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initiative

Principles for
Responsible Banking

Reporting and self-assessment on the Principles for Responsible Banking

3rd report

Reporting period of 01.01.2022-31.12.2022



Introduction

LHV Group joined the UNEP FI Principles of Responsible banking initiative in early 2020. The report below is the third progress report explaining the Group's efforts in sustainability and in meeting the Principles. Our third self-assessment report gives insight into 2022 by highlighting our progress as well as describing out future plans in sustainability governance, target setting & implementation, and accountability. The Reporting and self-assessment of the Principles for Responsible Banking was prepared in accordance with the "Principles for Responsible Banking - Guidance for Banks: reporting" as issued by United Nations Environment Programme Finance Initiative in April 2022.

In accordance with "Key Steps to be Implemented by Signatories. Principles for Responsible Banking" as issued by United Nations Environment Programme Finance Initiative, a signatory shall obtain assurance on the 3rd self-assessment report. An independent third party has provided limited assurance in accordance with ISAE 3000 for our self-assessment in the following key steps as based on the "Principles For Responsible Banking - Guidance for Assurance Providers: Providing Limited Assurance for Reporting" (version October 2022):

2.1 Impact Analysis

2.2 Target Setting

2.3 Target Implementation and Monitoring

5.1 Governance Structure for Implementation of the Principles

Principle 1: Alignment



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.

Business model

Describe (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 across the main geographies in which your bank operates or provides products and services.

Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

LHV Group is the biggest domestic financial group and capital provider in Estonia. LHV Group's key subsidiaries are AS LHV Pank (Bank), LHV Varahaldus (Asset Management), AS LHV Kindlustus (Insurance) as well as LHV Bank Limited (UK bank). Our home markets are Estonia as well as the United Kingdom, where we were granted a banking licence in the beginning of May 2023.

LHV Pank aims to become the largest and most profitable bank in Estonia by 2032, and second largest by 2027. The goal of LHV Kindlustus is to be a domestic capital-based insurer whose products are simple, innovative and customer friendly and who is able to offer these via different channels. The pension funds managed by LHV Varahaldus prioritise the achievement of a strong long-term yield. The plans of LHV UK are based on three areas: banking services for financial intermediaries, loans to companies and services to e-businesses.

Our groups' long-term goal is to offer strong relationships to our partners by being:

- a financial service provider with the best service for our customers
- the most insightful financial service provider for international financial intermediaries
- an attractive employer who offers people a high satisfaction level, development and self-realisation
- a transparent company for investors, with an annual return on equity at least 20%
- a company with the best management practices for society, positive social impacts, and climate goals

[About · LHV](#)

[LHV Group Annual Report 2022](#)

LHV employs more than 1000 employees group-wide. Our banking service is used by over 400 000 clients and LHV managed pension funds have more than 160 000 active clients. With LHV insurance we have 218 000 active insurance contracts and 150 000 clients. The 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.

LHV wishes to conduct its business activities in a sustainable manner. We understand that the financial sector has a central role in directing capital flows into sustainable activities in order to support the transition to a climate-neutral economy. 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.

A more specific overview of our products and services, including the customer segments served can be found in our Group Annual Report for 2022 and on our homepage.

The report covers the period from 01.01.2022 to 31.12.2022.

Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

- Yes
- No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

- UN Guiding Principles on Business and Human Rights
- International Labour Organization fundamental conventions
- UN Global Compact
- UN Declaration on the Rights of Indigenous Peoples
- Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones:
EU Taxonomy, ECB’s Expectations on Climate related and environmental risks, Pillar 3, Principles for Responsible Investments, Principle Adverse Impact (PAI)
- Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----
- None of the above

LHV has a strong focus on sustainability and consideration for new societal needs. Therefore we are committed to the Sustainable Development Goals and to the goals defined in the Paris Agreement. In order to achieve these goals, 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.

Based on the impact analysis we have narrowed down our sustainability focus on five UN Sustainable Development Goals:

- SDG 1. End poverty in all its forms everywhere
- SDG 7. Ensure access to affordable, reliable, sustainable, and modern energy for all
- SDG 8. Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all
- SDG 12. Ensure sustainable consumption and production patterns
- SDG 13. Take urgent action to combat climate change and its impacts

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 have reached an important milestone in 2023 by having estimated our carbon emissions for the banking portfolio, which enables us to better align our strategy to reducing the negative impact on climate. Moreover, we have taken the main national strategies and sustainability areas of concern into consideration when setting environmental and social targets.

[LHV Group Annual Report 2022 - Sustainability report](#) (p. 16-41)

[Social Responsibility - LHV Investor](#)

[LHV Responsible Investment Policy](#)

[ESG Policy - LHV Group](#)

[Green LHV](#)

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.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly¹ and fulfil the following requirements/elements (a-d)²:

a) Scope: What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

In 2020 we went through a comprehensive materiality analysis process in partnership with an independent external ESG advisory firm. We built the analysis mostly on UNEP FI Portfolio Impact Analysis Tool for Banks which covers the four requirements for undertaking impact analysis: scope, scale of exposure, context and relevance, scale and intensity/salience. Considerations of the materiality review included:

- potential positive and negative environmental and social impacts due to the portfolio allocation of LHV Bank
- expectations of external stakeholder groups (experts on social and environmental impact, customers and partners)
- opinions of internal stakeholder groups (LHV management, key persons, and employees)
- proper ESG management approach according to dedicated standards and frameworks, and market practice among peers.

The process of the analysis, including scope, scale, relevance, and findings, are described more specifically in our first PRB report as well as our 2021 Annual Report.

All core business areas, i.e. business banking, corporate banking, and consumer banking (excluding asset management and insurance) and services of LHV in Estonia were considered in the scope of the analysis. Based on the portfolio allocation the most significant industries were identified based on where LHV has major impact

[LHV Group Annual Report 2021](#) (p. 22)

[LHV PRB Report 2021](#)

[LHV Group Annual Report 2022 - Sustainability report](#)

¹ That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

² Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

<p>through its services (based on the cartography the share of different industries in the portfolio) (Please see the scope of the analysis from the 2022 Annual report Note 5 and in the section below "b) Portfolio composition).</p> <p>We are planning to carry out a more comprehensive materiality analysis in the near future in order to also account for the impact of LHV Bank in the United Kingdom as well as LHV Varahaldus (asset management) and LHV Kindlustus (insurance).</p> <p>The impact analysis was presented to the members of the ESG Steering Committee, which serves as a high-level governing body for ESG issues in LHV Group. The meetings of the group-wide committee take place quarterly. Its purpose is to ensure the group-wide development and implementation of various ESG projects and processes so that all our objectives can be met. The committee also coordinates 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 keep them in line with LHV's business strategy, values, strategic ESG goals and best practices in ESG management.</p>	
<p>b) <u>Portfolio composition:</u> Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope</p> <ul style="list-style-type: none"> i) by sectors & industries³ for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or ii) by products & services and by types of customers for consumer and retail banking portfolios. <p>If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.</p>	
<p>The composition of our portfolio regarding the economic sectors we finance was taken into account when conducting the impact analysis. The fact that each economic sector has a different impact was taken into account when performing the analysis and determining our most material impact areas based on the country needs and our credit portfolio composition. While the size of our credit portfolio has increased considerably since the period when the impact analysis was carried out, the composition of our portfolio has remained similar. Table below illustrates the overall composition of our credit portfolio as per 31.12.2022.</p>	

³ 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

Individuals	38.8%
A: Agriculture, forestry and fishing	2.5%
B: Mining and quarrying	0.1%
C: Manufacturing	4.8%
D: Electricity, gas, steam and air conditioning supply	2.9%
E: Water supply; sewerage, waste management and remediation activities	0.9 %
F: Construction	3.4%
G: Wholesale and retail trade; repair of motor vehicles and motorcycles	4.7%
H: Transportation and storage	0.8%
I: Accommodation and food service activities	1.1%
J: Information and communication	0.4%
K: Financial and insurance activities	4.0%
L: Real estate activities	24.6%
M: Professional, scientific and technical activities	2.3%
N: Administrative and support service activities	3.6%
O: Public administration and defence; compulsory social security	2.5%
P: Education	0.2%
Q: Human health and social work activities	0.5%
R: Arts, entertainment and recreation	1.7%
S: Other service activities	0.3%

c) Context: What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?⁴ Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

This step aims to put your bank's portfolio impacts into the context of society's needs.

Challenges at a national level were considered in the impact analysis and as an outcome, we identified two environmental and two socioeconomic impact areas as the most material where LHV could achieve the largest impact on sustainable development through its core work across the value chain and portfolio.

The outcome of the analysis was discussed, validated, and elaborated with external experts and stakeholders, including the expectations of customers and partners (there were two panels around environmental and social aspects). The results of the process were completed and validated by the management team during ESG strategy development process.

Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)⁵? Please disclose.

We identified the following impact areas as most material:

- Climate and biodiversity
- Circular economy
- Inclusive and cohesive economy
- Financial literacy and economic sense of security

[LHV Group Annual Report 2022](#) (p. 18)

On top of these four impact areas the fifth, internally relevant material aspect was identified - honest and transparent organizational culture (covering both employee related social, and governance aspects). These 4+1 impact areas are the starting point for the sustainability strategy of LHV – the basis for strategic directions, KPI-s, targets, sustainable products and services development, as well as for identifying strategic business opportunities. The two most significant impact areas that we have prioritized to focus on currently are climate and financial literacy and economic sense of security.

d) For these (min. two prioritized impact areas): Performance measurement. Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context.

In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative

⁴ Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

⁵ To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this.

The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.

Based on our portfolio analysis and impact areas identified from our banking activities, we understand our role in the society and environment. We have determined our priority areas for target-setting based on our most significant impact areas while also taking the national priorities into consideration. Therefore, we have currently identified climate and financial literacy as our most significant impact areas. Our next step is to carry out a materiality assessment to determine our impact from a group-wide perspective.

[LHV Group Annual Report 2022 - Sustainability report](#)
(p. 24, 39-40)

LHV has a critical role in financing a sustainable economy and we support our clients in transition to a low-carbon economy. We understand that we have a negative impact on climate and the environment through financing of certain sectors and industries. Energy production and consumption in Estonia is one of the main sources of greenhouse gas emissions, which is why it is crucial to move towards renewable energy resources and increase overall energy efficiency. In order to contribute to green transition, we have set targets to increase the share of renewable energy projects in our energy sector portfolio. This target is aligned with Estonia's national strategy of producing 100% of its electricity from renewable sources by 2030.

Around 50% of energy consumed in Estonia is used for buildings and therefore we have also set targets related to energy efficiency of housing loans in our portfolio. The aim is to provide better interest rates for energy efficient real estate in order to incentivize clients to purchase more sustainable housing.

In order to reduce our negative impact on climate, we have already committed to phasing out the financing of new diesel cars by 2030 and have additionally set a target to gradually decrease the average CO₂ emissions of our vehicle leasing portfolio over the upcoming years.

By the end of 2022, we managed to estimate our financed emissions for loan portfolio by applying the PCAF methodology. Through improving data quality for our emission calculations, we aim to set further emission reduction targets for carbon-intensive sectors with the help of Science Based Targets initiative (SBTi) framework.

LHV also has a positive impact on society through increasing financial literacy and economic sense of security. This is considered

as our second most significant impact area. We clearly understand our role when it comes to increasing financial literacy in the society. This is also the reason why we have set targets on increasing the coverage rate for investment services contracts, as we believe that this enables, among others, also the most vulnerable groups in the society to make smarter decisions when it comes to their personal finances, thereby improving possibilities for acquiring real estate or have access to different types of financing possibilities. A special focus is put on improving the financial opportunities of young people, where our youth bank program (Noortepank) actively engages with younger clients by offering targeted products and services. Since 2023, LHV also offers student loans to support and increase access to higher education.

ESG key performance indicators in LHV Group on page 40 of 2022 Annual Report are not under assurance as the bank is not ready for assurance on certain metrics. The assurance on those indicators will be received during 2024 Annual Report assurance process as those indicators then will be part of Corporate Sustainability Reporting subject for limited assurance.

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?⁶

Scope:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Portfolio composition:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Context:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Performance measurement:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion

How recent is the data used for and disclosed in the impact analysis?

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:
(optional)

⁶ You can respond “Yes” to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets⁷ have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) Alignment: which international, regional or national policy frameworks to align your bank's portfolio with⁸ have you identified as relevant? Show that the selected indicators and 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.

You can build upon the context items under 2.1.

As a PRB Signatory, LHV Group considers SDGs and the Paris Climate Agreement as primary frameworks for the ESG strategy. In addition, we have taken the national policies and strategies into consideration for aligning our portfolio, as being one of the largest banks in Estonia, we understand our importance and impact for the society and economy. The targets described below are also published in our 2022 sustainability report.

[LHV Group Annual Report 2022- Sustainability report](#)

(p. 19, 39-40)

Climate change mitigation is one of the main impact areas, where LHV aims to assist clients in their transition towards a low-carbon economy. We aim to reduce our negative climate impact through reducing the financed emissions. We align our sustainability strategy with the Estonia National Energy and Climate Plan which includes the goal of producing all electricity consumed in Estonia from renewable energy sources by 2030. In addition, Estonia has set a target of achieving the E energy class rating for residential housing as a national average by 2033. The climate-related targets we have already set and are planning to set have a positive impact on SDG 13 (climate change) and 7 (ensuring access to sustainable energy).

By the end of 2022 we managed to calculate our financed emissions using the PCAF framework. During 2023 we have improved the model and managed to increase the data quality score for estimation of financed emissions. We have set our financed emissions baseline for year 2023 and the next step will be aligning our targets with the Science Based Targets Initiative to ensure alignment with the Paris Agreement.

LHV has also taken climate and environmental risk management in focus by introducing the new ESG risk framework which sets a structure and ambition for risk management within this area. We have an ESG risk manager who ensures the alignment with ESG risk related regulations and frameworks. Our next step is to specifically define our risk appetite and set key risk indicators, for which the starting point will be carrying out a new materiality assessment by the end of 2023.

b) Baseline: Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template.

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

<i>Impact area</i>	<i>Indicator code</i>	<i>Response</i>
<i>Climate change mitigation</i>	...	
	...	
	...	

<i>Impact area</i>	<i>Indicator code</i>	<i>Response</i>
<i>Financial health & inclusion</i>	...	
	...	
	...	

In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

Both climate and financial health related targets for the credit portfolio until 2030 have been set with a base year of 2022. With the aim of aligning our climate targets with the Science Based Targets initiative and setting additional emission reduction targets, the base year will be set for 2023. Based on the results of the new materiality assessment, we will once again go through the package of indicators provided in the Annex in order to determine if there are suitable KPIs that we can apply for in relation to our target setting.

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(p. 39-40)

⁷ Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

⁸ Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

c) SMART targets (incl. key performance indicators (KPIs)⁹): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

Target 1: Climate change mitigation

LHV has currently adopted the following climate targets for the credit portfolio by 2030:

- For the share of renewable energy projects in the energy sector portfolio, the target is to reach 90% by 2030. Currently we are at 60%.
- For the proportion of new contracts signed annually for A and B energy class housing in the mortgage portfolio, the target is to reach 50% by 2030. Currently we are at 30%.

The next step is to set additional emission reduction targets with the help of SBTi framework in order to align targets with the global climate change mitigation goals.

Target 2: Financial literacy and economic sense of security

For the impact area of financial literacy and economic sense of security, we have set the following targets to be achieved by 2030:

- For the coverage of young clients (up to 26 years old) with an investment services contracts we aim to reach 60% by 2030. Currently the share is at 46%.
- For the coverage of female private clients with an investment services contracts we aim to reach 60% by 2030. Currently the share is at 36%.

In addition we have set the following targets within our governance area:

- To reduce gender pay gap to 0 by 2030.
- To reach a maximum score of 5 for the employee satisfaction index.

The assurance on those above will be received during 2024 Annual Report assurance process as those will be part of Corporate Sustainability Reporting subject for limited assurance.

⁹ Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.

d) Action plan: which actions including milestones have you defined to meet the set targets? Please describe.

Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.

We consider it a key to collaborate with our business lines in order to set specific strategies for reaching our targets. In order to increase the share of financing of renewable energy projects, we have various loan products in place that offer more favorable financing terms, such as the green investment loan. With the adoption of the ESG rating model for our corporate clients, we will further develop the ESG analysis and assessment of our clients with the aim of providing better interest rates for clients with better ESG scores. In addition, data quality and calculations need to be improved over time considering the methodology advancement in order to accurately assess our clients and the climate impact arising from our financing activities.

The green home loan, which is Estonia's first green home loan for energy class A houses and apartments, already offers a better interest rate compared to lower energy class houses. During 2023, we carried out green home loan campaigns by offering a loan for energy class A housing with zero interest rate. We believe that by providing better financing terms, we are able to incentivize the market demand towards more sustainable products and services. In some areas, such as car lease, we have already set a strict deadline for not continuing the financing the acquisition of new diesel passenger cars from 2030. Along with the SBTi target-setting for our credit portfolio, we will also further develop sector policies where specific terms and requirements for allowing financing of carbon-intensive sectors will be determined.

In order to increase the share of investment contracts among our clients, we continue with carrying out investment seminars both online and also by visiting schools and different organisations and events. We are confident that through educating the society about savings and investments we are able to improve their access to financing opportunities and therefore increase the overall economic sense of security in the society.

Self-assessment summary

Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...

	... first area of most significant impact: Climate	... second area of most significant impact: Financial literacy and economic sense of security
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Action plan	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

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

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

LHV has implemented a strategy for achieving the targets that have been set. We monitor the progress carefully in collaboration with the specific business lines directly responsible for reaching the targets. LHV continues to develop new products and services to support the transition and to reach the 2030 targets. In terms of climate change, we continue to measure our financed emissions by applying the PCAF framework. In order to properly assess the emissions, we will focus on improving the data quality for calculations. Our next step is to set additional climate targets with the help of Science Based

<p>Targets Initiative (SBTi) framework. With the use of our clients ESG questionnaire and rating model, we continue the collaboration with our clients to account for the environmental and social impact of their business activities. The internal ESG risk management framework and materiality assessment is continuously revised and supplemented as we carry out specific risk analyses along the way.</p>	
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Principle 3: Clients and Customers



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.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers¹⁰ in place to encourage sustainable practices?

Yes In progress No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

Yes In progress No

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 activities¹¹). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

We understand the need for assessing the risks related to ESG and being more transparent and accountable in our decision-making processes. We have published a list of business areas that are inconsistent with our credit policy and our goals for sustainability.

[LHV Group Annual Report 2022](#)

In 2023 we have also finished building our ESG risk rating model for credit clients, which is used as a comprehensive analysis tool to understand our credit clients, their potential environmental and societal (E&S) risks, and hence, will give us more insight into how to integrate E&S risk criteria into business development 2023 and onward. In 2023 we are planning to finalize sector policies in order to identify the potential negative impacts related to different business activities, which should be taken into account during the financing decision making process. Alongside this, we are establishing specific guidelines for client managers to be able to more accurately assess clients by carrying out comprehensive ESG analyses.

¹⁰ A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

¹¹ Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

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.

[Green products · LHV](#)

[Green pension · LHV](#)

Green Product and Services

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, as well as waste generation.

Our current portfolio of sustainable products and services include:

- Green Home Loan – Estonia’s first green home loan for energy class A houses and apartments
- Green loan for housing development – investment loans for energy class A housing developers with lower interest than usual
- Green Insurance for energy-efficient property by LHV Insurance
- Green leasing – We aim to promote the purchase of energy-efficient vehicles. From 2030 we will not finance the purchase of new diesel cars
- 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
- Green investment loan for companies – the Estonian economy is too carbon-intensive. 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

- 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.

To support all that mentioned above we have launched campaigns for the products that we are already able to offer to 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.

Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups¹²) you have identified as relevant in relation to the impact analysis and target setting process?

Yes In progress No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

Sustainability is a constant learning process in which we engage stakeholders and external experts to better understand the consequences of our decisions and to create long-term value. We focus on enhancing in-house competence, development of sustainable financial products and services, improving our business processes, and developing sector-wide partnerships to work towards more responsible business operations.

We keep on asking ourselves and our stakeholders how we could make the most impactful efforts. We engage stakeholders and external

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¹² Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

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. 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.

Our major stakeholder groups, ways of their engagement, and their major expectations to LHV:

Stakeholder groups	How we engage	Main expectations and key topics raised
Customers	Active communication and discussions, ESG questionnaire in credit application, green products, and services	Engagement, knowledge building, ESG integration into business and decision making
Employees	Annual survey, individual development and performance reviews, informative sustainability seminars	Feedback, engagement, internal capacity building
Shareholders	Annual shareholder meeting, active communication, ESG reporting	Profitability, engagement, feedback
Policy makers, regulators	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
Business networks, financial sector	Active membership in Estonian Banking Association, Finance Estonia and Rohetiiger	Leadership in ESG promotion
Suppliers, cooperation partners	Direct communication	Sustainability integration into value chain
Sustainability organisations	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
Wider public and society	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 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.

Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

Yes In progress No

Please 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 the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

The core of our ESG strategy is specified in our ESG policy which sets the goals, ambitions, and approaches for our sustainability efforts in all the subsidiaries of the group. The ESG policy sets a high-level structure and responsibilities for group-wide ESG governance. The Head of ESG is responsible for all everyday ESG matters, Group CEO as a governing body member is ultimately responsible for ESG supervision, all Heads of LHV Group's subsidiaries are responsible for supervision over everyday ESG matters and ESG activities in their respective subsidiaries, and Communications Manager is responsible for external communication related to environmental and social matters and serves 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. Over the past years, we have considerably increased and developed ESG competencies in-house, resulting in the growth of our ESG team as well as ESG-focused professionals in the Compliance, Credit, Risk and Asset Management Departments. The main aim of the group-wide management of ESG is the smooth integration of sustainability principles into all relevant business lines, processes, strategy building, and risk management.

[ESG Policy - LHV Group](#)

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[LHV Responsible Investment Policy](#)

ESG Steering Committee

Since 2021, we have 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. Its members include the Group CEO, the chairman of the Management Board of LHV Pank, the Chief Risk Officer of LHV Pank, the Chief Financial Officer of LHV Pank, the chairman of the Management Board of LHV Kindlustus, the chairman of the Management Board of LHV Varahaldus and the Head of ESG. It was launched to ensure the group-wide development and implementation of various ESG projects and processes so that all our objectives can be met. The committee also coordinates 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 keep them in line with LHV's business strategy, values, strategic ESG goals and best practices in ESG management. The meetings of the group-wide committee take place quarterly.

In 2023, we began with holding monthly ESG Steering Committee meetings in LHV Pank, where specific focus is put on integrating sustainability matter into business areas of our banking operations. The ESG Steering Committee of LHV Pank is comprised of the members of the management board of LHV Pank and the Head of ESG.

Alignment with Policies & Procedures

Apart from adopting an ESG policy, we have also made considerable improvements and additions to our credit policy, ESG risk management policy and HR & remuneration policies as well as the ethics policy to support the implementation of sustainability principles and our ESG goals. LHV Varahaldus has adopted and follows a separate responsible investment policy for the management of pension funds.

We continue to use the ESG questionnaire as an integrated part of our credit application for our corporate customers onboarding process. Group-wide, we have several ESG project streams currently running to integrate ESG into our business and operations. The project streams include policy implementation, KPIs and target setting, ESG data analysis, 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, financed emissions calculations and ESG risk management framework development.

ESG risk management

We understand the need for assessing the risks related to ESG and being more transparent and accountable in our decision-making processes. We have published a list of business areas that are inconsistent with our credit policy and our goals for sustainability. In

2022 we completed building our ESG rating model for credit clients, which is used as a comprehensive analysis tool to understand our credit clients, their potential environmental and societal (E&S) risks, and hence, will give us more insight into how to integrate E&S risk criteria into business development 2023 and onward. In 2023 we developed ESG Risk Management Policy which defines the risk management framework, i.e. main principles, governance and risk appetite for the ESG risks LHV Group is facing.

In addition, we are looking thoroughly into ongoing legislative processes which will affect our sustainability efforts in the future. One of them is the EU taxonomy for sustainable activities. The implementation of the taxonomy is one of the current focuses and will be the foundation for our taxonomy alignment and ESG scoring criteria and methodology. Taxonomy implementation will not only influence our own ESG data analysis and scoring methodologies and processes but will help our corporate customers become more transparent in their sustainability efforts and knowledgeable in managing their ESG risks and disclosures.

Responsible investments

The principles of responsible investment are part of the investment analysis process at LHV. Apart from traditional factors such as fundamentals and valuation, the comprehensive analysis considers ESG factors, based on the sector and needs of each existing or new potential investment (considering the most relevant ESG risks of the company). We are currently developing sector-specific lists of material ESG issues. The sources for ESG information include periodic financial reports, ESG and sustainability reports, press releases, company management meetings, and other relevant publicly available information. 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 that promoting and following the principles of sustainable investing is in the best long-term interests of our customers.

ESG Governance area audit

Our Internal audit has included ESG topics to 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.

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

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.

5.3 Policies and due diligence processes
 Does your bank have policies in place that address environmental and social risks within your portfolio?¹³ Please describe.
 Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

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 2023, there are around 15-20 people in LHV who deal with ESG issues on a daily basis, from management to credit and risk management as well compliance and data analysis and reporting.

Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank’s governance system?

Yes No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

Yes No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

Yes In progress No

¹³ Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

Principle 6: Transparency & Accountability



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.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

Yes Partially No

If applicable, please include the link or description of the assurance statement.

Assurance statement has been separately provided to UNEP FI along with submission of the self-assessment report.

6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- GRI
 SASB
 CDP
 IFRS Sustainability Disclosure Standards (to be published)
 TCFD
 Other:

6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis¹⁴, target setting¹⁵ and governance structure for implementing the PRB)? Please describe briefly.

We will carry out a new materiality assessment to determine our impact from double materiality perspective.

¹⁴ For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

¹⁵ For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.