of financial services through technological innovation.</p> <p>We are a full-service financial services provider and efficient and technology-focused in our operations. LHV Asset Management is actively increasing the number of pension fund clients and the volume of assets from which it makes investments.</p> <p>Our home markets are Estonia and the United Kingdom, but we see LHV Group as an international financial group that offers the best service to all customer groups and through a variety of channels. We are hoping to expand our international reach through our UK business line, and we're currently working on getting licensed to operate as a separate credit institution in the UK.</p> <p>Our long-term goal is to build strong relationships with all stakeholders by being:</p> <ul style="list-style-type: none"> <li>• the best financial services provider for customers</li> <li>• the most supportive financial services provider for international financial intermediaries</li> </ul> | <p><a href="#">About LHV</a></p>                                    |



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>• an attractive employer that offers high job satisfaction, development opportunities, and self-fulfilment for people</li> <li>• a transparent company that delivers up to 20% return on equity per year for investors</li> <li>• and a company with the best management practices, positive social impact, and ambitious climate goals</li> </ul> <p>LHV employs more than 800 employees group-wide. Our banking service is used by 354 000 clients and LHV managed pension funds have got more than 132 000 active clients. With LHV insurance we have insured 129 000 clients. LHV Insurance protects a total of 149 000 clients, and LHV UK Branch offers banking infrastructure to more than 200 international financial companies, through which LHV’s payment services reach customers all over the world.</p> <p>We have taken a clear goal towards more sustainable operations in all our business lines and subsidiaries, and we have consciously opted for sustainability as one of the key components of our corporate philosophy, governance practice, and strategy. The Principles of Responsible Banking have provided us with a clear framework and a set of ambitious goals for the years ahead to better develop and integrate sustainability factors into all levels of our business and organizational culture.</p> |  |
| <p>1.2 Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement,</p> | <p>LHV has a strong focus on sustainability and consideration for new societal needs. We are conscious and aware of the unprecedented challenge of climate change and exceptional environmental circumstances caused by human activity.</p> <p>Environmental and Social objectives and considerations are integrated into our everyday operations and value creation strategy. We are actively improving and developing the processes of managing and mitigating environmental and social risks associated with our business engagements and strive for continuous improvement and positive change in environmental and social practices across all business lines.</p>  | <p><a href="#">LHV Green website</a></p> <p><a href="#">ESG Policy</a></p> <p><a href="#">Responsible Investment Policy</a></p> <p><a href="#">Social Responsibility</a></p> |



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|   |   |  |
|---|---|--|
| <p>and relevant national and regional frameworks.</p> | <p>We are committed to collective as well as individual accountability in sustainable business. We regard it as our mission to promote and practice responsible banking that does not harm the environment and the people.</p> <p>As of 2020, we have narrowed down our sustainability focus on five UN Sustainable Development Goals to set a goal-oriented framework for our activities and commitment towards a more sustainable future.</p> <p>Our major ESG and sustainability impact areas clearly address relevant sustainability related challenges of the society. Our self-confidence lies in the fact that we considered comprehensive global and local statistics about the current state and needs in various environmental and social aspects in the process of defining material impact areas. We spotted the most burning needs in the society that are related to our business activities. This gives us a proper starting point to tie our ESG and sustainability strategy with the societal development needs highlighted by UN Sustainable Development Goals (SDG). We are committed to bring our activities into conformity with the UN SDGs.</p> <p>Here's an overview of with our most material sustainability aspects and how we contribute to these UN SDGs and its specific sub-targets</p> | <p><a href="#">Group ESG report 2021</a><br/>(p.22 ESG strategy and materiality)</p> |
|---|---|--|

| Sustainable Development Goal (SDG)  | Specific SDG target to which LHV contributes   | How LHV contributes?  |
|---|--|---|
| <b>SDG 1. End poverty in all its forms everywhere</b>   | 1.2. By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions  | <ul style="list-style-type: none"> <li>Integrating social and environmental considerations into the core of our business.</li> </ul>  |
|   | 1.4. By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance | <ul style="list-style-type: none"> <li>Investing in spreading financial literacy.</li> </ul>  |
| <b>SDG 8. Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all</b> | 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services  | <ul style="list-style-type: none"> <li>Driving sustainable growth, creating jobs, encouraging entrepreneurship, and fuelling innovation.</li> </ul>   |
|   | 8.10. Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all  |   |
| <b>SDG 7. Ensure access to affordable, reliable, sustainable, and modern energy for all</b>   | 7.1. By 2030, ensure universal access to affordable, reliable, and modern energy services  | <ul style="list-style-type: none"> <li>Offering customers a choice of green financial products.</li> </ul>  |
|   | 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix  | <ul style="list-style-type: none"> <li>Improving processes of ESG-related due-diligence for corporate customers and partners.</li> </ul>  |
| <b>SDG 12. Ensure sustainable consumption and production patterns</b>   | 12.2. By 2030, achieve the sustainable management and efficient use of natural resources   | <ul style="list-style-type: none"> <li>Considering environmental factors in business decisions.</li> </ul>  |
|   | 12.6. Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle   | <ul style="list-style-type: none"> <li>Advocating for responsible lending and consumption.</li> </ul>   |
| <b>SDG 13. Take urgent action to combat climate change and its impacts</b>  | 13.2. Integrate climate change measures into national policies, strategies, and planning   | <ul style="list-style-type: none"> <li>Encouraging environmentally sustainable business practices within the sector and the State level through supporting sustainable financial sector development.</li> </ul> |
|   | 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning   |   |



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|  |  |  |
|--|--|--|
|  | <p><b><u>Sustainability mission statement</u></b></p> <ul style="list-style-type: none"> <li>• We realize the extent to which our business decisions affect society and the environment, and as a result, focus on managing these impacts in particular.</li> <li>• We aim to be a leader in sustainable development in the financial world by striving toward initiating systemic change and creating possibilities for innovative and sustainable solutions that guide society toward sustainable development.</li> <li>• We will bring our activities into conformity with the UN Sustainable Development Goals and the Paris Agreement.</li> <li>• We operate transparently and publicly account for our progress and obstacles in various sustainability reports and through our corporate communication channels.</li> <li>• We are continually improving our know-how on sustainability reporting standards and which to move towards a more comprehensive GRI reporting in our annual reports.</li> <li>• We are committed to creating the necessary conditions for adhering to our sustainability strategy. This can be achieved by internal capacity building and integrating ESG aspects into the group-wide business processes.</li> </ul> |  |
| <p><b>Principle 2: Impact and Target Setting</b><br/> <b>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</b></p> |  |  |



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

|   |   |   |
|---|---|---|
| <p>2.1 Impact Analysis:<br/><i>Show</i> that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:</p> <p><i>Show</i> that building on this analysis, the bank has</p> <ul style="list-style-type: none"> <li>• Identified and disclosed its areas of most significant (potential) positive and negative impact</li> <li>• Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts</li> </ul> | <p>In 2020 we went through a comprehensive impact analysis process. We built the analysis based on UNEP FI Portfolio Impact Analysis Tool. The process of the analysis (including, scope, scale, relevance, and findings) are described in our first PRB report as well as our 2021 Annual Report (ESG report).</p> <p>We are not planning to repeat the impact analysis using the UNEP FI tool, however, since 2022, we are focusing on assessing and measuring our financed emissions using the PCAF methodology. This will help us to move forward to more precise target setting in the Climate impact area during 2023, which will consequently allow us to make more specific targets towards and during our journey of aligning our business activities to Paris and a net zero trajectory.</p> <p>In 2022 we have also finished building our ESG risk assessment/rating model for credit client, which will be a comprehensive analysis tool to understand our credit clients, their potential Environmental and Societal Risks, and hence, will give us more insight into how to integrates ESG and E&amp;S risk criteria into business development 2023 and onward. We are firm believers in the approach that you can only manage what you can measure, which is why we are less inclined to make big promises, and instead focus on improving our processes, especially in regard to portfolio analysis and the assessment of financed emission asset class at a time.</p> <p>As we are still in the process of getting fully licensed in the UK and our business is limited in terms of banking services in the UK, we will move forward with more specific impact analysis in our international business once we start offering banking services as a fully licenced UK bank.</p> | <p><a href="#">Group ESG report 2021</a><br/>(p.22 Materiality process and impact analysis findings; p.25 Stakeholder engagement in materiality analysis)</p> |
|---|---|---|



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

|  |   |  |
|--|---|--|
| Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.  |   |  |
| We have fulfilled the requirements regarding Impact Analysis as of 2020 using the UNEP FI Impact analysis tool. In 2022, we have narrowed our impact analysis down to our credit portfolio and built a framework as well as an internal tool to assess the ESG risks of sectors and clients. However, all internal frameworks and tools will be built upon the information we gathered from the 2020 portfolio impact analysis findings.                 |   |  |
| <p>2.2 Target Setting</p> <p><i>Show that the bank has set and published a minimum of two <b>Specific, Measurable</b> (can be qualitative or quantitative), <b>Achievable, Relevant</b> and <b>Time-bound</b> (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services.</i></p> <p><i>Show that these targets are linked to</i></p> | <p>LHV has started the process to understand the current stage of its impact areas:</p> <p>As a first step, this included setting indicators / KPI-s (around 70 in total) which allows as a second step to collect data about its own and portfolio performance. In our 2021 Annual Report, we achieved our goal to report on all of these KPIs.</p> <p>In ESG strategy, LHV has set 13 ambitions that reflect the direction and aspiration of its developments:</p> <ol style="list-style-type: none"> <li>1. To align business activities with the Paris Agreement</li> <li>2. To achieve carbon-neutrality in its own (office) operations by 2022 (already achieved)</li> <li>3. To reduce the business impact on biodiversity</li> <li>4. To mitigate negative impacts and increase positive impacts (based on UNEP FI Impact Assessment Tool)</li> <li>5. To help develop an Estonian nation-wide sustainability measurement system</li> <li>6. To improve the resource efficiency of the Estonian business sector through its business</li> <li>7. To reduce the waste-generation of the Estonian business sector through its business</li> <li>8. To support equal opportunities among our customers and corporate clients in our portfolio</li> <li>9. To ensure equal access to LHV services for all societal groups</li> <li>10. To contribute to the development of regional economy and supporting the development of local municipalities and companies in non-urban areas and more rural regions</li> <li>11. To improve the financial literacy of vulnerable groups and through that improving their economic security</li> <li>12. To establish good ESG governance in LHV Group</li> </ol> | <p><a href="#">Group ESG report 2021</a><br/>(p.46 ESG Key Performance Indicators)</p> |

|  |   |  |
|--|---|--|
| <p>and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.</p> <p>Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of</p> | <p>13. To establish the working environment and organizational culture in LHV that would value equal opportunities, diversity, and inclusion</p> <p><b>Our targets for 2022-23</b></p> <p>To be able to set and reach our targets, especially in the Environmental impact areas, we joined with Partnership for Carbon Accounting Financials (PCAF) initiative in 2021. While we have measured our scope 1, 2 and 3 emissions in operational level, we have struggled to find the best practice to measure our scope 3 emissions in category 15 (investments). We see that joining with PCAF standard will help us to disclose our scope 3 emissions (category 15, investment activities) and hence be able to base our target setting on actual data not just gut feeling. The standard, which is reviewed by GHG protocol, has developed a consistent methodology for measuring and disclosing such emissions, which include those associated with corporate/business loans, commercial real estate loans, residential mortgages, motor vehicle loans, project finance and even the equity and bond positions that banks hold on their balance sheet. This metric provides us the starting point to assess and disclose climate-related issues; set science-based targets using emission-based methods developed by organizations like the Science Based Targets initiative (SBTi); and set the baseline emissions for target setting in alignment with the Paris Agreement. For us it is a considerable step closer to not only understanding our impact but be able to quantify it. By the end of 2022, we aim to disclose four asset classes in our credit portfolio including business loans, motor vehicle loans, commercial real estate loans and mortgages. During the year 2023 we plan to measure any other asset classes where PCAF produces the relevant methodologies and continue improving the already calculates results with higher input data quality. In 2022-23 we will also aim to build a comprehensive group-wide ESG risk management framework an improve our internal ESG risk rating tool, which will help us even further to be able to set portfolio-specific targets.</p> |  |
|--|---|--|



PRINCIPLES FOR  
**RESPONSIBLE  
BANKING**

|   |  |  |
|---|--|--|
| <p>the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.</p> |  |  |
|---|--|--|

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

LHV has achieved our 2020 target of becoming climate neutral in our office operations by 2022. We have taken the first steps towards setting KPIs for different business lines and areas (we reported on the KIPs in our Annual ESG report) but there is still some way to go until we can set precise targets for our impact areas



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

|   |  |   |
|---|--|---|
| <p>and for specific areas of business operation. Our current work on PCAF, financed emissions, and on our own ESG rating tool will provide us more information by 2023 which can be the basis of more specific targets. We are working on this in order to make sure all set KPIs and targets are in line with the Principles.</p>  |  |   |
| <p>2.3 Plans for Target Implementation and Monitoring</p> <p><i>Show that your bank has defined actions and milestones to meet the set targets.</i></p> <p><i>Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.</i></p> | <p>LHV has developed a group-wide ESG policy and a strategic ESG action-plan for 2021-2023. We plan to update this roadmap again at the beginning of 2023 and set an action plan for the next years to come. The strategy outlines major sustainability impact areas and focus aspects, approach to sustainability and ESG management, sustainability statement, ambitions (13 ambitions named in 2.2), KPI-s to monitor the progress within each impact area, and strategic activities within each impact area.</p> <p>The new roadmap currently being drafted, will focus on reducing financed emissions, KPIs, data analysis and target setting in the Climate impact area. Moreover, we have taken it a separate target to improve ESG governance, and processes through which was can better analyse or credit clients and open up discussions around sustainability.</p> <p>The main aim of the first ever ESG and sustainability policy, strategy and action plan of LHV was to ensure the development of proper systemic ESG governance approach – a basis for all further steps towards the improved management of our positive and negative impact. 2022 has been a year to build internal infrastructure and governance to implement the strategy in the long term.</p> | <p><a href="#">Annual ESG report 2021</a><br/>(p.26 Management of ESG; p.28 Management of Impact areas)</p> |



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

We are currently working on setting targets on our ESG performance indicators and working on calculating financed emissions which will lead to more informed baseline setting and moving forwards, setting SBTs.. We achieved our 2022 plan to report on 70+ KPIs in our 2021 Annual Report. Setting more specific targets for implementation will be done in the coming years. We are also working on improving our non-financial reporting and integrated GRI into our Group Annual Report for the first time in our 2021 Annual Report. All in all, our progress has been considerable in the past 12 months in Target Implementation and Monitoring, and we are on track in the fulfilment of the Principles.

2.4 Progress on  
Implementing Targets

For each target separately:

*Show that your bank has implemented the actions it had previously defined to meet the set target.*

*Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.*

We are currently working on our sustainability KPIs and setting up ESG data gathering and analysis processes to monitor our progress in different impact areas across all business lines. Target setting in each impact area and disclosing more specific metrics is planned for 2022-23. The 2021 group annual report provided more disclosure on the specific sustainability-related KPIs. In 2022, we also build an internal ESG dashboard, that visualizes all of our ESG specific metrics and which will help us with setting targets.

We did however set a clear target in 2020 to become carbon neutral in our office operations by 2022. We have published our CO2 footprint measurement methodologies and results annually since 2019. While we are continuously looking for ways to organically reduce our carbon footprint, we have also decided on a local, ethical and transparent partner project in and become net zero in our office operations in 2022. We will honour this promise moving forward as well.

In our 2021 Annual Report, we reported on approximately 8 different sustainability related KPIs, in all of our identified impact areas. As we have not yet achieved setting specific targets in the KPIs, we have taken a strategic goal to improve every coming year. Our goal is to be able to set SMART goals in various indicators 2023 and report on them in the 2023 Annual Report.



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|   |  |  |
|---|--|--|
| <p><i>Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)</i></p>   |  |  |
| <p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets</p>  |  |  |
| <p>We have made improvements in our target setting in 2022 in terms of working on data analysis and gathering, building infrastructure to make more sense of the data that we have, and made very good progress in terms of quantifying our financed emissions. We believe target setting without having the actual internal infrastructure and governance systems in place to measure your success, would not be a right way to go about the task. In 2023, we will be focusing on even more closely with different business lines and collaborate work on setting very specific sustainability-related targets.</p> |  |  |



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

|   |   |   |
|---|---|---|
|   |   |   |
| <p><b>Principle 3: Clients and Customers</b><br/> <b>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</b></p>  |   |   |
| <p>3.1 <i>Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.</i></p> | <p><b>ESG risk in credit risk</b></p> <p>There is increasing evidence that ESG factors can affect credit risk and therefore ESG considerations have become increasingly important in Bank’s credit risk decision processes including risk appetite principles, policies, and procedures. ESG risks are defined in the context of this chapter as risks of any negative financial impact on the group stemming from the current or prospective impacts of ESG factors on its counterparties or invested assets. Environmental risk drivers are categorised as physical risks and transition risks. Physical risks are direct negative impacts proceeding from climate change and environmental degradation, which could result in reduced production capacity, increased raw material costs, asset impairment, increased labour, and capital costs, etc. Transition risks refer to the uncertainty related to the timing and speed of the process of adjustment to an environmentally sustainable economy. This process may be affected by three drivers: policy, technology, and consumer preferences. The main changes in this field are happening in carbon-intensive sectors (e.g. climate-related policy actions may have impact on asset prices). Social risks involve social factors that may have a positive or negative impact on the financial performance or solvency of a counterparty such as the rights, well-being and interests of people and communities including (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital, and communities.</p> <p>ESG risks can materialise in two ways, reflecting their potential double materiality. Financial institutions can be impacted by (outside-in perspective) ESG risks through their counterparties and invested assets, as these may be impacted by (outside-in perspective) or have an impact on (inside-</p> | <p><a href="#">ESG Policy</a></p> <p><a href="#">Asset Management Responsible Investment Policy</a></p> <p><a href="#">Credit Exclusion list</a></p> <p><a href="#">Group ESG report 2021</a></p> <p><a href="#">Bank Responsible Investment Policy</a></p> |

|  |  |  |
|--|--|--|
|  | <p>out perspective) ESG factors. Considering the impact of its business activity, LHV has set a goal to promote an environmentally and socially sustainable and responsible economy and expedite progress toward solutions to key environmental and climate problems, by motivating customers to make more sustainable choices in their business activities and investment decisions. Areas of activity that conflict with the principles of environmental and social responsibility, LHV will refrain from knowingly offering credit products to customers whose activities bear clear evidence of human rights violations and serious environmental harm. Based on the principles of sustainable and responsible activity, it is against credit policy to credit customers whose volume of credit products from LHV exceeds EUR 500 thousand and whose operating activity is related to any of the areas listed in our Exclusion list.</p> <p><b>Responsible Investment</b></p> <p>The principles of responsible investment and analysis of ESG factors are part of the investment analysis process at LHV. By integrating it into the process, the analysis is comprehensive and considers ESG factors as well as traditional investment analysis factors such as fundamentals and valuation. ESG assessment as one part of the analysis is divided into subgroups, based on the sectors, and needs of each existing or new potential investment (considering the most relevant ESG risks of the company). We aim to generate a list of material ESG issues for relevant sectors. The sources for ESG information are based on public information, including periodic financial reports, ESG, and sustainability reports, press releases, company management meetings, and other relevant material. To demonstrate leadership LHV Varahaldus created Estonia’s first green pension fund in 2020 and we regularly educate our customers and the public about the potential benefits of and the future of green investing. We believe following sustainability principles in investing and promoting them to the customer-base is in the best long-term interests of our customers.</p> <p><b>Promoting Financial Inclusion</b></p> |  |
|--|--|--|

Since its establishment, LHV has been part of the Estonian investor community. As a market leader in investment services and as a listed enterprise that values investor relations simultaneously, we actively contribute to educating the investor community. In our relations with more than 10,000 shareholders, we are open, transparent, and inclusive. • We organize free seminars as part of the Investment School, where over 8,200 people participated in 2021 (the number of participants in 2020 was 7,400). This year, most seminars were held in the form of webinars. • We also carry out the annual stock market game Börsihai. This year, the number of participants reached 9,387 (the number in 2020 was 6,576). • For the third year in a row, we organized an advertising campaign on financial literacy, but this time targeted it at mostly Russian-speaking youth in Estonia, with insightful videos on money management on our social media platforms. • In cooperation with the University of Tartu, we prepared an elective subject 'Functioning of a modern banking company on the example of LHV Bank for which 39 students registered. • We participated in projects for improving financial literacy organised by the Estonian Banking Association. • We supported the Investor Toomas - a conference organised by Äripäev and the Investment Festival carried out by the Investment Club, the Women's Investment Club, and the stock training

**Digital Channels and Access for All**

For LHV, it is continually essential to develop our e-channels so that our internet bank and mobile app will support the availability of all our services. For the past few years, our main target has been the services targeted at private customers, but clearly, we want to offer the same experience to our business customers. In 2021, we have onboarded about 3,000-5,000 new customers every month. More than half of our new customers open their bank accounts through our e-channel. We have seen this growing trend in previous years, but 2021 has shown that most of our customers can use our services remotely and online.

Our mobile bank app is gaining popularity rapidly, but during the upcoming year we are also advancing the look and feel of our internet bank by making it more user friendly. The customers use



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|  |   |  |
|--|---|--|
|  | <p>electronic channels more with every year and we continue putting a lot of effort into making user experience in our electronic channels as seamless as possible. The increase of new customers login into the internet bank and mobile app was 40% and 82% in the past year. This means that customers use electronic channels even more than before.</p>  |  |
| <p>3.2 Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.</p> | <p><b>Our Approach</b></p> <p>At the end of 2020, we used the UNEP FI Portfolio Impact Analysis tool to better understand our impact areas which are now one of the cornerstones of managing our environmental and societal impacts. Before conducting the Analysis, in late 2019, we already realized that we can achieve great change by widening our product offering and provide alternatives in the form of green products to our private and corporate customers. This led to the development of various sustainability-focused products and services, which we now offer to customers to incentivize more sustainably conscious financial choices and offer them greener alternatives which are also more cost-efficient.</p> <p><b>Green Product and Services</b></p> <p>We have developed special loan offers that motivate our clients to make everyday consumer choices that are as environmentally responsible as possible. In this way, we do our part to support economic growth, which at the same time reduces greenhouse gas emissions and pollution, and waste generation. This also makes the use of natural resources more efficiently.</p> <p>Our current portfolio of sustainable products and services include:</p> <ul style="list-style-type: none"> <li>• Green Home Loan – Estonia’s first green home loan for energy class A houses and apartments</li> <li>• Green loan for housing development – investment loans for energy class A housing developers with lower interest than usual</li> </ul> | <p><a href="#">Group ESG report 2021</a></p> <p><a href="#">Green Loans</a></p> <p><a href="#">Green Pension Funds</a></p> |

|  |   |  |
|--|---|--|
|  | <ul style="list-style-type: none"> <li>• Green Insurance for energy-efficient property by LHV Insurance,</li> <li>• Green leasing – We aim to promote the purchase of energy-efficient vehicles. From 2030 we finish financing the purchase of new diesel cars</li> <li>• Green hire-purchase – renewable energy sources are undeniably an investment for the future. We aim to make it easier for our clients to make energy-efficient choices</li> <li>• Green investment loan for companies – the Estonian economy is too carbon-intense. Therefore, investing in lower energy consumption, production of renewable energy or daily resource-efficient is very profitable and will increase the competitive advantage of any company</li> <li>• To demonstrate leadership and innovation in Pension Fund management in Estonia, LHV Asset Management launched Estonia’s first green pension funds in 2020 – LHV Pension Fund Green and LHV Pension Fund Green Plus.</li> </ul> <p>To support all that mentioned above we have launched green campaigns for the products that we are already able to offer for our clients. We will focus on further developing our solutions and services to ensure that we can offer our customers a variety of options and alternatives to reach their own sustainability goals.</p> |  |
| <p><b>Principle 4: Stakeholders</b><br/>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals.</p> |   |  |



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|  |   |  |
|--|---|--|
| <p>4.1 Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.</p> | <p>In LHV we believe that sustainability is a constant learning process. We keep on asking ourselves and our stakeholders how we could make the most impactful efforts. We engage stakeholders and external experts to better understand the wider sustainability context, challenges and trends, expectations of the members of the society to us, and the wider consequences of our decisions. For us, stakeholders are the groups and individuals that LHV affects through its activities, and that, in turn, may affect LHV's operations in short or long run. We regularly hold dialogue with stakeholders with whom we have the most direct relations and with whom LHV could collaborate for better impact in the society. But we also keep in touch with the stakeholder groups that are part of shaping the trends and set requirements for the financial market. Engagement of stakeholder groups</p> <p>Our major stakeholder groups, ways of their engagement, and their major expectations to LHV:</p> | <p><a href="#">Group ESG report 2021</a></p> |
|--|---|--|

|  | How we engage?  | Main expectations and key topics raised?   |
|--|---|--|
| <b>Customers</b>                           | Active communication and discussions, ESG questionnaire in credit application, green products, and services   | Engagement, knowledge building, ESG integration into business and decision making                      |
| <b>Employees</b>                           | Annual survey, individual development and performance reviews, informative sustainability seminars  | Feedback, engagement, internal capacity building   |
| <b>Shareholders</b>                        | Annual shareholder meeting, active communication, ESG reporting   | Profitability, engagement, feedback  |
| <b>Policy makers, regulators</b>           | Memberships in State level sustainability focused working groups, direct communication with government officials  | Policy making input and information about EU legislation on the issues of sustainability and reporting |
| <b>Business networks, financial sector</b> | Active membership in Estonian Banking Association, Finance Estonia and Rohetiiger   | Leadership in ESG promotion  |
| <b>Suppliers, cooperation partners</b>     | Direct communication  | Sustainability integration into value chain  |
| <b>Sustainability organizations</b>        | Active membership in local sustainability focused initiatives and organizations, leading the ESG working group in Estonian Banking Association, member of UNEP FI PRB | Financing sustainable development, enabling green transition   |
| <b>Wider public and society</b>            | Active communication, public events and conferences, universities, press and media  | Transparency, fair and ethical business conduct  |

In addition to the above, we engage regularly and less formally with a range of stakeholders throughout the year. For example, we have been working together with other organizations on sustainability initiatives and regularly talk about our journey to other businesses who are planning to take it as a strategic goal, we co-operate with local universities in spreading the word about sustainability in the finance sector and the need for more capacity building on corporate ESG issues in



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|   |  |  |
|---|--|--|
|   | <p>academia, we continuously involve with external experts to better implement our ESG project and research best practices, we also regularly engage with non-profit organizations and with the public sector (especially in terms of ESG regulatory aspects). In addition to that, our management and ESG team members are regularly participating in knowledge-sharing, conferences, and seminars where we share our experiences of embarking on the journey of more sustainable business and the importance of moving towards a greener economy and more inclusive society.</p>   |  |
| <p><b>Principle 5: Governance &amp; Culture</b><br/> <b>We will implement our commitment to these Principles through effective governance and a culture of responsible banking</b></p>  |  |  |
| <p>5.1 <i>Describe</i> the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.</p> | <p>At the end of 2020, we adopted a group wide ESG policy which sets the goals, ambitions, and approaches for our sustainability activity in all the subsidiaries of the group. The ESG policy also sets a high-level structure and responsibilities for ESG governance group-wide – Head of ESG being responsible for all everyday ESG matters, Group CEO as governing body member ultimately responsible for ESG supervision, all Heads of LHV Group’s subsidiaries as responsible for supervision over everyday ESG matters. ESG activities in their respective subsidiaries and the Communications Manager as responsible for external communication related to environmental and social matters and serving as a contact person for all sustainability-related public enquiries. As of 2020, we have a dedicated ESG team who reports directly to the Bank CEO. In 2021, we started considerably growing and developing the ESG competencies in-house, resulting in the growth of our ESG team as well as ESG-focused professionals in the compliance, credit, risk, asset management departments. The main aim of the management of ESG Group wide is a smooth integration of sustainability principles into all relevant business lines, processes, strategy building, and risk management.</p> <p><b>ESG Governance area audit</b></p> | <p><a href="#">ESG Policy</a><br/> <a href="#">Annual ESG report 2021</a><br/> <a href="#">Annual Corporate Governance report 2021</a></p> |

|  |   |  |
|--|---|--|
|  | <p>Our Internal audit has included ESG topics to 2022 annual audit plan and continues to audit implementation of ESG values and requirements throughout the processes in the organization. The first audit focused on ESG governance in LHV Group and its subsidiaries. The objective of the audit was to assess whether the management practice and structure focusing on the implementation of ESG goals has been created and is functioning as intended.</p> <p><b>ESG Steering Committee</b></p> <p>In March 2021 we launched an ESG steering committee, which serves as a high-level governing body for ESG issues in LHV Group. The Committee follows the ESG policy adopted by the Supervisory Board of the LHV Group and was launched to ensure the development and implementation of various ESG projects and processes group-wide so that all our objectives can be met. The Committee also coordinate the flow of information on ESG projects, legislation and developments and advises members of the management of LHV's subsidiaries on ESG-related activities to be in line with LHV's business strategy, values, ESG strategic goals and best ESG management practices. The committee meets up once a month and the members include the Group CEO, the Chairman of the Management Board of LHV Bank, the Chief Risk officer of LHV Bank, LHV Chief Financial Officer of the Bank, Chairman of the Management Board of LHV Insurance, Chairman of the Management Board of LHV Asset Management and the Head of ESG. In 2022, we are in the process of discussing the potential need for more steering groups wo hep speed up ESG integration (e.g steering sustainable financing, and ESG risk related topics on executive levels).</p> <p><b>Alignment with Policies &amp; Procedures</b></p> <p>We have made considerable improvements and additions into our Credit Policy (including exclusion list of activities we do not finance) and HR &amp; Remuneration policies as well as the Ethics Policy to support the implementation of sustainability principles and our ESG goals. LHV Varahaldus (Asset Management) has adopted and follows a separate Responsible Investment Policy for the management</p> |  |
|--|---|--|



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

of Pension Funds. We have also updated our Risk Policy by making ESG related updates, while the Group Code of Ethics was updated in 2021 to represent an even more inclusivity and diversity in our operations and culture. As of June 2021, we also have ESG questionnaire integrated into our credit application for our corporate customers onboarding process. Group wide, we have approximately 10 ESG project streams currently running to integrate ESG into our business and operations. The project streams include policy implementation, data & KPIs, ESG governance structure, communications, ESG reporting standards, internal capacity building, credit granting processes, ESG compliance and regulatory gap analysis, portfolio, and customer ESG assessment activities and the building of ESG risk management framework.

**ESG risk management**

We understand the need of assessing risk related to ESG and being more transparent and accountable in our decision-making processes. Based on sustainability and responsibility principles, we have supplemented and published a list of business areas that contradict our credit policy and our goals for sustainability. We also realize that an adequate ESG risk management framework is the core of responsible customer relations, and essential for supporting our customers in their own sustainability journey and mitigating sustainability and risk related to ESG. Hence, we will continue working on integrating sustainability into our risk management practices and policies and we are planning to work out a separate ESG risk management framework going forward. In addition to the above, we are looking thoroughly into current legislative processes which will affect our sustainability efforts moving forward. One of them being the EU Taxonomy. Taxonomy implementation is also one of the current focuses and will be the foundation for creating our Taxonomy alignment and ESG scoring criteria and methodology. Taxonomy implementation will not only challenge our ESG data analysis and scoring methodologies and processes but will be the bridge between helping our corporate customers become more transparent in their sustainability efforts and knowledgeable in managing their own ESG risks and disclosures.



PRINCIPLES FOR  
**RESPONSIBLE  
BANKING**

|  |  |  |
|--|--|--|
|  |  |  |
| <p>5.2 Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.</p> | <p>As a part of our capacity building, we have designed a series of trainings for our client managers and credit decision makers in order to better assess the risk that may arise from client’s environmental and social aspects. We see these trainings also as a first step towards educating our clients in the field of green transition. Furthermore, we aim to help our clients to see the great possibilities the transition comes with. We plan to cover the topics of materiality mapping, concept of circular economy and also focus on sector specific ESG risk assessment.</p> <p>For the second year in a row, we are organizing information mornings entitled "What really matters?" to raise the general awareness among all of our employees. This is an event where we invite guest speakers to our office to talk on issues related to sustainability and social responsibility.</p> <p>In October 2022, we are holding a thorough ESG training for our Supervisory Board and further educating our Executives and Management Boards on operational ESG issues.</p> <p>We are also in the middle of assessing our remuneration policies and planning to integrate ESG criteria in the systems in a more specified manner.</p> |  |



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

|  |  |  |
|--|--|--|
| <p>5.3 Governance Structure for Implementation of the Principles</p> <p><i>Show that your bank has a governance structure in place for the implementation of the PRB, including:</i></p> <ul style="list-style-type: none"> <li>a) target-setting and actions to achieve targets set</li> <li>b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.</li> </ul>  | <p>LHV has a clear governance structure in sustainability management, with a growing ESG team, who is also responsible for making sure sustainability is not a centrally managed theme within an organization but is spread out and managed by various roles within LHV group. As of 2022, there are around 15-20 people in LHV who deal with ESG issues on a daily basis, from management, to Credit, Risk Management as well a Compliance and Data Analysis and Reporting.</p> | <p><a href="#">ESG Policy</a></p> <p><a href="#">Annual ESG report 2021</a></p> <p><a href="#">Annual Corporate Governance report 2021</a></p> |
| <p>Please provide your bank's conclusion/ statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.</p>  |  |  |
| <p>Our current organizational structure supports the implementation of the Principles and we will continue to improve it. The first two years of our ESG journey have been the years of extensive preparatory projects and tasks to build a structure of project management and governance internally to support the implementation of the Principles. The past 12 months were spent on clarifying roles and governance, steering very specific group wide projects, and overall building the infrastructure to move forward with our goals and to be able to set targets in 2023. It is fair to say, LHV has progressed substantially in fulfilling the requirements for Governance Structure, but we do comprehend there are still room for improvement which we will tackle moving forward.</p> |  |  |
| <p><b>Principle 6: Transparency &amp; Accountability</b></p>   |  |  |



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

**We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.**

|   |   |  |
|---|---|--|
| <p>1.1 Progress on Implementing the Principles for Responsible Banking</p> <p><i>Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).</i></p> <p><i>Show that your bank has considered existing and emerging international/regional good practices</i></p> | <p>The current report thoroughly describes the progress we have made in the past 12 months and explains in-depth the projects we have ongoing and the activities we have taken upon and are continuing within the coming years.</p> <p>As a financial institution that is currently actively growing its international scope, we take it seriously to make sure all of our sustainability activities not only take into account local and regional best practices, but we aim to be a pioneer and an evangelist of green finance in our home markets and beyond. For example, in our region, we have in recent years been recognized with several awards highlighting us as one of the best and most attractive employers as well as the greenest and most sustainable office operations. We also reached our goals of being carbon neutral in our office operations in 2022. In 2022 we were also received the Gold Level quality label from Estonian Responsible Business Forum's Responsible Business Index program. The index connects different corporate sustainability areas from workplace culture to environmental awareness and reporting and transparency.</p> <p>Moreover, in 2022, for the fifth year in a row, the leading international economic magazine Euromoney declared LHV Bank the best bank in Estonia thanks to its strong 2021 results, ambitious activities and noticeable market share growth in the Estonian banking market brought LHV success in the competition this year. Consideration was also given to LHV's technological innovations, as well as steady progress being made towards fulfilling the company's sustainability objectives. LHV also continues to be one of the best and most attractive employees in Estonia, both in terms of the financial sector as well as in general. In 2022, we were given numerous national awards in the most attractive employee category.</p> <p>We are constantly researching best practices in sustainable finance from the bigger players and institutions who have already achieved more in their ESG journey. We comprehend the fact, that to</p> |  |
|---|---|--|



**PRINCIPLES FOR  
RESPONSIBLE  
BANKING**

|   |   |  |
|---|---|--|
| <p>relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.</p> <p><i>Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.</i></p>  | <p>Implement the Principles, we do not have to invest the wheel, but rather build internal capacity and learn from best practices and standards of operations. To achieve an internal sustainability mindset through organizational change we will continue to engage and work together with experts, our customers, and other stakeholders to leverage the possibilities of a greener, more inclusive economy.</p> |  |
| <p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking</p>   |   |  |
| <p>LHV has made considerable improvements and progress in our internal processes supporting more sustainable practices and we have successfully on track with the implementation of the Principles. We have a clear strategic roadmap and list of projects we will need to work on in the coming years and governance structure in place to support it. ESG data issues, regulatory pressure, measuring our impact and target setting (especially in regards to financed emissions), will be one of the</p> |   |  |



PRINCIPLES FOR  
RESPONSIBLE  
BANKING

key challenges of the coming years and we will be transparent in our progress about our challenges as well as our successes as we move closer to our 4-year mark in the Implementation and Final PRB report.

#### Annex: Definitions

- a. **Impact:** An impact is commonly understood as being a change in outcome for a stakeholder. In the context of these Principles this means (aligned with GRI definition) the effect a bank has on people/the society, the economy and the environment and with that on sustainable development. Impacts may be positive or negative, direct or indirect, actual or potential, intended or unintended, short-term or long-term.
- b. **Significant Impact:** Impact that in terms of scale and/or intensity/salience results in a particularly strong/relevant change in outcome for a stakeholder. In the context of these Principles, the concept of *significant* impact is used to ensure banks focus where their actions/business (can) matter most for people, economy and environment and to provide a reasonable and practical threshold for what issues need to be considered/included, similar to the concept of “materiality”.