

Sustainability report

1. Sustainability at LHV

1.1 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 competence, develop sustainable financial products and services, improve our business processes, and develop sector-wide partnerships to work toward more responsible business operations.

- We realise how our business decisions affect society and the environment, and we focus on measuring and managing these impacts.
- We aim to be a leader in sustainable development in the financial world by striving toward initiating systemic change and adopting innovative and sustainable solutions.
- We are aligning our operations with the UN Sustainable Development Goals and the Paris Agreement.
- We operate transparently and disclose our progress and in voluntary and regulatory sustainability reports and through our corporate communication channels. We are continually improving our know-how on sustainability reporting standards and comply with GRI (Global Reporting Initiative) reporting standards in our annual sustainability reports.
- We are committed to creating the conditions for adhering to our sustainability strategy. This is achieved both by internal capacity building and constant integration of ESG considerations into decision making, business operations and practices.

The aim of sustainability report is to provide an insight to how LHV integrates sustainability matters into its business activities to increase its positive impact on the environment and society. While the following sustainability report has been assessed by an external party, it has not been reviewed or audited.

1.2 CEO letter on sustainability

We are firm believers, that those who can adapt, will not only survive, but thrive under extraordinary, or unexpected circumstances. Recent years have tested economies, states, businesses, societies, and humanity in general. Peace and stability have claimed a newfound significance, as have success, sustainability, and resilience.

Changes in the natural as well as societal environment will become even more acute topics among people as well as businesses, becoming more evident in interpersonal relationships as well as in strategic boardroom discussions. Discussions will lead to decisions and decisions will have to, more than ever, be translated into clear action. For us, sustainability is not a matter of discussion, nor is it even a matter of philosophy. As years go by, it will even more prominently become an issue of practicality. Our aptitude for anticipating the future, understanding the implications it might bring as well as leveraging the opportunities change will bring about, will be emphasised by our confidence that trying times can and will catalyse remarkable strength when approached with positive opportunism and audacity. The sustainability mindset and integration of ESG principles into our business is just an example of understanding change and momentum.

Without flexibility, even the strongest of systems can break under the weight of their own scale and impact - be it people, organisations, states, or even the natural world around us. Resilience is the art of bending without breaking, and that's why we're keeping sustainability at the heart of everything we do.

2. Global sustainability frameworks

2.1 United Nations Environment Programme Finance Initiative Principles for Responsible Banking

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership established between the United Nations Environment Program (UNEP) and the financial sector. The UNEP FI Principles for Responsible Banking (UNEP FI PRB) provide banks with a framework for sustainable operations. We joined the initiative in 2021 to show our commitment to the UN Sustainable Development

Goals and to align our activities with the goals of the Paris Climate Agreement.

We take part in international cooperation in the financial sector and in sharing best practices.

The 6 principles (indicated below) provide a framework for developing and maintaining a sustainable banking system. They were designed to help the industry make a positive contribution to society. We are currently in progress of setting targets based on our impact areas.

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.

2.2 Partnership for Carbon Accounting Financials

At the end of 2021, we joined the Partnership for Carbon Accounting Financials (PCAF) initiative. While we have measured our scope 1, 2 and 3 emissions at the operational level since 2019, joining PCAF helps us disclose our scope 3 emissions (category 15, investments) which are relevant in understanding our full climate impact.

The PCAF standard, which is in line with the GHG protocol, provides a consistent methodology for measuring and disclosing emissions from business activities, including those associated with corporate/business loans, commercial real estate loans, residential mortgages, motor vehicle loans, project finance and even the equity and bond positions that banks hold on their statements of financial position. This year we have estimated our climate impact in four asset classes: business loans, motor vehicle loans, commercial real estate loans and mortgages. The results

are displayed in subsection 5.1.2 of Sustainability report.

These results give us a valuable starting point and help us set emission reduction targets that enable us to reach alignment with the Paris Agreement. For us, this is a big step forward in not only understanding our own climate impact but also a step towards in estimating our customers' environmental performance and working with them on reducing our impact to the environment.

2.3 Global Reporting Initiative

This sustainability report has been prepared in accordance with the widely used Global Reporting Initiative (GRI) Standards: Core Option. It includes a GRI Content Index located at the end of the Sustainability report. Using a standardised approach allows us to report to our stakeholders and the public on our impacts and activities in an even more structured and transparent way.

In this report, we have followed all the reporting principles of the GRI standards (GRI 101):

- stakeholder inclusiveness, sustainability context, materiality, and completeness for defining the scope of the report;
- accuracy, balance, clarity, comparability, reliability, and timeliness in ensuring the quality of the content.

We consider it essential to be more transparent and comprehensive in disclosing our sustainability information and therefore are open to feedback regarding our reporting methods and style. We are also preparing to comply with the emerging sustainability reporting requirements stemming from the Corporate Sustainability Reporting Directive (CSRD) which will apply to us from the beginning of 2025.

3. ESG strategy

3.1 Material ESG and sustainability topics

Our goal is to make an actual impact through the sustainability efforts we make. We devote our resources to addressing the environmental, social and governance (ESG) sustainability matters most affected by our business decisions.

With the help of UNEP FI Portfolio Impact Analysis Tool, we have identified our potential positive and negative environmental and social impacts arising from our business activities. Through engaging both internal and external stakeholder groups, as well as applying proper ESG management approach, we have determined the areas on which LHV has significant impact through its products and services.

Materiality and impact analysis findings


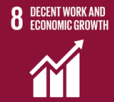

The results of the materiality and impact analysis were validated by the management team during the ESG strategy development process. As an outcome, we identified two environmental and two socioeconomic impact areas where LHV could achieve the most significant impact on sustainable development through its core work across the value chain and portfolio:

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

In addition, an internally relevant material aspect was identified -- honest and transparent organisational culture (covering both social and governance aspects).

Based on these impact areas, we have built our sustainability strategy to address the issues by setting KPIs, targets, as well as developing sustainable financing products. Moreover, we ensure that our sustainability strategy contributes to the development needs and targets set by the United Nations Sustainable Development Goals (SDGs).

Working with our most material sustainability aspects contributes to these UN SDGs and their specific sub-targets

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

3.2 Stakeholder engagement

In LHV, we make sure to engage our stakeholders and external experts to ensure that we maximise the impact of our efforts within sustainability. Our stakeholders are the groups and individuals that LHV affects through its activities, and who, in turn, may affect LHV's operations in the short or long run.

We hold a regular dialogue with the stakeholders with whom

we have the most direct relations and with whom LHV could collaborate for better impact on the society. At the same time, we also keep in touch with the stakeholder groups that are part of shaping the trends and setting requirements for the financial market.

Table below outlines 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

Leadership for sustainable business development in Estonia

- LHV is a signatory to UNEP FI's Principles for Responsible Banking and an active member of several of its working groups.
- We lead the Estonian Banking Association's Sustainable Banking Committee.
- We are a founding member of Rohetiiger, a local initiative that contributes to improving local organisations' knowledge regarding environmental issues, maintains close contact with the state, and advises businesses on how to make the best environmental changes within the organisation and their supply chains
- We cooperate with other organisations on sustainability initiatives and regularly share our ESG journey with other businesses. Our management and ESG team members
- share our ESG experience at conferences and seminars and speak about the importance of moving towards a greener economy and more inclusive society.
- We cooperate with universities in spreading the word about sustainability in the financial sector.
- We continuously collaborate with external experts to better implement our ESG projects.
- We regularly engage with non-profit organisations and with the public sector.
- We hold seminars and workshops for or with other companies and organisations and talk about our progress, the importance of corporate sustainability and the future of green finance.

4. Management of ESG

The core of our ESG strategy is specified in our ESG policy and KPI roadmap, 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.

4.1 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 have taken place once a month but will be replaced with quarterly meetings from the beginning of January 2023.

In 2023, we will begin with holding monthly ESG Steering Committee meetings in LHV Pank, where specific focus will be 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. We are currently setting up a proper ESG governance system within LHV, aiming to integrate ESG and sustainability matters into all relevant business functions and processes, and to involve all relevant managers in business units.

4.2 Alignment with policies and procedures

Apart from adopting an ESG policy and a KPI roadmap, we have also made considerable improvements and additions to our credit 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 are currently also reviewing and updating our risk policy and making ESG-related updates to other policies as well to integrate ESG even more on policy level.

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 approximately 10 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.

4.3 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 have also finished building our ESG risk assessment/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 ESG and E&S risk criteria into business development 2023 and onward. We are firm believers in the approach that you can only manage what you can measure.

We also realise that an adequate ESG risk management framework is the core of responsible business operations. Hence, we will finalise the group wide ESG risk management framework in the beginning of 2023. 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.

4.4 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 aim to generate 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.

5. Management of impact areas

5.1 Environment

We understand our role as a financial institution as having a transformational capacity and influence to create positive change. To mitigate the negative impact on the environment, we strive for more sustainable ways of achieving growth and creating value. LHV constantly aims to operate sustainably, and as an Estonian company, we want to help the Estonian economy to adapt to meet the environmental and climate targets.

We have committed to achieving the goals of the Paris Climate Agreement as well as support the Estonia's national goal of attaining a climate-neutral economy by 2050. To do so, we carefully follow the green office principles by monitoring our annual footprint of own operations. In addition, we are now also measuring and taking steps to decrease the emissions of our investment and lending activities, which we refer to as financed emissions.

5.1.1 Green office operations

Even though our greatest environmental impact comes from financing and investing activities, it is no less important how we go about our daily business. One way of reducing our carbon footprint is to act to mitigate the negative impact coming from our office operations. Since 2019, we have a Green Office working group, who initiates sustainability projects aiming to increase employee's awareness regarding the impact each one of us can have through our daily activities.

The Green Office Principles have now been embedded throughout the teams in all our offices. During the previous years, we have reached considerable milestones and been awarded for our achievements. While the Tallinn City Plaza office has already received the Green Office certificate, in

2022 we also started the certification application process for our Tartu and Pärnu offices. In addition, the BREEAM certificate for building environmental performance for the City Plaza office was extended until the end of 2023.

Waste generation and utilisation is highly prioritised in LHV offices, and we have developed a solid waste sorting procedure. In cooperation with Nutriloop, we recycle our biowaste, which we use to grow plants on the balconies of our office building, as well as donate it to local farmers and gardeners. Employees are encouraged to recycle their waste both at work and at home, for example through allowing them to bring unwanted clothes or hazardous waste into collection boxes installed in the office.

5.1.2 Our carbon footprint

For setting an action plan and targets for emission reductions, it is first necessary to identify and measure the GHG emissions of our business activities and to follow a standardised methodology in the process. We calculate our footprint based on the methodology provided by the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard, an internationally recognised and the most widely used greenhouse gas accounting standard. The results are expressed in CO₂ equivalents, the universal greenhouse gas unit of measurement, indicating the potential for causing global warming.

Based on GHG Protocol, emissions are categorised into three scopes. Scope 1 relates to direct emissions that occur from sources that are controlled or owned by an organisation. Scope 2 emissions refer to indirect emissions associated with purchase of electricity, heating, and cooling. Scope 3 emissions includes all other indirect emissions accounting for emissions coming from our own operations and emissions that are financed through our financing and lending activities.

At the end of each year, we measure the carbon footprint of our office operations through collecting data about business travels, consumption of office buildings, ordered paper, fruits etc. Based on this, we make comparisons with previous years and introduce new activities in the Green Office action plan to further reduce our footprint. Our office activity generates emissions mostly due to the use of heating, power, employee commuting, and business travel.

To evaluate the impacts of employee commuting, a web survey was conducted among the employees, which inquired about the distance between home and work (direct route, without any interim stops) and the modes of transport ordinarily used. 58% of employees responded, and the results were extrapolated to the number of employees working for the company.

The analysis covered the activities of LHV Group's Tallinn, Pärnu and Tartu offices. Similarly, to the assessments of the past years, the 2022 analysis did not consider LHV's UK office (due to limited availability of data). As the office in London is small, it is not expected to have a significant

impact on the carbon footprint of LHV Group as a whole. To perform the calculation of intensity of carbon footprint per employee, the aggregate result was divided by the number of LHV Group's employees at the end of the reporting year.

In 2021, LHV's office activity had a greenhouse gas emission footprint of 1,444 tonnes of CO₂-equivalent, which was 2.3 tonnes per employee at the time of calculation (see

table below for more detailed overview). For 2022 the results were 1,968 tonnes, or 2.5 tonnes per employee. The main reason for the increase in our operational level CO₂ footprint was due to increase in heating used for the Tallinn office as well as from the increase in plane trips taken for business purposes compared to the previous year where it was largely hindered due to the Covid-19 pandemic.

Emissions from own operations (GRI 305:2016)		2022	2021
Scope 1		0	0
Scope 2		567 tCO ₂ e	445 tCO ₂ e
Scope 3 (excl. category 15)		1,400 tCO ₂ e	999 tCO ₂ e
Total emissions from own operations		1,968 tCO₂e	1,444 tCO₂e
GHG emissions intensity per FTE		2.48 tCO ₂ e	2.28 tCO ₂ e

		2022		2021	
Type	tCO ₂ e	Share %	tCO ₂ e	Share %	
Scope 1 Direct emissions	-	-	-	-	-
Total Scope 1	-	-	-	-	-
2 - Indirect, emissions related to purchased electricity and heat	Electricity (renewable electricity): Tallinn office	0	0	0	0
	Electricity (renewable electricity): Tartu office	0	0	78	5
	Electricity (non-renewable electricity): Pärnu office	16	1	-	-
	Heating: Tallinn office	544	28	357	25
	Heating: Tartu office	5	0	9	1
	Heating: Pärnu office	1	0	-	-
Total Scope 2	567	29	445	31	
3 - All other indirect emissions in the value chain	Outsourced materials (trading assets)	45	2	25	2
	Office furniture	35	2	29	2
	Office equipment	274	14	238	17
	Generated waste	28	1	16	1
	Water consumption	2	0	1	0
	Business travel: plane	158	8	54	4
	Business travel: train	5	0	1	0
	Business travel: bus	4	0	1	0
	Business travel: taxi	1	0	1	0
	Business travel: personal car	18	1	10	1
	Drive home to work: 2022 (795 employees)	425	22	308	22
	Home office (795 employees)	31	2	19	1
	Indirect energy and fuel effects				
	Electricity grid loss	26	1	5	0
	Heating grid loss	64	3	56	4
	Indirect impact related to heating production	282	14	237	17
	Grid loss from production of heating	1	0	-	-
Total Scope 3	1,400	71	999	69	
Total emissions from own operations	1,968	100	1,444	100	

Estimates of financed emissions

Since a large share of our emissions is related to our financing activities, in 2022 we began with assessing our emissions under scope 3 category 15 investments (as defined by the GHG Protocol Corporate Value Chain standard) using the PCAF methodology.

By the end of 2022, we managed to estimate the emissions for 96% of our credit portfolio in four asset classes (business loans, motor vehicle loans, commercial real estate loans and mortgages) totalling 562,506 tCO₂e with an average emission intensity of 183.4 tCO₂/EURm (see table below for more detailed overview).

The results of the emission estimations can vary to some extent depending on the quality of the input data used in the calculation models. We strive to improve the data quality by obtaining more specific information directly from our clients in the coming years to ensure more accurate results. At the same time, we are aware of the limitations of this methodology and acknowledge that fact that there are improvements to be made but also see this as an optimal starting point for gaining a better overview of our climate impact. Based on these findings we will be able to set emission reduction targets in the future.

Financed emissions			2022
Scope 3 (Category 15 – investments)	Type	tCO ₂ e	tCO ₂ e / EUR million
	Business loans*	388,757	275.9
	Mortgages	88,490	82.8
	Commercial real estate	77,879	159.1
	Motor vehicles**	7,380	74.3
Total Scope 3 (Category 15 – investments)		562,506	

* Due to uncertainty scope 3 information is not available

**Emissions from passenger cars, busses, and trucks

Offsetting our carbon footprint locally through innovation

While we have been taking considerable steps to reduce the carbon footprint of our office operations, it can be done only to a certain extent. Therefore, we are collaborating with eAgronom, who provides us a local solution helping us to achieve our first emissions related target. We are using eAgronom's newly developed solution to buy carbon credits from Estonian farmers who sequester carbon dioxide from the air into the soil and thereby improve the soil quality of their fields.

Working together with eAgronom helps us to understand the offset business much better, we can improve local soil quality, store more nutrients in the soil and increase water holding capacity while supporting local farmers in applying the new approach in their everyday farming habits.

In November 2022, we received our first carbon credits which enables to declare that we have reached Net-Zero at the operational level.

5.2 Sustainable 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 customers 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, while at the same time reducing greenhouse gas emissions, pollution, and waste generation.



Green Home Loan

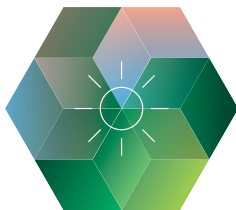
One of the most important consumer decisions a person will ever make – in terms of the financial cost and the environmental impact – is regarding purchasing their home. One-third of the average Estonian's annual CO₂ footprint is related to their home – mostly deriving from energy used for heating and 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. In line with a longer-term strategy and the desire to contribute to Estonia's climate objectives, LHV Pank has decided that LHV will no longer finance the purchasing of new diesel passenger cars from 2030 onwards.



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.



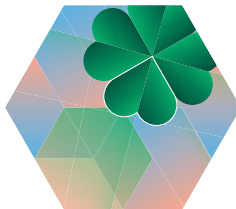
Green Investment Loan for Companies

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.



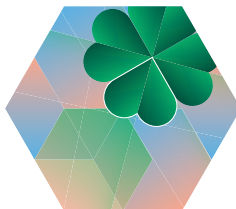
Green Loan for Housing Development

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.

5.3 Social

While banks and financial institutions play an integral part in driving economic growth, 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, customers, and employees.

By acknowledging our role and societal influence at the local level, we do following:

- maintain a budget to support music or arts, education, sports, and community events;
- support external movements and partners to promote the cultural and economic development of local communities;
- stand for equal opportunities for people and companies;
- build the trust of our customers in LHV as a non-discriminatory financial services provider;
- encourage financial literacy and the share of economic knowledge;
- continuously improve our competencies in the field of ESG to further advance social cohesion. The prosperity

and welfare of our people is at the core of our business operations.

We realise that good business results and growth cannot be achieved without people who create value, are well taken care of and engaged in their personal and collective mission and feel highly valued.

5.3.1 Social responsibility

We understand our increasing role in the Estonian economy and society in general. In line with our mission, we support activities that allow Estonian people and businesses to think more boldly about the future and realise 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 these goals.

5.3.2 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 rela-

tions, we actively contribute to educating investors. In our relations with more than 10,000 shareholders, we are open, transparent, and inclusive.

- We organise free seminars as part of the Investment School, where 19,262 people participated in 2022 (2021: 8,200).
- We also carry out the annual stock market game Börsihai. This year, the number of participants reached 5,415.
- We continue to organise campaigns on financial literacy, as well as targeting the mostly Russian-speaking youth in Estonia, with insightful videos on money management on our social media platforms.
- In cooperation with 5 other companies, we initiated the “Lae end” program that brings together the brightest teachers of Estonian schools, start-ups in the educational landscape as well as representatives of the physics teacher community with the aim of improving the study materials used in physics classes.
- We participated in projects for improving financial literacy organised by the Estonian Banking Association.
- We supported the Investor Toomas conference organised by Äripäev, the Investment Festival carried out by the Investment Club, the Women’s Investment Club, and stock training.

5.3.3 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. In 2022 one of our biggest contributions was a donation of EUR 500,000 to the Estonian Refugee Council to help the refugees of the war in Ukraine. Our other sponsorship contributions are described below.

Estonian culture and society

- Estonian Music Days – for seven years now we have supported the Au-tasu prize for new Estonian music, which was awarded to Jüri Reinvere in 2022.
- Võnge Festival; concerts of Terminaator and Tommy Cash – we continued supporting the Estonian music scene.
- “Lotte ja vana õunapuu saladus” – we were the presenter sponsor for the biggest musical production for children in Estonia.
- “Arvo Pärt...and a Littlemore” festival in Oxford, UK – we helped the event promoting the Estonian composer in the UK.
- 32 community initiatives applied for support from the ‘Who does it?’ programme. The grants were given to Ristiküla community in Pärnu county and Viscosa Culture Factory in Hiiumaa.

- Through the charity function for LHV Pank (‘Micro donation’) we facilitated donations of more than EUR 120,000 to 13 charity organisations.
- “Charge yourself” programme – we were one of the initiators of the programme giving priority to teaching physics.
- Rakett69 – support to the TV show that popularises science among pupils.
- Cyber Battle of Estonia – a series of cyber hacking events aimed at young people.
- Kood/Jõhvi – we are one of the supporting partners of the new IT college in Ida-Virumaa county.
- LHV employees volunteered at Toidupank and Uuskasutuskeskus. In the upcoming year, we plan on carrying out at least one charity project quarterly.
- In 2022 we donated 66 computer sets to various schools and NGOs.

Sport & healthy lifestyle

- Estonian Football Association – LHV Pank has been the main sponsor of the Estonian Football Association and the Estonian national team since 2010. In addition, we supported football clubs with EUR 128,000 in 2022 through the LHV football card support system.
- Maijooks 2022 – LHV became the name sponsor of the biggest women’s health sports event in Estonia.
- Estonian Optimist Class Union – we support the development of Estonian sailing.
- Rally Estonia – we supported the World Rally Championship stage in Estonia for the third year.
- Simple Session – we were one of the main sponsors of the top extreme sports event for the third year.
- Estonian Biathlon Federation – we supported Estonian biathlon during the Olympic season, and the World Cup stage in Estonia.
- Estonian Ski Association - LHV Kindlustus became a supporter of Estonian skiing.

Estonian economy and business

- EY Estonian Entrepreneur of the Year competition – we have been one of the main sponsors since 2012.
- Young Entrepreneur Award – in cooperation with the Estonian Chamber of Commerce and Industry, we awarded the prize to Kristjan Lind.
- Conferences Business Plan, Investment Festival, Investor Toomas – in cooperation with Äripäev, we supported Estonia’s leading business and investment conferences.
- Conference of Estonian Real Estate Association

- Nordic Testing Days 2022 – we supported the region’s biggest conference for software testers.
- Latitude59 – we again were sponsors of the large startup meet up.

We also support smaller local initiatives with our knowledge, LHV’s gifts, advice and the presence of our people. We work with universities. We are a member of the Estonian Information Technology and Telecommunications Association, the Estonian Chamber of Commerce and Industry and the Estonian Employers’ Confederation. We consider it important to help Estonian producers and entrepreneurs by preferring their products and services.

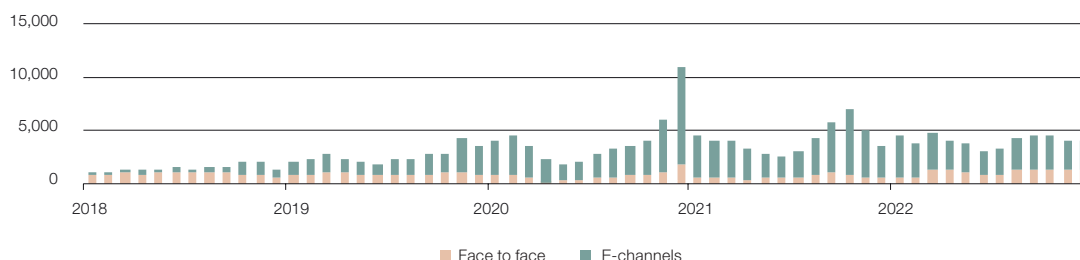
5.3.4 Social impact through channels and customer experience

For LHV, uncompromising customer experience and quality of e-channels has always been a top priority. While for the past few years, we have been more focusing on making

banking services available online, especially to private customers, we are now working on wider segments and product portfolio, but also better communication and customer service tools online. For LHV, it is continually essential to develop our internet bank and mobile app in a way, that will support the growing product offering and make our e-channels available for wider audience including insurance customers, pension funds and consumer credit product users.

In 2022, we have onboarded an average of 5,100 new customers every month. Close to 70% of our new private customers open their bank accounts through our e-channels, either directly online or combining e-channels with face-to-face meeting with the bank representative. We have seen the percentage growing steadily in previous years, but 2022 has proven that most of our customers can use our services remotely and online.

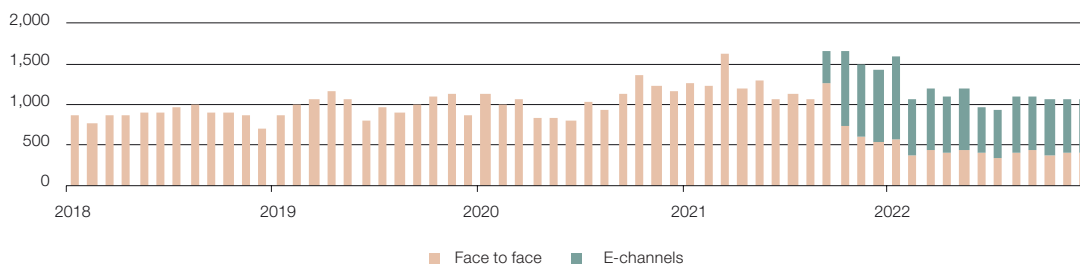
Identification upon onboarding of private persons



Since September 2021, when we first introduced digital onboarding to our legal customers, the percentage of bank accounts opened by legal customers in e-channels has been growing steadily from 20% to an average of 60% in Q4

2022. We will continue working on expanding the possibilities for legal customers, as currently only simple company structures are allowed, and many compliance and risk measures are additionally applied for online onboarding.

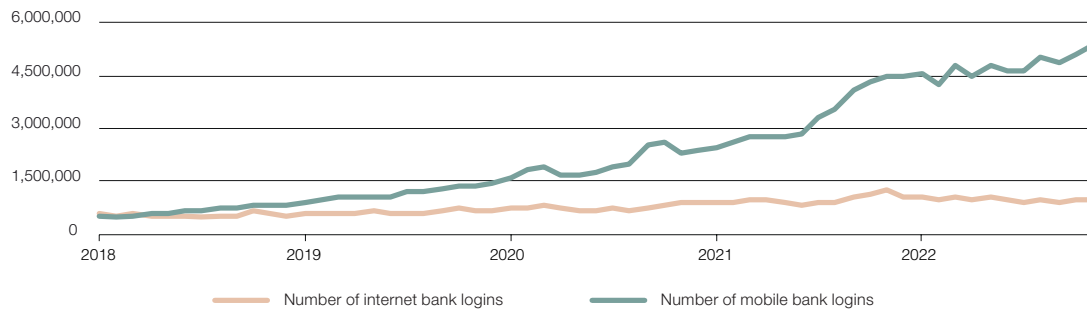
Identification upon onboarding of legal entities



2022 was the first year when we witnessed the monthly usage of our mobile bank exceeding internet bank usage. Our mobile bank app has been rapidly gaining popularity among both, private and legal customers. Even when the statistics of unique monthly users are in the same ballpark for both channels, mobile bank app shows approximately 5 times higher monthly activity rates than internet bank.

We have been working on improving the usability and look & feel of our electronic channels and making user experience as seamless as possible. The percentage of new customers logging into the electronic channels in Q4 2022 has reached 74% for mobile bank and up to 90% for internet bank. This means that customers are taking advantage of our electronic channels even more than before.

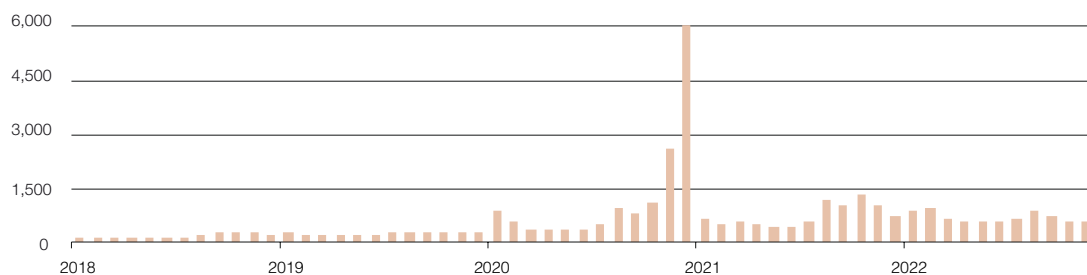
LHV internet bank and mobile bank usage activity



Opening a bank account online for underage children through our internet bank or mobile app has kept popularity among our customers. Currently, child’s ID card, passport, or residence permit card issued in Estonia is required in addition to customer data and agreement of the parent opening the account. We are planning to redesign the flow and requirements to make it even more simple and allow to set up child accounts without signing the customer agreement with the parent.

During 2022 LHV insurance services and product offering has expanded from insuring homes, cars and trips to equipment, machinery, warranty, and extended warranty insurance. All insurance applications and claims are submitted through our website or mobile app, keeping the ecological footprint minimal and customer satisfaction on a high level.

Number of new child accounts on monthly basis



Focus on customer experience

Excellent customer experience is critical to the sustainable growth of any business. Keeping the high level of customer experience promotes loyalty, helps us retain customers, and encourages brand advocacy. Therefore, when redesigning our electronic channels, we have also considered the needs of visually impaired people and have been working closely together on testing and implementing visual and navigational changes.

We keep promoting financial literacy. For that, we are developing an Assistant Budget Planner tool in our e-channel for customers to help them make smarter financial decisions. Also, LHV Financial Portal is being redesigned and restructured to provide even more details and insight into investing and saving. We aim to build a product that encourages customers to save money through gamification and goal

setting techniques, while learning about the importance of investing

LHV has always been acting responsibly when planning our communication and marketing messages, both online and offline. We listen to our customers’ opinions and preferences as much as possible and try to keep the low level of communication towards the customer. However, increasing phishing and financial crime rates have forced us to proactively warn and educate our customers about possible threats online.

All our marketing activities are based on customer segments and the unique needs of those segments. Our goal is to offer most of our products and services online and plan our sales activities increasingly by segments to support a positive customer experience.

5.3.5 Our societal impact as an employer

LHV, as a large employer and an important part of the society, is responsible for its actions, words, and ways of working. LHV is using leverage to promote high ethical standards and inclusive approach in all customer, investor, and employee relations. We aim to be a responsible organisation, and we also hope to contribute to systematic change towards a more sustainable approach and inclusive society in general.

In our employees we look for the same values and follow this mindset in all our practices, processes, and daily actions internally. We carry out different surveys during the employee lifecycle – e.g., during exit interviews, end-of-probation talks, etc – to evaluate how we are doing in the eyes of our employees, and where we could do better. We have set up a monthly get together for team leads, where they can share and discuss different topics, where many team leads share their own experiences and ideas of how to make the workplace better.

In 2020 we introduced a new employee engagement survey – Gallup's Q12. This is an international format developed to measure employee engagement. The survey consists of 12 questions, which all measure factors that are influencing employee engagement. The format has been proven internationally to bring out greater performance and facilitate communication between managers and employees. We have concluded two surveys this year, in April and in November. The results were very high, in both we got 4.5 out of 5 in average. In addition to the results, the surveys have brought up the same topics about growth, communication, caring, friendships, etc within teams and the whole organisation.

Equality and non-discrimination

LHV is an equality-driven, fair, and inclusive employer. We foster and maintain non-discriminatory business and HR practices. In the leadership and recruitment processes, we are guided by the highest ethical standards, human rights, and equal opportunities. In line with our personnel policy, we take a gender-neutral, non-discriminatory approach in all recruitment and promotion decisions, and base the decisions on equal, measurable qualities, such as experience, education, skills and, if necessary, requirements set by applicable regulations.

It is important for LHV not to discriminate against any minorities. In recruitment processes we choose the best person for the given role, not considering nonrelated factors, such as race, disabilities, political views, sexual orientation, etc. If the person is fit for the job, no other aspects will play a role. Currently, the physical office space is unfortunately not yet adapted to all the needs of people with physical disabilities

but working remotely is offered as an alternative.

LHV has not found it necessary to adopt separate diversity or equality policies but covers the guidelines in different internal documents. In 2021, a working relationships paragraph was added to the Rules of Organisation of Work, which sets out the whistleblowing procedure. In 2022 there were no notifications of any violations in LHV. There were no labour disputes, discrimination cases, or violations of human rights.

The remuneration policy sets the guidelines for determining the remuneration. The decision must be objective and unaffected by the person. If required, compliance with legislations is checked. In 2021, LHV set a process for equal pay calculation. We are using the analytical job evaluation method created and developed by Fontes and based on the method recommended by the ILO. It is used in all three Baltic States for market benchmarking. LHV has used Fontes' benchmarking method since 2011 for yearly evaluation. In this method jobs are evaluated based on education and professional experience, work characteristics and accountability. The analytical job evaluation method is universal and is applicable in every organisation and with all jobs. Fontes's analytical job evaluation points scale and job family classification scale are compatible. This ensures that we compare similar value jobs with each other. In 2022, we continued with the same methodology. This year the analysis showed that in specialist categories, where the job requirements and the work are more comparable, the women/men salary ratio ranged from 1.09 to 0.86. In the manager categories the range was slightly higher, from 1.25 to 0.75, but these roles are often more specific, incomparable with each other. We have seen a step up from 2021 in all categories. Still the situation is not perfect, and we are moving on with a focus on improvement within all categories needed.

Breakdown of the company employees (head counts) by gender as of 31 December 2022 –58% Female (517), 42% Male (381)

Breakdown of employees by age and gender as at 31 Dec 2022

Age group	Women (%)	Men (%)	Total
19–25	91 (61.9%)	56 (38.1%)	147
26–40	298 (55.5%)	239 (44.5%)	537
41–55	121 (59.3%)	83 (40.7%)	204
56–...	7 (70%)	3 (30%)	10
Total	517 (57.6%)	381 (42.4%)	898

Staff turnover and job types as at 31 Dec 2022

	Total employees (change from 2021)	Tallinn office	Tartu office	Pärnu office	London office	Leeds office	Manchester office
Total employees	898 (+247)	713	106	11	32	18	18
Working part time women (%)	7%						
Working part time men (%)	2.9%						
Working contractual basis (of which % in IT Department)	27 (85)						
New hires (of which interns)	353 (51)						
Voluntary turnover rate (%)	10.69%						
Overall turnover rate (%)	14.21%						

Gender pay gap as of June 2022:

	Salary ratio (women to men)	Breakdown of female employees
Employees		
Administrative and office services – job value points 91-159	1,09	92%
Specialists 1 – job value points 160-210	0.93	72.7%
Specialists 2 – job value 211-260	0.96	80.5%
Top specialists 1 – job value points 261-310	0.86	48.6%
Top specialists 2 – job value points 311-370	0.91	51.1%
Top specialists 3 – job value points 371-566	0.87	35.4%
Managers		
First level managers 1 – job value points 184-250	0,80	85.7%
First level managers 2 – job value points 251-310	0.92	81.8%
First level managers 3 – job value points 311-380	0.75	66.7%
Middle level managers 1 – job value points 381-440	0.88	34.6%
Middle level managers 2 – job value points 441-500	1.16	27.3%
Function/area managers 1 – job value points 501-700	0.87	40.7%
Function/area managers 2 – job value points over 701	1.25	10.0%

Inclusive workplace

It is important to us that our employees' ideas, thoughts, and statements are heard and taken into considerations. We believe that great success comes from working together and using our collective brain. It is important that employees feel free to have a say and that their words reach up to the top management. LHV has included all employees in the process of setting goals for each team. This is done as a team effort.

While we encourage our employees to express their thoughts daily, the subject is very much in focus at least twice a year, during our engagement survey Q12. In the 7th question in the survey, the respondents must agree or disagree with the statement 'At work, my opinions seem to count'. This year we have seen a small decrease in this result as it has gone down from 4.6 out of 5 to 4.5 out of 5 in both April and November survey. As the format also includes one-on-one

conversations for every team member with their manager, the subject is discussed, and actions proposed, if anything needs to be improved. This has been shared as one of focus subjects from HR to the team leaders.

LHV employees are not covered by a collective agreement, as this is not a very common practice in the financial sector in Estonia. However, we are a member of the Estonian Employers' Confederation.

Employee development

Professional and personal development is part of LHV culture as we strive to innovate and be better at providing smarter solutions to our customers. The ideas for the solutions should come from our employees, and therefore developing one's skills is part of the daily job. The training approach is guided by the individual needs, motivation and goals as well as regulative guidelines for professional development. In addition to professional trainings, we have

contributed to team training with the aim of helping teams work better together. We have also focused more intensely on leadership development with a set leadership training programme. This year the focus has been mapping employee's strengths through Gallup's Clifton Strengths Finder test, more than 35% of our teams and employees have done the tests and have an overview of their biggest strengths.

In addition to personal and professional development, we hold monthly information sessions "What is really important?", the subjects have included – "New Year, New Me", "Conscious Woman", "Leading difficult conversations", "Nutrition as consumption", etc.

Our employee engagement survey measures employees' satisfaction with their development. There are three questions focused on professional growth: is there someone at work who encourages your development; has anyone talked to you about your progress, and have you had opportunities to learn and grow in the past year? In the latest survey, from November 2022, 89% of our employees replied with a 4 or a 5 to all these questions. This is a slight decrease from last year in the first 2 questions, but the same time still 96% of the employees say that they have opportunities to learn and grow in the past year in their role.

Work-life balance

It is very important to us that our employees have a well-balanced life. An unbalanced life will affect both private and work life. Therefore, LHV does not encourage working overtime and offers flexible working hours. We have however this year seen an increase of working overtime. Having analysed the reasons, it is mostly done during rapidly changing situations, for example many teams had to react quickly when the war started in Ukraine and sanctions were put in place. Still the general company culture supports a balanced work life. During the pandemic we implemented a hybrid-workplace solution, which is still in place. Although many of our employees prefer to work from the office, there is always an option to work from home and we have set flexibility in all roles, where possible.

We have not added any new perks as many of them have been implemented already – e.g., we offer part-time and flexible working schedule to students, new parents and to anyone who needs to work part-time. We pay an allowance to our employees on the birth of a child and when a child starts school. We grant time off for parents to attend their child's start of school or graduation ceremony and allow reduced hours on their child's birthday. We offer 3 free personal days per year, and 3 free days for weddings or for organising a funeral. We also offer an allowance to spend on mental health services, if needed. The use of this allowance has grown each year, as the employees feel more comfortable using professional help with also private worries.

Promotion of employees' health

To keep our employees healthy, LHV has an extensive occupational health package. We contribute to the physical and mental health of our employees. As well as keeping the balance between work and private life, it is important to ensure a supportive mental and physical working environment. LHV provides employees with healthy snacks at the office, promotes physical activity during the working day and offers an allowance for sports and recreation as well as a personal budget to use for your mental health. The sport and recreation compensation has been used increasingly by our employees this year: by 87% in LHV Pank; 83% in LHV Varahaldus; 80% in LHV Finance, and 84% in LHV Kindlustus. The usage has increased from last year. In addition to the mandatory medical examination, LHV offers an extensive medical examination for employees over the age of 40, which has been very popular: over 90% of the target group employees have used it.

A recognised employer

While attractive employer awards have never been a goal for LHV they are still a great acknowledgement. In the past few years LHV has gained (an increasingly growing/a growing) reputation for being a desirable employer. Our goal has been to offer our employees opportunities for professional growth and an inspiring company culture. This year we have had many possibilities to share our experience and our leadership culture in various podcasts, at conferences, in schools and universities. All of this has helped in being noticed. We have received acknowledgements in CV-Online's TOP Employer Survey, being named the 1st choice in both financial sector as well as Top-of-Mind employer in Estonia. Also, CV Keskus ranked LHV as the most desirable employer. We were also recognised as an attractive employer by students and experienced employees in Instar's survey.

Such recognition helps us attract talented people to join the company, especially in today's highly competitive labour market. This year we have had the chance to communicate with almost 5,000 applicants from whom we have hired 4.4%. In addition to job offerings, we have continued with our internship programme and promoted job-shadowing and rotation. In the summer of 2022, we had a record breaking 50 interns, 44% of whom continued as employees.

5.4 Governance

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 standards. We manage carefully all potential conflicts of interest, avoid bribery, money-laundering, unlawful behaviour, and corruption. To encourage the sustainability mindset across all management levels and the organisation, we:

- maintain a flat, non-hierarchical organisational structure to emphasise 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;
- recognise 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 analysing 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 EFSA and the Nasdaq Tallinn Stock Exchange;
- report regularly on the UNEP FI Principles of Responsible Banking;
- have integrated ESG targets into the executive compensation programme.

5.4.1 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 behaviour 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, which was updated in 2021. In 2020, we also created and published our very first ESG policy, clearly stating and explaining our responsibility and commitment to social and environmental issues. 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. LHV's underlying governance principles are described 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 analysing 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 defence for risk monitoring and risk control. The internal control framework covers both a well-functioning independent risk management, compliance checks, and staff performing audit functions. We have established 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.

5.4.2 Investor relations

LHV actively contributes to developing good relations with the investor community, and we have set high standards for ourselves in being open and 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 them of 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.

5.5 Sustainability reporting

We continuously work towards improving our sustainability reporting and strive to be transparent in reporting our ESG metrics. Over the past years, we have joined several voluntary non-financial disclosure initiatives (Nasdaq Environmental and Social Disclosure Form, PCAF, UNEP FI). In 2022, we submitted our second report to UNEP FI regarding our progress of implementing the UNEP FI Principles of Responsible Banking and continue to do so in the upcoming years while also taking into account the feedback received from UNEP FI. We continue to align our ESG reporting practices with GRI requirements as well as the Nasdaq Reporting Guide for Nordic & Baltic Market.

We are taking first steps to prepare for the upcoming CSRD which will require us to report on various aspects on a more detailed level. Aligning our reporting practices with international standards also means disclosing more non-financial information. To do that, we put effort into gathering

and analysing ESG data, improving ESG communication and internal processes, developing and publishing more sustainability-related materials and reports, and building in-house capacity for adhering to globally recognised ESG reporting standards.

Below in the GRI content index, we have also reported on both GRI as well as voluntary ESG indicators.

5.5.1 ESG metrics

Working towards our goals of more sustainable business development, we comprehend the challenges of ESG governance, impact measurement and setting KPIs to sustainability goals. To manage our impacts, we need to be able to measure them. We have updated our list of key indicators to all our impact areas and are working on setting specific targets for each KPI. We are also developing a new ESG roadmap for 2024-2030 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 ESG-related goals for LHV moving forwards. The goal of 2023 and onward would be to establish a more specific target setting plan for these metrics and start setting business specific ESG targets which are tangible and aligned with both our ambition as well as the global goals.

5.5.2 Taxonomy reporting

Article 8 of the EU Taxonomy Regulation No 2020/852 (the TR or Taxonomy Regulation) obligates any undertaking subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU (the NFRD companies) to include in its non-financial statements or consolidated non-financial statements information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the TR.

The disclosure pursuant to Article 8 is further specified in Commission Delegated Regulation 2021/2178 (the Disclosures Delegated Act (DDA)). It is important to note here that the DDA will enter into force in several stages in 2022-2026.

LHV Pank's taxonomy eligibility

As the Bank is treated as a financial undertaking based on the DDA, the Bank must disclose the following information in 2023 (Article 10 (3) of the DDA):

- the proportion in their total assets of exposures to taxonomy non-eligible and taxonomy-eligible economic activities;
- the proportion in their total assets of the exposures referred to in Article 7, paragraphs 1 and 2 of the DDA (exposures to central governments, central banks and supranational issuers, and derivative instruments);
- the proportion in their total assets of the exposures referred to in Article 7(3) of the DDA (exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU, referred to as non-NFRD companies);
- the qualitative information referred to in Annex XI of the DDA.

Regarding portfolio management, portfolios are not included in total assets in the meaning of Article 10 (3) of the DDA. Therefore, these assets are not subject to disclosure at this stage.

The table below shows the eligibility of exposures against the EU taxonomy environmental goals of climate change mitigation and climate change adaptation as specified in Commission Delegated Regulation No. 2021/2139 (the Climate Delegated Act (CDA)):

LHV Pank EU taxonomy reporting

EUR thousand		Taxonomy eligible	Taxonomy non-eligible	Coverage %	
Art 10	3a	Total assets	1,126,107	2,431,618	31.7%
		Of which trading portfolio and on demand interbank loans in total assets	-	363,638	10.2%
	3b	Exposure to governments & central banks	-	2,478,335	41.1%
		Total exposure to derivatives	-	40	0.0%
	3c	Total exposure to non-NFRD companies	-	2,012,316	33.3%

Clarifications regarding LHV Pank EU taxonomy reporting

Eligible assets of LHV Pank include loans to households collateralised by residential property and car loans to households as specified in the DDA. In addition to that, eligible assets include exposures to NFRD companies. Where the use of proceeds for a particular exposure is unknown, the share of eligible exposures to NFRD companies is calculated on the basis of the most recent taxonomy eligibility data disclosed in annual reports. Exposures to non-NFRD companies, derivatives, trading portfolio and on demand interbank loans are not considered in the assessment of eligibility according to the DDA and are therefore regarded as non-eligible.

Exposures to central governments, central banks and supranational and therefore also excluded from the coverage ratios under 3a. Coverage ratios of items under 3b and 3c are provided as a proportion of total on balance-sheet assets.

Group level

AS LHV Group as the parent company of the Group has qualified itself as a non-financial undertaking according to the DDA. The parent company level activity can be categorised as “activities of holding companies” which is not considered a taxonomy-eligible economic activity and, as such, not eligible to be aligned with the taxonomy.

LHV Group subsidiaries listed below are not separately in scope of Article 19a or Article 29a of Directive 2013/34/EU. Therefore, AS LHV Group as parent company subject to the obligation to publish non-financial information pursuant to Article 29a of Directive 2013/34/EU will report the relevant information required by the DDA as follows.

LHV Varahaldus taxonomy eligibility

The share of the economic activities of LHV Varahaldus reported for 2022 as taxonomy-eligible is 0%. In deter-

mining the above result, the definition of taxonomy-eligible economic activities in the DDA was applied. The definition refers to economic activities that are currently specified in the Commission Delegated Regulation No. 2021/2139 (the CDA) for the environmental objectives of climate change mitigation and adaptation. Asset management services are not described under these economic activities.

As funds and other financial investments have not been taken into account for the year 2022, only LHV's asset management fee income should be considered in this disclosure. Nevertheless, the principles of ESG are taken into account when investing the assets of LHV Varahaldus funds, to the extent and in the manner provided in the document Principles of Responsible Investment.

LHV Kindlustus taxonomy eligibility

Taxonomy eligible investments of LHV Kindlustus include only exposures to NFRD companies. The proportion of eligible exposures is calculated on the basis of the most recent taxonomy eligibility data provided in annual reports. The proportion of eligible exposures is calculated as a proportion of total investments as determined by the DDA.

Taxonomy share of eligible underwriting activities includes the gross premiums written insurance revenue corresponding to taxonomy-eligible insurance activities specified in the Commission Delegated Regulation No. 2021/2139 (CDA) Annex II point 10.1.

Other subsidiaries

The share of the activities associated with taxonomy-eligible economic activities of LHV UK Limited and EveryPay AS is 0%.

LHV Kindlustus eligibility of investments

<i>EUR thousand</i>		Taxonomy eligible	Taxonomy non-eligible	Coverage %
3a	Total investments	72	6,282	1%
Art 10	3b Government & Central Bank	-	-	-
	Total exposure to derivatives	-	-	-
3c	Total exposure to non-NFRD companies	-	6,060	95%

LHV Kindlustus eligibility of underwriting activities

<i>EUR thousand</i>		Taxonomy eligible	Taxonomy non-eligible	Coverage %
Underwriting activities		10,372	6,766	61%
	incl land vehicle insurance (p. 10.1.e)	7,663	-	45%
	incl fire and other property damage insurance (p. 10.1.g)	2,709	-	16%

5.5.3 GRI content index and ESG metrics

The report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option. As GRI does not provide enough financial-sector specific disclosures for reporting on portfolio impact, various non-GRI

disclosures have been used. Such non-GRI disclosures have been categorised by material topics, and listed in the GRI content index below, to provide an overview of all main ESG and sustainability indicators covered in the report.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation See sections:
Foundation (GRI 101: 2016)			
General disclosures (GRI 102:2016)			
Organizational profile			
	102-1	Name of the organization	<ul style="list-style-type: none"> • Legal name • Note 1 General information
	102-2	Activities, brands, products, and services	<ul style="list-style-type: none"> • Management report • Note 1 General information • Activities of business areas
	102-3	Location of headquarters	<ul style="list-style-type: none"> • Legal address • Note 1 General information
	102-4	Location of operations	<ul style="list-style-type: none"> • Legal address • Note 1 General information
	102-5	Ownership and legal form	<ul style="list-style-type: none"> • General Meeting (for legal form) • Shares and bonds issued by LHV (for ownership) • Note 1 General information (for legal form) • Note 6 Subsidiaries and goodwill
	102-6	Markets served	<ul style="list-style-type: none"> • Strategy • Note 1 General information
	102-7	Scale of the organization	<ul style="list-style-type: none"> • Strategy • Note 1 General information
	102-8	Information on employees and other workers	<ul style="list-style-type: none"> • Strategy • Note 1 General information
	102-9	Supply chain	<ul style="list-style-type: none"> • Green office operations
	102-10	Significant changes to the organization and its supply chain	<ul style="list-style-type: none"> • Green office operations
	102-11	Precautionary principle or approach	<ul style="list-style-type: none"> • ESG Risks in credit risks
	102-12	External initiatives	<ul style="list-style-type: none"> • Global sustainability frameworks • Leadership for sustainable business development in Estonia
	102-13	Membership of associations	<ul style="list-style-type: none"> • Global sustainability frameworks • Leadership for sustainable business development in Estonia
Strategy			
	102-14	Statement from senior decision-maker	<ul style="list-style-type: none"> • Statement of the managing director • CEO letter on sustainability
Ethics and integrity			
	102-16	Values, principles, standards, and norms of behaviour	<ul style="list-style-type: none"> • Governance of the group
	102-17	Mechanisms for advice and concerns about ethics	<ul style="list-style-type: none"> • Equality and non-discrimination

Governance

102-18	Governance structure	<ul style="list-style-type: none"> • Note 1 General information
--------	----------------------	--

Stakeholders' engagement

102-40	List of stakeholder groups	<ul style="list-style-type: none"> • Stakeholder engagement
102-41	Collective bargaining agreements	<ul style="list-style-type: none"> • Inclusive workplace
102-42	Identifying and selecting stakeholders	<ul style="list-style-type: none"> • Stakeholder engagement
102-43	Approach to stakeholder engagement	
102-44	Key topics and concerns raised	

Reporting practice

102-45	Entities included in the consolidated financial statements	<ul style="list-style-type: none"> • Note 1 General information
102-46	Defining report content and topic boundaries	<ul style="list-style-type: none"> • Sustainability mission statement • GRI
102-47	List of material topics	<ul style="list-style-type: none"> • Material ESG and sustainability topics
102-49	Changes in reporting	<ul style="list-style-type: none"> • Summary of significant accounting policies/ basis of preparation
102-50	Reporting period	January 2022 – December 2022
102-51	Date of most recent report	1 March 2022
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	info@lhv.ee
102-54	Claim of reporting in accordance with the GRI Standards	<ul style="list-style-type: none"> • Global sustainability frameworks – GRI • GRI content index
102-55	GRI content index	<ul style="list-style-type: none"> • GRI content index and ESG metrics
102-56	External assurance	<ul style="list-style-type: none"> • Independent auditors report

Material impact areas

1. Climate and biodiversity

Portfolio impact on climate and biodiversity (non-GRI disclosures)

Management approach 103-1 until 103-3
(GRI 103: 2016)

See sections:

- ESG strategy
- Stakeholder engagement
- Management of ESG
- Management of impact areas
- Environment

Emissions (GRI 305: 2016)

Management approach 103-1 until 103-3
(GRI 103: 2016)

- Our carbon footprint

305-1	Direct (Scope 1) GHG emissions
305-2	Energy indirect (Scope 2) GHG emissions
305-3	Other indirect (Scope 3) GHG emissions
305-4	GHG emissions intensity

Waste (GRI 306:2020)

Management approach 103-1 until 103-3
(GRI 103:2016)

- Our carbon footprint

306-3	Waste generated
-------	-----------------

Waste and effluents (GRI 303: 2018)

Management approach 103-1 until 103-3
(GRI 103: 2016)

- Our carbon footprint

303-5	Water consumption
-------	-------------------

2. Circular economy

Portfolio impact on circular economy (non-GRI disclosures)

Management approach 103-1 until 103-3
(GRI 103: 2016)

- Material ESG and sustainability topics

3. Inclusive and cohesive economy

Indirect economic impacts (GRI 203: 2016)

Management approach 103-1 until 103-3
(GRI 103: 2016)

- ESG strategy
- Stakeholder engagement
- Management of ESG
- Management of impact areas
- Social

203-2	Significant indirect economic impacts
-------	---------------------------------------

4. Financial literacy and economic sense of security

Indirect economic impacts (GRI 203: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		<ul style="list-style-type: none"> • ESG strategy • Stakeholder engagement - • Management of ESG • Management of impact areas - Social
	203-2	Significant indirect economic impacts	<ul style="list-style-type: none"> • Social responsibility • Financial literacy • Sponsorship • Social impact through channels and customer experience

5. Honest and transparent organisational culture

Anti-corruption (GRI 205:206)

Management approach (GRI 103: 2016)	103-1 until 103-3		GRI content index
	205-3	Confirmed incidents of corruption and actions taken	None

Socioeconomic compliance (GRI 419: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		<ul style="list-style-type: none"> • Management of ESG • Management of impact areas – Governance • Management of impact areas – Social • Management of impact areas • Corporate Governance Report
	419-1	Non-compliance with laws and regulations in the social and economic area	None

Diversity and equal opportunities (GRI 405: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		<ul style="list-style-type: none"> • Management of ESG • Management of impact areas – Social • Our societal impact as an employer - Equality and non-discrimination
	405-1	Diversity of governance bodies and employees	<ul style="list-style-type: none"> • Equality and non-discrimination • GRI content index and ESG metrics
	405-2	Ratio of basic salary and remuneration of women to men	<ul style="list-style-type: none"> • Equality and non-discrimination • GRI content index and ESG metrics

Stakeholder engagement (non-GRI disclosure)

Management approach (GRI 103-2016)	103-1 until 103-3		<ul style="list-style-type: none"> • Stakeholder engagement • Management of ESG
---------------------------------------	-------------------	--	---

ESG key performance indicators (KPIs)

Table below depicts our defined ESG key performance indicators (KPIs) that help us better understand the environmental, social and governance impact of our business. These KPIs have been selected based on the areas where LHV has most impact through our business activities.

Within the impact area of climate and environment, we have 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. We understand that our main climate impact comes from our loan portfolio, which is

why we have set a target to increase the share of renewable energy projects in our energy sector portfolio to 90% by 2030. In addition, we have defined a goal that by 2030 – at least 50% of our annually signed mortgage contracts will be done for A and B energy class housing. Our intention for 2023 is to set science-based emission reduction targets for carbon-intensive sectors in our loan portfolio.

In LHV, we acknowledge our role in the society when it comes to improving the financial resilience of our clients. We believe that educating society about responsible borrowing and financial habits will eventually improve their possibili-

ties of gaining access to financing. We have therefore set a target to increase the coverage rate of investment services contracts among young (up to 26 years old) clients to reach 60% by 2030.

Since gender pay gap is a major concern within the financial sector, we have decided to be transparent regarding our gender pay gap across all levels and set a target to completely abolish gender pay gap in LHV by 2030. In addition, we aim to improve our employee satisfaction score to reach 5 (maximum score) by 2030.

ESG key performance indicators in LHV Group

	2022	2021	2020
1. Climate and biodiversity (E)			
Contract value for new renewable energy projects added to the corporate loan portfolio (EUR million)	107.1	41.4	53.9
Number of new energy class A apartments financed annually through housing developments	532	-	-
Share of annually signed mortgage contracts for A and B energy class housing in the mortgage portfolio	29.8%	-	-
Average CO2 emissions in Group's car leasing portfolio (gCO2/km)	122.3	134.9	140.9
2. Inclusive and cohesive economy (S)			
Use of digital channels among private customers*	59.4%	59.3%	58.8%
Use of digital channels among private customers with native language other than Estonian*	66.2%	64.3%	62.8%
Use of digital channels among private customers older than 65*	40.8%	39.2%	35.7%
Share of retail customer base outside big cities (Tallinn, Tartu, Pärnu)	32.7%	32.4%	31.6%
* logging in at least once a month			
3. Financial literacy and economic sense of security (S)			
Share of young people (up to 26 years old) with an investment services contract	46.1%	45.7%	29.8%
Share of private clients with an investment services contract	40.8%	41.1%	30.8%
Share of female private clients with an investment services contract	36.3%	36.0%	24.6%
Number of microloans granted	1,068	1,001	948
Share of LHV Pank customers with 2nd pillar pension	35%	-	-
Total number of Investment School attendees	19,262	12,000	7,420
4. Honest and transparent organisational culture (G)			
Confirmed incidents of corruption and actions taken	0	0	0
Customer satisfaction level	95.7%	95.8%	94.9%
Number of legal proceedings pending against the company as of end of year	1	1	0
Proportion of female employees in LHV	57.6%	63%	60%
Percentage of female employees in leadership positions	48.4%	46.1%	44.8%
The ratio of the CEO's salary to median FTE salary at LHV	5.26	5.26	5.26
Gender pay-gap	0.92	0.87	-
Employee satisfaction indicator (on a 5-point scale)	4.5	4.5	4.6