

CEO letter on sustainability

LHV Group is the largest and fastest growing financial group based on Estonian capital. Through our international business line, we help make financial services more efficient and accessible. We feel increasingly responsible for safeguarding the environment and the well-being of society and we realise that it depends on us whether LHV's financing and investment decisions make a positive or negative impact.

LHV's main stakeholder groups are customers, employees, investors and the public. We believe that we can achieve the best outcomes for both the company and society when we take into account as broad a range of interests as possible. In practice, we expect LHV to remain a well-performing growth company but believe that this can be achieved while pursuing the best governance practices, positive social impacts and internationally agreed climate goals.

LHV has always paid a lot of attention to the impacts of governance and social risks. In recent years, we have expanded our focus to environmental risk management. Climate change and other ecological problems received considerable attention in 2020, both across the world and in the business sector. Environmental hazards also dominate the Global Risks Report published by the World Economic Forum, which ranks the biggest global threats on the basis of likelihood and the severity of impact. For the first time in history, the top five global risks in terms of likelihood are all environmental: extreme weather, major biodiversity loss, climate action failure, natural disasters and human-made environmental disasters. It is not surprising that the financial sector is also increasingly concerned with sustainable development and understanding the urgency of these issues.

We have committed to five United Nations (UN) sustainable development goals and have become signatories to the UN Principles for Responsible Banking. We aim to make our operations climate neutral by 2022. Still, we can make the strongest impact with our financing and investment policies. We have updated our exclusion list, which is the list of activities and projects that we do not finance or invest in, and are working hard to start driving environmental change together with our customers through a common set of measurable environmental targets. In 2020, we launched several new green products, including the green pension fund, home loan, lease, hire-purchase and business loan, which help LHV as well as the Estonian economy as a whole work towards the Paris climate goals.

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. Transparency of governance provides assurance to investors and the public as well as better visibility to exercise control over topics such as potential conflicts of interest, corruption risks, etc. LHV's management model and management structure along with its supporting committees and risk controls, remuneration policies and compensation rates are described in detail in our annual report.

We interpret social responsibility in a broader sense as contributing to the development of the Estonian economy and capital markets and improving the financial literacy of people, and in a narrower sense as offering the best services to our customers and creating a motivating work environment for our employees. As regards the latter two goals, we are proud to report that we have been named the best bank in Estonia by the business magazine Euro-money and the third most attractive employer by the largest job portal in Estonia. Developing the Estonian economy and capital market is a part of LHV's mission. We are aware of LHV's role in driving change: we want to help both Estonian people and businesses move towards wiser financial behaviour and economic decisions. We are developing a modern economy that respects social contracts through our credit policies and the investment policies of our pension funds. The stronger the economy, the greater the wellbeing of Estonian people.

We are not quite there yet. In order to achieve the above goals, we need complete harmony with society as a whole. The financial sector may lead the way but to get the best outcome we need a concerted effort from the public sector, regulators, businesses and consumers. However, we have worked hard to set a good example in the achievement of environmental, social and governance-related goals. LHV has adopted a sustainability strategy along with related goals and internal regulations that help achieve these goals. We have created metrics and processes for getting the best results and provided sustainability training. We have launched several green products and aim to become climate neutral. We are prepared to do our part.

Our Approach to Sustainability

Purpose

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. We acknowledge that although in LHV, there are initiatives that deal with environmental and social issues, there is much more that could be done to align our everyday business and activities with our ESG goals.

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.

Commitment to UN SDGs

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.

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.



SDG 1: No Poverty

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.



SDG 7: Affordable and clean energy

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.



SDG 8: Decent work and economic growth

We recognize the importance of banks and financial institutions in driving sustainable growth, creating jobs, encouraging entrepreneurship, and fueling innovation.



SDG 12: Responsible consumption and production

LHV is committed to considering environmental factors in our business decisions and advocating for responsible lending and consumption.



SDG 13: Climate action

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.

Sustainability mission statement

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 develop sector-wide partnerships to work toward more responsible business operations.

- 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.
- 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.
- We will bring our activities into conformity with the UN Sustainable Development Goals and the Paris Agreement.
- We operate transparently and publicly account for our progress and obstacles in various sustainability reports and through our corporate communication channels. 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.
- 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.

Our Focus and Impact

LHV's ESG focus topics were decided based on the following:

- Potential positive and negative environmental and social impacts of the business activities of LHV Bank, drawing on the UNEP FI Portfolio Impact Analysis Tool;
- expectations of external interest groups (experts on social and environmental impact, clients and partners);
- opinions of internal interest groups (LHV management, key persons, and employees).

Based on the above inputs, LHV's sustainability focus topics going forward are:



All these focus areas are managed through three levels:

- Positive and negative impact areas of LHV's operating activity (e.g., the impact of financial decisions on the environment and society)
- LHV as an organization (i.e., management and organizational impacts, e.g., "house in order" activities).
- LHV's broader impact in society (activities supporting and guiding a more comprehensive, systemic change in Estonian society)

ESG indicators and metrics

To meet our goals for more sustainable business development, we comprehend the challenges of measuring or impact and setting KPIs to sustainability goals. For that, we must invest more time and effort in the future and build internal capacity to measure our success better. For that, we have today set key indicators to all of our impact areas and developed a plan on what data we need to start gathering and measuring in the coming years to understand and meet our targets. We have also developed an ESG roadmap

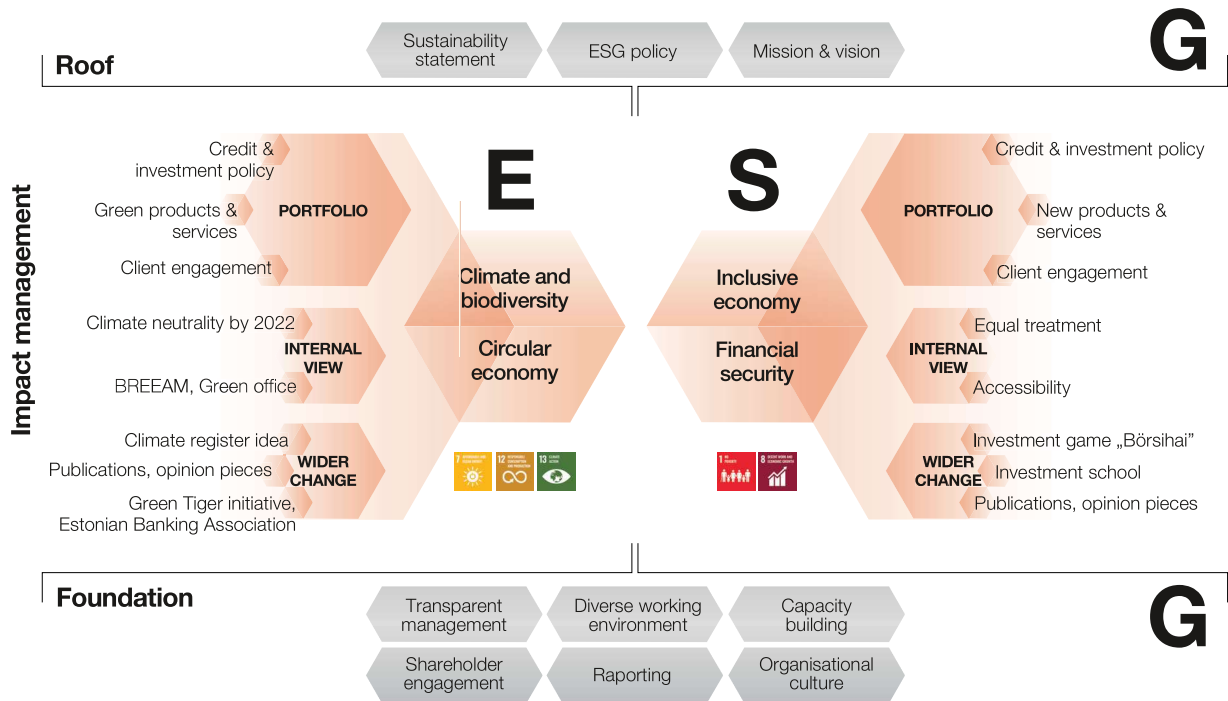
for 2021-2023 that will help us move closer to our goals in a more structured manner. Incorporating ESG in all our business decisions and business lines will need to go hand in hand with comprehensive mechanisms for measuring our impact across the board and reporting on it correctly. This will be one of the key goals for LHV in regard to ESG moving forwards.

Below are some of our key ESG indicators we are working on with respective data:

Focus area	Key indicator	2019	2020	
Environment (E)	LHV's CO2 footprint (t CO2-eqv)	1210t	865t	
	Share of corporate banking loan portfolio to the biomethane industry	0.55%	1.25%	
	Share of green assets in LHV Asset Management portfolio	N/A	4.2%	
	Share of loan portfolio to solar energy industry	0.05%	2%	
	Proportion of active clients in II pillar Pension Fund Green	N/A	2.2%	
Social (S)	Inclusive and cohesive economic space	Share of corporate banking loan portfolio to Local Governments	0	14.4%
		Proportion of consumer banking customers registered outside Harjumaa	34.3%	34.9%
		Proportion of home loans outside Harjumaa	19.8%	19.7%
	Financial literacy and economic sense of security	Total number of Investment School attendees	6000	7420
		Average number of clicks per article in Finantsportaal	2372	2393
		Share of use of investment products among customers up to 25 years of age	19.3%	26.1%
		Share of use of investment products among clients with native language other than Estonian	5.6%	5.5%
Governance (G)	Percentage of female employees in leadership positions	26.5%	44.8%	
	Client satisfaction index	93.5 %	94.9 %	
	Number of legal proceedings pending against the company as of end of year	0	0	
	Incidents of ethics and corruption	0	0	
	CEO pay ratio	0.18	0.19	

ESG framework and core activities

The graph below illustrates LHV's main impact areas, goals, and respective core activities, as well as the main elements governing and supporting our sustainability efforts.



The principles of responsible banking

The UN Principles for Responsible Banking give banks a framework for sustainable operation and sets out guidelines for promoting life in society. We joined with the initiative to show our commitment to the UN Sustainable Development Goals and align our activities with the Paris Climate Agreement's goals. We take part in international cooperation in the financial sector and sharing best practices.



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.



Principle 2 **Impact & 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.



Principle 3 **Clients & 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.




Principle 4 **Stakeholders**

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



Principle 5 **Governance & culture**

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



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.

Environmental

Contributing most to our focus SDGs:



We realize that business enterprises and economic progress can often draw on natural resources. However, we also recognize that there is an alternative, more sustainable way to achieve growth and create value. Through their business and offerings, financial institutions have a transformational capacity to create positive change and scale sustainable business practices through innovation, creativity, and the entrepreneurial spirit.

LHV desires to operate sustainably, and as an Estonian company, we want to help the Estonian economy to adapt to meet the climate targets. To do so, LHV is

- Contributing to achieving the goals of the Paris Climate Agreement
- Supporting Estonia's goal of attaining a climate-neutral economy by 2050
- Open to the opportunities afforded by the new economy
- Working together with external stakeholders to bring about more positive change (i.e., Estonian Banking Association, external consultants, and organizations to help build capacity)
- Following green office principles and monitoring its annual carbon footprint to become carbon-neutral by 2022

A financial institution's sustainable business operation means consistently incorporating ESG-friendly practices into its offering and product development. To date, we have developed special loan offers that motivate our clients to make environmentally responsible consumer decisions. We have also created and disclosed an exclusion list of activities that are not in accordance with our credit policy and the principles of sustainable and responsible operations.

Green operations

Our goal is to make our office activity climate-neutral by the year 2022. Even though our greatest environmental impact comes from financing and investing activities, it is no less important how we administer our business every day.

That's why we wanted to make sure that our own consumption is sustainable, that we keep our house in order and serve as an example on all fronts of the effort to meet climate goals.

Green Office Principles

LHV has decided to take steps towards more environmentally friendly operations. This has been done by improving the office environment and involving employees in the Green Office process by awareness-raising. In 2020, LHV's Tallinn office was awarded the Green Office Certificate, which

confirms our office operations environmentally sustainable activities. In December 2020, LHV's Tallinn Office was awarded „Best Green Office of the Year“ award by the Estonian Association for Environmental Management.

Our Carbon Footprint

Greenhouse gas emissions must be reduced significantly to avoid the worst consequences of climate change. Our office activity also generates emissions - both directly and indirectly. Mostly, due to the use of heating, power, employee commute, and business travel.

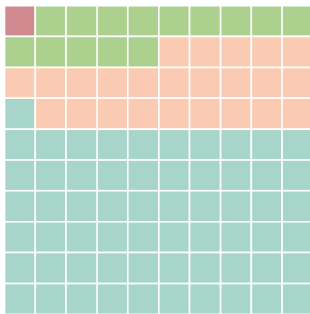
What have we already accomplished?

At the beginning of 2020, we started collecting emissions data for the first time and ran the calculations for our carbon

emissions for 2019. We did the same for 2020 at the beginning of 2021

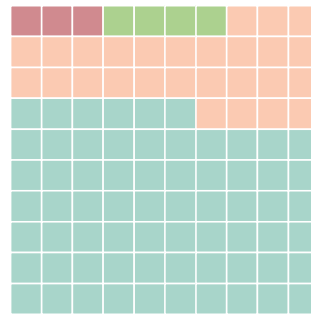
In 2019, LHV's office activity had a greenhouse gas emission footprint of 1210 tonnes of CO₂-equivalent, which is 2.6 tonnes per employee at the time of calculation. For 2020 the results were 865 tonnes, or 1.7 tonnes per employee.

Carbon emissions sources (Scope 1 and Scope) comparison 2019 and 2020



2019

- 61% from the use of heat and power
- 24% from employees commuting to work
- 14% from business trips
- 1% from office expenses, such as paper, water and waste.



2020

- 66% from the use of heat and power
- 27% from employees commuting to work
- 4% from business trips
- 3% from office expenses, such as paper, water and waste.

We have put together a climate neutrality achievement plan in order to operate more sustainably and reduce our negative environmental impact. In 2020 we made the transition to electricity furnished with a green energy certificate, which has cut emissions by 30%. In addition to that, working towards the Green Office Principles, we have also organically reduced our emissions. We are also working on developing a local and ethical project for carbon offset which we can contribute to offset CO₂ which we cannot offset through our everyday office operations.

We calculated our footprint based on the internationally recognized Greenhouse Gas Protocol. We will repeat and refine the calculation each year. Based on which additional categories we are able to gather reliable data in, we will strive toward a fuller picture.

Green products and services

LHV's influence in the Estonian financial sector is growing. As part of an industry that is vital for society, we, directly and indirectly, affect our surroundings and make our most significant contribution through investing and financing. That is why we have decided to channel cash flows from our core activities more concertedly to activities that support the transition to a climate-neutral and sustainable economy.

We have developed unique green products that motivate our clients to make everyday consumer and investment decisions 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, pollution, and waste generation.



Green Home Loan

One of the most important consumer decisions a person will ever make – in terms of the financial cost and the environmental impact – is regarding purchasing their home. One-third of the average Estonian's annual CO₂ footprint is related to their home – mostly deriving from energy used for heating and emissions arising from use of household electricity.

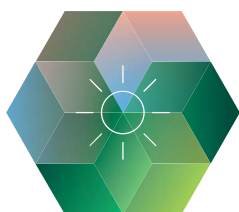
We would like to promote the building and buying of the most energy efficient homes, so we're offering our customers the possibility to leverage Estonia's first green home loan.



Green Car Leasing

We aim to promote the purchase of energy-efficient vehicles. The most energy-efficient vehicle you can choose to drive is a fully electric car. But to be sure of its sustainability level, the energy needs to derive from renewable sources entirely.

From 2026 onwards, only cars with zero CO₂ emissions per kilometer are considered clean vehicles. Only electric and hydrogen vehicles will meet this standard. We, therefore, offer car leasing for new fully electric vehicles purchased for general use.



Green hire-purchase

Renewable energy sources are undeniably an investment for the future. Using solar panels for generating energy and heating homes and household water with geothermal energy is a smart choice. Instead of driving vehicles that run on fossil fuels, we want our customers to try considering electric monowheels or two-wheeled vehicles. We want to make it easier to make energy-efficient choices.



Green Investment Loan for Companies

The Estonian economy is very carbon-intensive. Therefore, investing in lower energy consumption, production of renewable energy, or daily resource efficiency is very profitable and will increase any company's competitive advantage.



Green Loan for Housing Development

For people to have energy-efficient apartments, someone has to build them. Therefore, we offer investment loans for energy class A housing developers with a lower-than-usual interest rate.



Pension Fund Green (II pillar)

In March 2020, we launched Estonia's first green pension fund. We had been working on it for exactly a year. LHV Pension Fund Green is meant for anyone who cares even a little about green philosophies and believes that capital investment should be profitable in the long-term and environmentally sound and sustainable. The fund always invests 75% to 100% into equity. At least half of the portfolio is invested in investment funds that abide by sustainability principles or have environmental themes.



Pension Fund Green Plus (III pillar)

In December 2020, LHV established the Pension Fund Green Plus, which is the sister fund of the first Estonian second pillar fund that makes green investments. The first green third pillar fund's investment portfolio will consist of socially responsible, sustainable, and environmental assets. The equity risk to be taken with the fund will always remain between 75% and 100%. The green second and third pillar funds are aimed at everyone who cares about the green mindset and believes that investments must be productive in the long term and environmentally friendly and sustainable.

Social

Contributing most to our focus SDGs:



While banks and financial institutions play an integral part in driving economic growth in a society, they also have the power to impact individual lives and communities' overall wellbeing. Our business is always conducted with integrity, transparency, and ethics in mind, with the utmost emphasis on fair dealing and respect towards our partners, clients, and employees.

By acknowledging our role and societal influence on the local level, we

- **Preserve a budget to support the advancement of music or arts, education, sports, and community events.**
- **May provide support to external movements and partners to promote the cultural and economic development of local communities.**
- **Stand for the equal opportunities of people and companies active in the economy**
- **Build the confidence of our customers toward LHV as a non-discriminatory financial services provider**
- **Encourage financial literacy and economic knowledge-sharing**
- **Continuously improve our competencies in the field of ESG to further advance the cohesion of society.**

The prosperity and welfare of our people is the core of our business operation. We realize that good business results and growth do not happen in isolation of people who create value, are well taken care of, and are engaged in their personal and collective mission, and feel highly valued.

Social responsibility

Along with the growth of LHV, we are also becoming increasingly aware of our growing role in the Estonian economy and society in general. Based on our mission, we support activities that allow Estonian people and businesses to think more boldly about the future and realize their plans.

We consider it important to increase the feeling of economic security and make the economic environment more coherent. In society at large, we primarily support ventures that make Estonia bigger and contribute to the capabilities of our communities. In addition to contributing to investor

education and recognition of entrepreneurs, we have several longer-term and more recent cooperation projects, helping to achieve said goals.

Financial Literacy

Since its establishment, LHV has been part of the Estonian investor community. As a market leader in investment services and as a listed enterprise that values investor relations simultaneously, we actively contribute to educating the investor community. In our relations with more than 10,000 shareholders, we are open, transparent, and inclusive.

- We organize free seminars as part of the Investment School, where over 7400 people participated in 2020 (the number of participants in 2019 was 6,000). This year, most seminars were held in the form of webinars.
- We also carry out the annual stock market game Börsihai. This year, the number of participants reached 6,576 (the number in 2019 was 4,600).
- For the second year in a row, we organized an advertising campaign on financial literacy, targeted at young clients with insightful content on the website.
- In cooperation with the University of Tartu, we prepared an elective subject 'Functioning of a modern banking company on the example of LHV Pank' for which 54 students registered.
- We participated in projects for improving financial literacy organised by the Estonian Banking Association.
- We supported the Investor Toomas - a conference organised by Äripäev and the Investment Festival carried out by the Investment Club, the Women's Investment Club, and the stock training

Sponsorships

Within its means, LHV supports activities that contribute to the development of Estonian society. In our sponsorship projects, we prefer long-term and substantial cooperation.

Estonian Culture and Society

- Estonian Music Days – for five years already, we have supported the Estonian New Music Award, which was awarded to Märt-Matis Lill in 2020.
- Enn Soosaar Foundation – we support issuing the Ethical Essayists Award. In 2020, the award went to Eero Eprner.
- Estonian Film and Television Awards 2020 – we supported the recognition of outstanding achievements.
- Intsikurmu Music Festival in Põlva – we supported the music festival for the fifth time.
- 'Who does it?' support program. We launched a support project for communities to fund a joint initiative. In 2020, we directed a grant amount to the Leesi Tarbitajate Ühisus project to renovate the village store.
- Charity function for bank cards. In 2020, we developed a function for LHV bank cards, which the customer can use to make micro-donations to the selected charity organization. We will launch this option at the beginning of 2021.

Sports and Healthy Lifestyle

- The Estonian Football Association – LHV Pank has been the main sponsor of the Association and the Estonian National Team since 2010. Also, we have created the support system of LHV's Football Card through which we gave 79,766 euros to Estonian football clubs in 2019.
- Estonian Optimist Class Association – we have supported Estonian sailing for more than ten years. We support the promotion of sailing among children and young people. In addition to that, we also supported Olympic athlete Ingrid Puusta.

- Rally Estonia – we supported the World Rally Championship round in Estonia for the first time.
- Simple Session – LHV was one of the main sponsors of this top extreme sports event.
- We supported the BMW Golf Cup amateur golf competition.
- We organize a corporate football event, the LHV Cup. In 2020, it was held for the fourth time.

Estonian Economy and Entrepreneurship

- Estonian Entrepreneur of the Year competition – we have been one of the Estonian Entrepreneur of the Year competition's main sponsors since 2012. In 2020, the title of Entrepreneur of the Year was awarded to Kaarel Kotkas.
- Gazelle Movement – LHV supported the gazelle movement to recognize fast-growing companies.
- We supported the conference Economic Security 2020

We also support smaller local initiatives with our knowledge, LHV themed gifts, advice, and performances by our people. We participate in fairs, as well as cooperate with universities. We belong to the Estonian Association of Information Technology and Telecommunications, the Estonian Chamber of Commerce and Industry, and the Estonian Employers' Confederation. We consider it essential to help Estonian manufacturers and entrepreneurs with their procurements and cooperation relations, consciously using their products and services.

Social impact through sales and channels

We aim to offer the best and most straightforward use of all our products and services to our customers. The year 2020 was remarkable due to COVID-19 and because social distancing made electronic channels play an even more critical role in business and society. This clearly demonstrates that our focus on digital channels is the right way forward in making our services available to everyone.

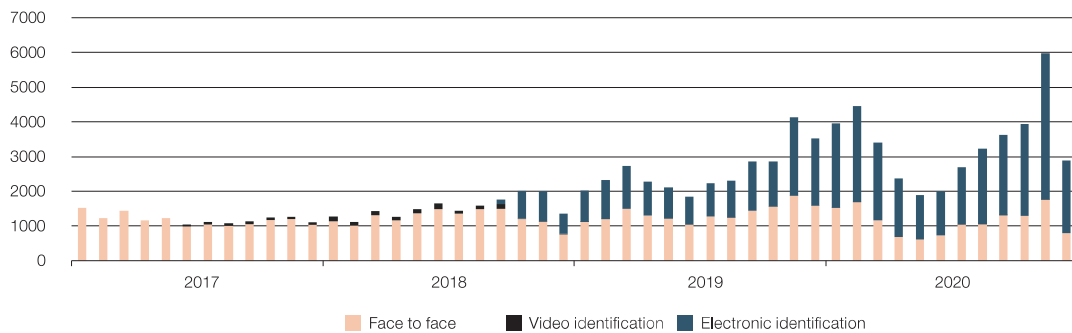
the availability of all of our services. For the past few years, our main target has been the services targeted at private customers, but clearly, we want to offer the same experience to our business customers.

In 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 Best E-channels in Estonia

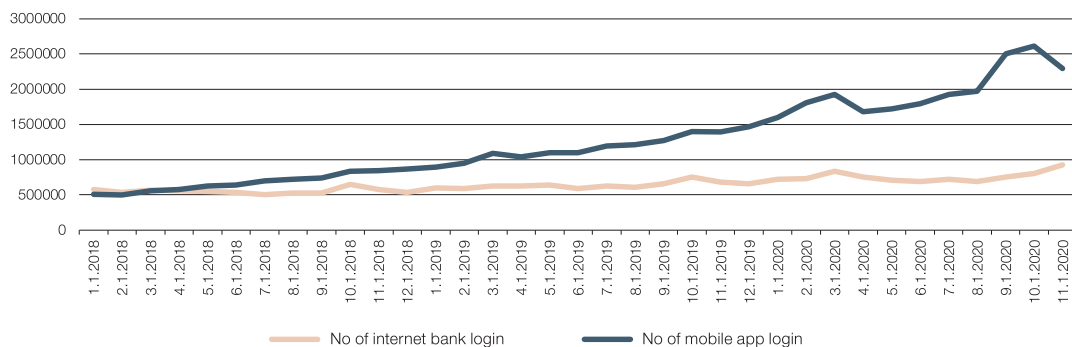
For LHV, it is continually essential to develop our e-channels so that our internet bank and mobile app will support

Identification upon onboarding of customers (private customers)



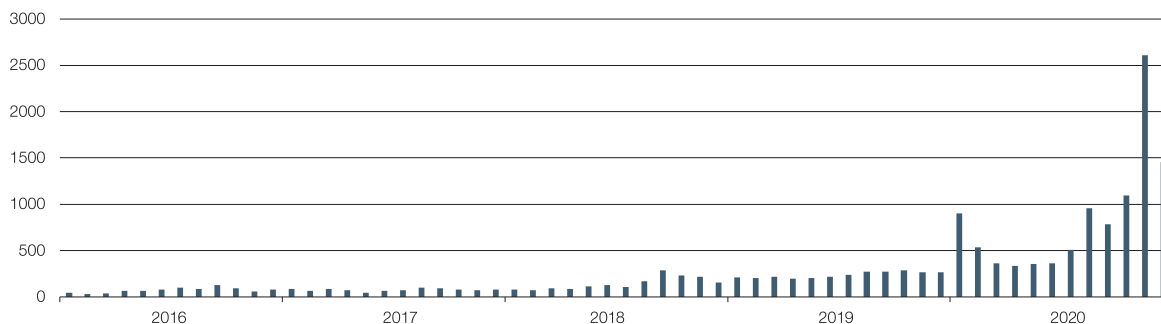
The increase of new customers login into the internet bank and mobile app was 20% and 40% in the past year. This means that customers use electronic channels even more than before.

LHV online banking and mobile bank usage activity by login



At the beginning of 2020, we launched an effortless and smooth way to open a bank account for underage children through our internet bank or mobile app. Only the child's ID card, passport, or residence permit card issued in Estonia is required for opening the account.

No of Child Accounts



In the year 2020, we made functionality that we can send e-notifications to our customers in e-channels.

LHV is also the first bank in the world to offer virtual ISIC Student card orders via its own mobile app. Virtual card means the students no longer need to have an extra plastic card to prove their student status or get international discounts.

All our customers who have bank cards can see their card PIN code in our mobile app. That means we have reduced the number of notifications significantly that we usually send my mail.

Our customers can also use ApplePay and Google Pay in their mobile app – so there is no need to carry plastic bank cards with them.

Focus on Customer Experience

A positive customer experience is critical to the sustainable growth of any business. And customer experience is essential for us. A positive customer experience promotes loyalty, helps us retain customers, and encourages brand advocacy. Therefore we have also considered the needs of visually impaired people when developing our channels.

As in previous years, we also focus on promoting financial literacy. For that, we will develop an Assistant Budget Planner tool in our e-channel for our customers to act even smarter in their financial decisions.

We are always responsible in planning our sales and marketing campaigns and trying to offer the best possible solution for the customer. We try to take into account our customer opinion and preferences. All our activities are

based on customer segments and the unique needs of those segments. Our goal is to offer all of our products and services online and plan our sales activities by segments even more to support a positive customer experience.

Our societal impact as an employer

People are the most important asset of LHV. Our team is a community of 515 people, who carry the same corporate values and work towards a common goal. We strive for an honest, open and supportive internal climate. LHV aims at being the best employer, so that every person in the company can be involved in the development of the company, feel the importance of their contribution and prosper professionally.

We want to promote the feeling of ownership in our employees. Which is why we have established a stock option programme. The programme is a performance pay system for key employees, thereby combining the interests of owners and those receiving the performance pay and encouraging focussing on long-term performance while considering the risks.

Our goal is to increase the job satisfaction of LHV's employees, motivate them, raise their competence (knowledge, skills, experience and capacity), expand personal fulfilment opportunities, and guide the development of staff satisfaction. We're also working hard to ensure the availability of young talent, and foster the feelings of solidarity and pride. The main focus of LHV as an employer is set on an inspiring organizational culture and a good feeling of employees when coming to work every day.

LHV is a fast-growing company, which is also reflected in

recruitment. In a year, LHV recruited 79 new people. Of all people in LHV, 97% work full time. In 2020, the voluntary staff turnover in LHV Group companies was 5,7%, which is significantly lower than the 10.9% in 2019. This is presumably due to a general situation in the labor market, where the number of job offers has decreased, and therefore, employees are less likely to change employers.

Employee Development

We contribute to the personal and professional development of our people. Our training approach is guided by a person-centered approach focusing on an individual's specific needs, motivation, and qualifications. If necessary, we offer rotation within LHV. We have developed an internal training program, including thorough training for new employees and language courses. Leadership training has provided our managers with practical tools to improve the management, instructions for smoother internal communication, advice on recruitment, and the current talent market's demands. Based on the feedback from managers, we can today say that there has been improved communication skills and co-operation deriving from more networking experiences. We are continually updating the format of performance and development discussions to ensure that people can most benefit from them.

Promotion of Employees' Health

LHV contributes to the physical and mental health of its employees. We offer our employees the possibility to use free psychological counseling services for personal or professional issues they might face. From Autumn 2020, we provide health audits for all employees over 40 years of age who have worked in LHV for at least two years. Health audits can be repeated every three years. We also provide flu vaccinations to employees who want them and reimburse the costs of vision and dental care.

We compensate our employees' health-related expenses quarterly (gym memberships, public sports events, room rent for sporting activities, rehabilitation) in a set amount.

The Quarterly health compensation was used actively in 2020: AS LHV Pank 75%; AS LHV Varahaldus 78%; AS LHV Finance 74%.

LHV has an outstanding occupational health package. LHV is part of a health-promoting network of employers in Estonia. We also consider health care recommendations: we use eye-sensitive computer screens, 100% adjustable chairs and desks, and, if necessary, provide people with ergonomic devices and the opportunity to participate in office gymnastics following the instructions pre-recorded

by the trainer. We use as many health-friendly and natural materials as possible in the office space. In the office, we have healthy and natural carpeting with high wool content. The share of sick days in LHV companies in 2020 was 0.4%.

Work-life balance

We value the balance between work and private life. Among other goals, as a family-friendly employer, we wanted to harmonize our activities with the Ministry of Social Affairs' family-friendly employer program. As a result of two years of work, we earned the gold level of the family-friendly employer program in 2019, which means that LHV supports its employees at every stage of their life. We try to consider the personal needs of people working at LHV as much as possible. For example, we can offer students part-time working hours or, if possible, flexible working hours. To ensure the right work-life balance, we value family life: employees receive monetary bonuses when their child starts school, can work reduced hours on their child's birthday, and get three days off for having a wedding. We organize a Christmas event for families with children every year. We offer a childbirth allowance and a death grant.

Inclusive workplace

We have developed various measures to get feedback from our employees and encourage in-house communication. In Autumn 2020, we have launched a new engagement survey (Gallup Q12 questionnaire), which we will conduct once every six months going forwards. 92% of employees participated in the first Q12 engagement survey. The overall result of the survey was an average of 4.3 points out of 5. Our goal is to keep employee satisfaction high and understand what our people need to remain happy and engaged. Gallup Q12 process also includes individual and team discussions and gives an excellent opportunity for everyone to have their say. We take employees' suggestions seriously and integrate them in our management decisions. Employees can provide their input and contribute to the development of the company at meetings and strategy days. We collect feedback from new employees at the end of the probationary period and take it into account in their future work.

A Recognized Employer

LHV is a sought-after and recognized employer. In the employer survey of CV-Online, published at the beginning of 2020, LHV was considered the second most attractive employer in Estonia. The CV Keskus annual survey of Desirable Employers also revealed that LHV reached the third place as a newcomer. We were also recognized as

an attractive employer among students of economics and experienced specialists (based on Instar survey). Attractiveness as an employer enables LHV to have a flexible recruitment process, as the interest in LHV has improved year by year. We communicated with more than 4,500 candidates during the past year and selected 2,9% of them to work with us. We have also emphasized requesting the candidates' feedback, and this process has been significantly improved by implementing the Greenhouse recruitment software. We

also give feedback to the candidates. We take care of our young talents by offering internships and job-shadowing. Every 10th employee started at LHV as an intern.

Governance

Contributing most to our focus SDGs:



LHV is committed to always acting with integrity and in good faith and ensuring that our management policies, business mechanisms, and structures are transparent and reflect accountability, equality, and the highest ethical standard. We are carefully managing all potential conflicts of interest, avoid bribery, money-laundering, unlawful behavior, and corruption

To encourage the sustainability mindset across all management levels and the organization, we:

- Maintain a flat, non-hierarchical organizational structure to promote the importance of employees taking individual responsibility
- Continuously enhance the integration of ESG factors into our everyday work, management style, recruitment processes, and strategy building.
- Focus on engagement and cooperation
- Recognize the integration of ESG factors into our business processes as a change management effort and understand the importance of collaboration to achieve our set goals
- Work toward better analyzing and reporting our ESG activities and progress and appropriately disclosing our metrics and achievements to regulators, partners, and the public
- In order to ensure a transparent management culture, we follow the Good Corporate Governance Practices recommended by the Financial Supervision Authority and the Nasdaq Tallinn Stock Exchange.
- Have integrated ESG targets into executive compensation program.

Responsible management culture

Responsibility and openness in management are the core pillars of our operating principles and are firmly rooted in our mission and values. We strongly believe that our high ethical standards and consideration of all stakeholders, high-level risk management, and lawful behavior are critical to our success in the long term. All managers and employees of LHV must behave ethically and responsibly and following the Code of Ethics is mandatory. LHV's Code of Ethics is the foundation of LHV's various policies, including the Company Governance Policy, internal regulations, and procedures governing the specifics of adherence to the Code of Ethics. In 2020, we also created and published our very first ESG Policy, where our responsibility and commitment to social and environmental issues are clearly stated and explained.

Primarily we rely on the lawfulness, best practices, and common-sense principle, doing our job responsibly, transparently, and with a fundamental goal to "do no harm." The work of the Supervisory Board of the Group is supported by different committees: the Remuneration Committee, the Nominating Committee, the Audit Committee, the Risk and Capital Committees. LHV's underlying governance principles are described in more detail in the "Best Practice of Corporate Governance."

The LHV management structure is easy-to-understand and includes clear lines of responsibility. An essential part of responsible governance is meticulous risk management and critically analyzing our own activities. The mapping and mitigation of credit risks, liquidity risks, market risks, crime risks, and operational risks are taken very seriously at LHV.

We have three lines of defense for risk monitoring and risk control. The internal control framework covers both well-functioning independent risk management, compliance checks, and staff performing audit functions. We have established the necessary committees to advise on risk management. The company gives a comprehensive overview of the risks in the annual "Risk and Capital Report of AS LHV Group."

In January 2020, the credit rating agency Moody's again assigned LHV Pank an investment-grade credit rating, confirming a sustainable, strong financial profile and its ability to serve the commitments taken. The critical role of responsible management is coordinated with legislation and sector-specific rules. LHV is precise and cooperative in dealing with regulators and monitoring agencies. We comply with all obligations and accountability arising from the law. In 2020, no nonconformities to regulations or requirements were identified regarding LHV.

Equality and non-discrimination

LHV is an equality-driven, fair, and inclusive employer that always fosters and maintains non-discriminatory business and HR practices. In the management and recruitment process, we are guided by LHV's best interests and our people's welfare and hold ourselves to the highest of ethical standards. In promotion and recruitment activities, we make the decisions in a gender-neutral and non-discriminatory manner based on the candidate's education, skills, and prior experience and, if necessary, requirements arising from the respective legislation. LHV has not found it necessary to implement any diversity of equality policies. In our remuneration policy, we are objective and unaffected by the employee's person. If required for the positions, we always check compliance with the entry criteria.

Equal treatment and non-discrimination of employees is essential for LHV. In 2020, there were no such violations in LHV. There were no labor disputes, discrimination cases, or violations of human rights. We always act neutrally and do not discriminate against our customers nor our employees due to their political opinions or personal preferences.

Investor relations

LHV actively contributes to developing good relations with the investor community, and we have set high standards for ourselves in being open, transparent, and raising the awareness of our investors. We have set up an investor relations website, making all documents and information available to the shareholders following the Corporate Governance Recommendations and statutory requirements. LHV treats all shareholders equally and notifies all relevant essential circumstances, ensuring equal and quick access to the respective information and being open to questions. Information is disclosed in accordance with the rules set forth for publicly traded companies. In 2019, LHV Group triumphed in the Nasdaq Baltic Awards' main category, winning the "Investor Relations of the Year" award. We were recognized for the best investor relations practices and the highest shareholder returns among Baltic listed companies over the past two years.

Cooperation

Organizations we work with

The relationship between sustainability and cooperation is intuitive for LHV and we realize there is much more power in working together with like-minded people and organizations. Our commitment to achieving a prosperous, inclusive, and resilient economy supported by a sustainable development and a world where natural resources are used reasonably, can only be achieved in union and by engaging many stakeholders.

Green Tiger

Green Tiger is a new initiative from Let's Do It, the organization that launched the global World Cleanup Day project. Green Tiger aims to shape the movement into the next significant countrywide initiative. Green Tiger can also be compared to the Estonian Tiger Leap computerization project from a few decades ago. Green Tiger creates a circular economy model for individuals, the community, and the private and the public sector. Green Tiger will be a future trendsetter for other countries. So far, LHV is the initiative's only representative and partner from the banking sector.

Estonian Banking Association

The Estonian Banking Association's sustainable banking committee was created in January 2020 at the initiative of LHV. One of the committee's main goals is to use financing activities to help identify and leverage new sustainable business opportunities that will increase the competitiveness of local companies, communities, and the country as a whole. The committee will also contribute to building sustainability-related awareness and be a partner for governmental institutions, the Bank of Estonia, and influential organizations in developing sustainable financing.

Finance Estonia

LHV is a member of FinanceEstonia. Our activity in this non-profit allows us to contribute to the spread of sustainable banking principles throughout the financial sector. We also support the Green Finance conference organized by FinanceEstonia, dedicated to discussions on the green ethos as a future trend throughout the financial services world. FinanceEstonia supports the development of the financial sector, innovation, and the export of services. The event has, however, been postponed until further notice due to COVID-19.

NGOs

In 2020, we engaged with several local non-governmental organizations to introduce our sustainability commitment, validate our portfolio impact analysis results, and get feedback on our action plan and potential activities for the next few years. We understand the importance of involving various stakeholders and maintaining a discussion with organizations dealing with specific social and environmental issues daily.

Discussions on State Level

We are making efforts to support Estonia's bid to become the first in the world to develop a sustainability performance measurement system for corporate lending where private and public interests can be linked for climate-related goals.

Estonia has set the goal of a climate-neutral economy by the year 2050. Achieving this objective will require cooperation between the state and the private sector. It would also need a detailed plan. The plan should, however, be based on a transparent system to measure sustainability performance. To support this process, we've thought about motivating the private sector to effectively measure climate impact and help the entire financial industry direct capital into sustainable investments.

We have put together our first concept note for a database of climate impacts. Banks could rely on the central database in making financial decisions, and it would also be the underpinning for state support and guarantee programs. The final system should be automated, without undue burden on companies, and should be in line with data collection minimization and the once-only principle. We have already promoted our idea, brainstormed with partners (policy planners, other market participants, etc.). We are working to keep up the discussion to reach a point where the private and government sector can collectively shape the final system and test the idea.

Commitment to sustainability metrics

To increase our positive impacts and reduce the adverse effects of our business and manage the risks to the environment and the people, we have, in 2020, set a specific plan for 2021-2023 on what we need to start tracking to influence our most significant impact areas. We are committed to creating data gathering methodologies across all business lines, setting starting positions, and regularly monitoring and assessing our progress in moving closer to our ESG goals. In 2020, we have also investigated ways of visualizing ESG data by developing specialized digital ESG dashboard solutions. In addition to that, in 2020, we became a member

of the Forum of Responsible Entrepreneurship (Vastutus-tundliku Ettevõtluse Foorum). Being part of the community will give us access to a unique sustainability index methodology, which will even better help us track, understand, and report our current ESG status and progress.

Transparency through sustainability reporting

We have taken it a goal to improve our sustainability reporting and non-financial disclosure practices and know-how in the coming years. In 2020, we started improving our know-how on reporting ESG metrics and also contributed to several voluntary non-financial disclosure initiatives like the Nasdaq Environmental and Social Disclosure Form and an Estonian banking-sector specific ESG disclosure project led by a local Estonian NGO Estwatch. The year 2021 will be our first year of reporting to UNEP FI about our progress with the Principles of Responsible Banking. In 2021 we will also make an action plan to better align our reporting practices with GRI requirements and the Nasdaq ESG Reporting Guide for Nordic & Baltic Market. We understand that aligning our reporting practices with international standards also means disclosing more non-financial information than we do right now. To do that, we will put much more effort into gathering and analyzing ESG data, improving ESG communication and internal processes, developing and publishing more sustainability-related materials and reports, and building in-house capacity on globally recognized ESG reporting standards.