



PRINCIPLES FOR  
**RESPONSIBLE  
BANKING**

## Reporting and Self-Assessment Template

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. The Self-Assessment report gives insight into the past 18 months highlighting our progress as well as describing our future plans in regard to impact analysis, target setting & implementation, and accountability.

From 2022 onwards, we will report on our PRB progress annually and will produce the last report on our 4-year PRB progress and implementation of the Principles in our final report in 2024.

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>  <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> <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><a href="#">About LHV</a></p> <p><a href="#">LHV Group Annual report 2020</a> p.5, p.10-11:</p>

	<p>LHV employs more than 600 employees group-wide. Our banking service is used by 282 000 clients and LHV managed pension funds have got more than 174 000 active clients. With LHV insurance we have insured 129 000 clients. LHV UK Branch offers banking infrastructure to more than 150 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, and relevant national and regional frameworks.</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>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><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>

	<ul style="list-style-type: none"> <li>• <b>SDG 1: No Poverty.</b> We believe that integrating social and environmental considerations into the core of our business, and investing in spreading financial literacy, can support the reduction of inequality, poverty, and hardship in society.</li> <li>• <b>SDG 7: Affordable and clean energy.</b> Sustainability is an integral part of our value creation and product development process. This includes offering our clients a comprehensive choice of green financial products and improving our processes of ESG-related due diligence for our corporate clients and partners.</li> <li>• <b>SDG 8: Decent work and economic growth.</b> We recognize the importance of banks and financial institutions in driving sustainable growth, creating jobs, encouraging entrepreneurship, and fuelling innovation.</li> <li>• <b>SDG 12: Responsible consumption and production.</b> LHV is committed to considering environmental factors in our business decisions and advocating for responsible lending and consumption.</li> <li>• <b>SDG 13: Climate action.</b> As a part of supporting sustainable financial sector development in Estonia, we are encouraging environmentally sustainable business practices within our sector and the State level.</li> </ul> <p>We reached these five priority SDGs through a 2-days hackathon for LHV employees (in Autumn 2020, intending to brainstorm solutions on how LHV could contribute to the sustainable development in the context of SDG-s), sustainability impact analysis, and ESG strategy creation (as a joint process, both, the impact analysis and strategy creation, defined these 5 SDG-s as the priority ones for LHV in terms of where we could contribute the most).</p> <p><b><u>Sustainability mission statement</u></b></p> <p>Sustainability is a constant learning process in which we engage stakeholders and external experts to better understand the consequences of our decisions and create long-term value. We aim to strategically enhance in-house competencies, develop sustainable financial products and services, improve business processes, and</p>	
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	<p>develop sector-wide partnerships to work toward more responsible business operations.</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>	
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**Principle 2: Impact and Target Setting**

**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.**

<p>2.1 Impact Analysis: <i>Show 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:</i></p> <p>a) <u>Scope:</u> The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.</p> <p>b) <u>Scale of Exposure:</u> In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies.</p> <p>c) <u>Context &amp; Relevance:</u></p>	<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 included:</p> <ul style="list-style-type: none"> <li>• All core business areas, i.e Business Banking, Corporate Banking, and Consumer Banking (excluding Asset Management), and services of LHV in its major location (Estonia) were considered in the scope of the analysis (excluding United Kingdom where LHV was at the time at the very early stages of increasing its presence).</li> <li>• Based on the portfolio allocation the most significant industries were identified based on where LHV has the major impact through its services (based on the cartography the share of different industries in the portfolio).</li> <li>• The most relevant societal, economic, and environmental challenges related to sustainable development were defined in the countries of operations (Estonia). The sources for such "country needs" were major global data sources provided by the UNEP FI tool (e.g UN, OECD, WHO, ILO, FAO, World Bank, etc), complemented with the best location-specific data mapped in cooperation with leading local scientists (where global data was insufficient for local reality).</li> <li>• In total, 22 environmental, social, and economic aspects got such country scores (on a 4-point scale) that expressed the urgency to tackle the issues and risks related to the aspects within the particular country.</li> <li>• As a result of the analysis portfolio allocation, major industries, and country needs were combined, which resulted in the overview of the major sustainability impact areas where LHV banks have the main (potential) positive and negative impact.</li> <li>• The outcome of the analysis was discussed, validated, and elaborated with external experts and stakeholders, including the expectations of clients and partners (there were two panels around environmental and social aspects). Opinions of internal interest groups (LHV</li> </ul>	<p><a href="#">Annual ESG report</a> p. 22-24</p>
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<p>Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.</p> <p>d) <u>Scale and intensity/salience of impact:</u> In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services.</p> <p>(your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))</p>	<p>management, key persons, and employees) were considered too.</p> <ul style="list-style-type: none"> <li>• The impact analysis was conducted by independent external sustainability advisors.</li> </ul> <p>LHV identified two environmental and two socio-economic impact areas as the most material and important:</p> <ol style="list-style-type: none"> <li>1. Climate and biodiversity and Circular economy</li> <li>2. Inclusive and cohesive economy</li> <li>3. Financial literacy and economic sense of security</li> <li>4. <i>+ on top of the impact analysis:</i> Honest and transparent organizational culture</li> </ol> <p>These 4+1 impact areas are the starting point for the sustainability strategy of LHV – the basis for strategic directions, KPI-s, targets, green products and services development, and roadmap 2021-2023 for improving the impact.</p>	
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<p>Show 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>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.</p>		
<p>We have fulfilled the requirements regarding Impact Analysis as of 2020 using the UNPE FI Impact analysis tool. We are planning to undertake a new round of analysis in 2022 as in 2020 the Tool has now improved and allows us to expand the scope of analysis and possibly provide us with additional information regarding our possible negative and positive impact areas.</p>		



<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 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.</i></p> <p><i>Show that the bank has analysed and acknowledged</i></p>	<p>LHV has started the process to understand the current stage of its impact areas:</p> <p>As a first step, this has included setting indicators / KPI-s (around 70 in total) which allows as a second step to collect data about its own and portfolio performance. Once this will be done, as a third step. specific “SMART” targets can be set.</p> <p>However, in its 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</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> <li>13. To establish the working environment and organizational culture in LHV that would value equal opportunities, diversity, and inclusion</li> </ol>	
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<p>significant (potential) negative impacts of the set targets on other dimensions of 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>		
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Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

LHV has set a clear target of becoming climate neutral in our office operations but 2022 and we are on track in achieving this. We have taken the first steps towards setting KPIs for different business lines and areas but there is still some way to go until we can set precise targets for our impact areas and for specific areas of business operation. We are working on this in order to make sure all set KPIs and targets are in line with the Principles.

<p>2.3 Plans for Target Implementation and Monitoring</p> <p>Show that your bank has defined actions and milestones to meet the set targets.</p> <p>Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of</p>	<p>LHV has developed a group-wide ESG policy and a strategic ESG action-plan for 2021-2023. 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 main aim of the first ever ESG and sustainability policy, strategy and action plan of LHV is 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.</p>	
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<p>key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.</p>	<p>We plan to publish a renewed action plan and set of ESG KPIs during the next few years and also include a set of milestones and SMART targets.</p>	
<p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.</p>		
<p>We are currently working on performance indicators and on setting more specific targets for implementation in the coming years. We are also working on improving our non-financial reporting and integrating PRB reporting standards and GRI into our Group Annual Report. All in all, our progress has been considerable in the past 18 months in Target Implementation and Monitoring, and we are on track in the fulfilment of the Principles</p>		
<p>2.4 Progress on Implementing Targets</p> <p><u>For each target separately:</u></p> <p>Show that your bank has implemented the actions it had previously defined to meet the set target.</p> <p><b>Or explain why</b> actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.</p> <p>Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory)</p>	<p>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. The 2021 group annual report will already provide more disclosure on the specific sustainability-related KPIs that will help us better understand and manage our impact.</p> <p>We started to disclose more sustainability-related and non-financial metrics in our 2020 annual report (ESG section) and are working towards disclosing more ESG metrics every year and include SMART targets going forwards</p> <p>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 2021 to offset our carbon footprint and honour our promise for office carbon neutrality for 2022.</p>	<p><a href="#">Annual ESG report</a> p. 23-27</p>

<p>towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)</p>		
<p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets</p>		
<p>We are planning to make major improvements in our target setting in 2022 and implement more actions to achieve these goals. In 2021 we are focusing on data gathering, analysis, and working on performance indicators which will help us measure the impact of our business operations across business lines and in our focus impact areas.</p>		
<p><b>Principle 3: Clients and Customers</b> <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>Credit Granting and ESG risk</b></p> <p>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.</p> <p>We also realize that an adequate ESG risk management framework is the core of responsible customer relations, and essential for supporting our clients 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.</p> <p>In addition to the above, we are looking thoroughly into current legislative processes which will affect our sustainability efforts moving forward and will help us with implementing the Principles. One of them being the EU Taxonomy. Taxonomy implementation is also one of the current focuses and will be the foundation</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="#">Annual ESG report</a> p. 28-37</p> <p><a href="#">Bank Responsible Investment Policy</a></p>

	<p>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 clients become more transparent in their sustainability efforts and knowledgeable in managing their own ESG risks and disclosures.</p> <p>To implement the Principles of working with customers, we are taking further actions in promoting responsible relationships with our current and future by having the Principles in mind. As of 2021, we have added ESG related questions for the Corporate Clients Onboarding Questionnaire, which are related both to Taxonomy implementation, Implementation of PRB, as well as our ESG KPIs which help us analyze and further understanding our portfolio's impact. We are opening up a direct sustainability-related discussion with our corporate clients, helping them understand the needs of a greener economy, and how they could benefit from it.</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 takes into account 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 (taking into account most relevant ESG risks of the particular 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.</p> <p>To demonstrate leadership LHV Asset Management created Estonia's first green pension fund in 2020 and we regularly educate our clients and the public as a whole in the potential benefits of and the future of green investing. We believe following sustainability principles in investing and promoting them to the</p>	
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	<p>customer-base is in the best long-term interests of our clients.</p> <p><b>Inclusive Economy through Financial Education</b></p> <p>The Impact Analysis we conducted at the end of 2020 clearly shows that one of our impact areas is Financial Inclusion. To contribute towards a more cohesive and inclusive economy, we are focusing on providing financial education to our clients and we are actively raising awareness among the younger generation by providing financial education they do not usually learn in schools. We have an entire team in-house working on raising awareness among the younger generation on how to be more responsible with their finances - from spending to investing. Additionally, we praise ourselves to be one of the best investor education providers in the country, as our investment seminars and financial content attracts thousands of visitors per year and shows exponential growth every year among current and potential customers.</p> <p><b>Digital Channels and Access for All</b></p> <p>To promote responsible relationships with our clients, make our wide range of services accessible for all, we put maximum effort to build and maintain top digital bank. For that, we are continuously improving access to our services through the internet- and mobile banking services. For us, our clients must be served the best possible way even outside the normal working hours. In 2020, we have onboarded about 3500-4000 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 2020 has shown that most of our customers can use our services remotely and online. The increase of new customers login into the internet bank and mobile app was 20% and 40% in the past year. This means that customers use electronic channels even more than before.</p>	
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<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. 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> <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-intensive. Therefore, investing in lower energy consumption, production of renewable energy</li> </ul>	<p><a href="#">Annual ESG report</a> p. 28-37</p> <p><a href="#">Green Loans</a></p> <p><a href="#">Green Pension Funds</a></p>
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	<p>or daily resource-efficient is very profitable and will increase the competitive advantage of any company</p> <ul style="list-style-type: none"> <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> <b>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals.</b></p>		
<p>4.1 <i>Describe</i> 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>Focusing on the clients, needs of its employees, and requirements of society for long-term prosperity and the integrity of the environment is a priority for the long-term strategy of LHV. Therefore, LHV regularly engages with its stakeholders.</p> <p>LHV participates in local stakeholder initiatives to ensure a full understanding of local challenges and increase its contribution to society’s goals.</p> <ul style="list-style-type: none"> <li>We are leading the Estonian Banking Association sustainable banking committee that represents Estonian banks and their involvement in ESG implementation.</li> <li>We are a founding member of Green Tiger, which is a local initiative that contributes to improving local organizations’ knowledge regarding environmental issues, keeps tight contact with the state, and educates businesses to make the best environmental-related changes within the organization and their suppliers.</li> <li>LHV is a member of FinanceEstonia and actively engages in its ESG working group Our activity in this non-profit organization allows us to contribute to the spread of sustainable Banking principles throughout the financial sector.</li> </ul>	<p><a href="#">Annual ESG report</a> p. 36-37</p>



	<p>Finance Estonia supports the development of the financial sector, innovation, and the export of services.</p> <ul style="list-style-type: none"> <li>• Conducting focus groups with Key Stakeholders in the context of its Materiality Analysis and ESG strategy building. The most important societal and environmental impact experts of Estonia were involved in the process of creating the LHV ESG strategy and action plan for 2020. During several workshops, about 20 experts (researchers, representatives of the public sector, cooperation networks and NGOs, entrepreneurs) worked on LHV's strategic action plan. The collected input was considered to assess the LHV Group's current activities in managing the company's social and environmental impacts and planning strategic activities.</li> </ul> <p>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 cooperate 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 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>	
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**Principle 5: Governance & Culture**  
**We will implement our commitment to these Principles through effective governance and a culture of responsible banking**

<p>5.1 Describe 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. At the same time, we also approved an ESG KPI roadmap for 2021-23 which will help us move closer to a measurable sustainability management and will help us achieve our SMART targets moving forward. 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. We also have several employees working on ESG activities in their respective fields, like compliance, HR, consumer banking, asset management, credit, and risk management teams.</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. We are currently in the process of setting up proper ESG governance system within LHV, with an aim to integrate ESG and sustainability matters to all relevant business functions and processes, and to involve all relevant managers in business units. We have conducted an analysis of the best ESG governance</p>	<p><a href="#">ESG Policy</a></p> <p><a href="#">Annual ESG report</a></p> <p><a href="#">Annual Corporate Governance report</a></p>
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	<p>practices among financial firms internationally and are about to set up an action plan for Q4 2021 for improving our own ESG Governance structure and practice to support us moving closer to our PRB and sustainability goals. 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.</p> <p><b>Policies, Projects &amp; Procedures</b></p> <p>Apart from the ESG Policy and the KPI roadmap, that LHV has adopted, we have also made considerable improvements and additions into our Credit Policy (including exclusion list of activities we do not finance) and HR &amp; Remuneration policies to support the implementation of the Principles and our ESG goals. LHV Asset Management has adopted and follows a separate Responsible Investment Policy for the management of Pension Funds. We are currently also in the process of reviewing and renewing our Risk Policy and Group Code of Ethics. As of June 2021, we also have ESG questionnaire integrated into our credit memo for our corporate clients onboarding process. Group wide, we have approximately 10 ESG project streams currently running to implements PRB and ESG into our business and operations. The project streams include policy implementation, data &amp; KPIs, ESG governance structure, communications, ESG reporting standards, internal capacity building, credit granting processes, ESG compliance and regulatory gap analysis, portfolio, and client ESG assessment activities and the building of ESG risk management framework. In 2022, we are planning to do a new Portfolio Impact Analysis using the new and improved UNEP PRB assessment tool, as the previous one was done using the old tool and data from 2019. We wish to re-assess our impact and keep our strategic activities aligned with the most recent results of the analysis.</p>	
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<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>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. At the same time, we also approved an ESG KPI roadmap for 2021-23 which will help us move closer to a measurable sustainability management and will help us achieve our SMART targets moving forward. 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. We also have several employees working on ESG activities in their respective fields, like compliance, HR, consumer banking, asset management, credit, and risk management teams.</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 LHV Group and it ensures 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 governance and management practices. We are currently in the process of developing and improving the internal ESG governance system, with an aim to even better integrate ESG and sustainability matters to all relevant business functions and processes, and to involve all relevant managers in business units. We have conducted an analysis of the best ESG governance practices among financial firms internationally and are</p>	
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	<p>about to set up an action plan for 2022 for improving our own ESG governance structure and practice to support us moving closer to our PRB and sustainability goals. 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.</p> <p><b>Policies, Projects &amp; Procedures</b></p> <p>Apart from the ESG Policy and the KPI roadmap, that LHV has adopted, we have also made considerable improvements and additions into our Credit Policy (including exclusion list of activities we do not finance) and HR &amp; Remuneration policies to support the implementation of the Principles and our ESG goals. LHV Asset Management has adopted and follows a separate Responsible Investment Policy for the management of Pension Funds. We are currently also in the process of reviewing and renewing our Risk Policy and Group Code of Ethics. As of June 2021, we also have ESG questionnaire integrated into our credit memo for our corporate clients onboarding process. Group wide, we have approximately 10 ESG project streams currently running to implements PRB and ESG into our business and operations. The project streams include policy implementation, data &amp; KPIs, ESG governance structure, communications and digital content, ESG reporting standards, internal capacity building, credit granting processes, ESG compliance and regulatory gap analysis, portfolio and client ESG assessment activities and the building of ESG risk management framework. In 2022, we are planning to complete a new Portfolio Impact Analysis using the new and improved UNEP FI Portfolio Impact Analysis tool, as the previous one was done using the old tool and data from 2019. We wish to re-assess our impact areas, widen the scope of business areas included, and keep our strategic activities aligned with the most recent results of the analysis.</p>	
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<p>5.3 Governance Structure for Implementation of the Principles</p> <p>Show that your bank has a governance structure in place for the implementation of the PRB, including:</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>Target -setting and actions to achieve these targets is currently being covered through several internal ESG project streams. We are currently working on around 70 different sustainability performance indicators, which we will start monitoring and analysing to measure our performance in different areas. As of today, we are working on the first step of our Target-Setting Project, which focuses on gathering and analysing the data and assessing our capacity to gather information from future clients, State databases and our own databases to agree on and finalize a final set of KPIs we can use and measure in real-time and report on our progress at least annually. We are working with different business lines and assessing which metrics is relevant to us in achieving our sustainability goals and implement the PRB Principles. The next step will be setting targets in each of those indicators and impact areas. This will be followed by developing an improved ESG data analysis, visualization and reporting function and ideally a development of sustainability metrics dashboard, which will help us assess our performance, pinpoint targets and milestones which we might not achieve and detect any negative trends in terms of our environmental or societal impact. Please see 5.1 for a more.</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 past two years 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. As of today, we have a clear understanding of the various project streams that we need to work on, we have and active ESG Steering Committee and ESG team in charge of overseeing the management of ESG in all our group subsidiaries. We also have the first policies, roadmaps, budgets and designated employees to see the projects through and achieve our goals. 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> 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>		
<p>1.1 Progress on Implementing the Principles for Responsible Banking</p> <p>Show that your bank has progressed on</p>	<p>The current report thoroughly describes the progress we have made in the past 18 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</p>	

<p>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).</p> <p><i>Show that your bank has considered existing and emerging international/regional good practices 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.</i></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>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. In 2020 we were also received the Silver 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. Our goal is to receive Gold Label in 2022</p> <p>In the area of corporate governance, the greatest recognition was the award granted to LHV as the company with the best investor relations on the Nasdaq Baltic stock exchanges in 2019. Moreover, in 2021, for the fourth year in a row, the leading international economic magazine Euromoney declared LHV Bank the best bank in Estonia thanks to its good handling of the effects of the Covid-19 virus, several developments in digital banking and other financial products, as well as the successful issuance of mortgage bonds and outstanding growth numbers in terms of business volumes, profitability, and the number of clients.</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 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 project we will need to work on in the coming year and governance</p>		

structure in place to support it. ESG data issues, measuring our impact and target setting will be one of the 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”.