

# Social responsibility in LHV

LHV Group takes its social responsibility seriously. We wish to act and grow in a sustainable manner and contribute with our activity to the tackling of local as well as global challenges, as in this way we also improve the future operating environment of LHV. To do this, on a daily basis we think more broadly than just about LHV's own business.

- We promote the local economy and capital market in Estonia.
- We offer sustainable products and services.
- We keep the working environment in LHV motivational and developing.
- We assess and reduce the environmental impact of our operations.
- We contribute to society through increasing money wisdom and various support projects.
- We implement a transparent and responsible management culture.

We are aware that the impact of LHV Group in the Estonian financial sector is increasing and being a part of the important business sector for society, we have a direct as well as indirect influence on the environment surrounding us. At the same time, our most extensive direct impact arises from investment and financing operations. Through our core activity we are able to direct cash flows into sustainable and responsible activities.

On the other hand, being a transparent and public company, LHV also has the role of an opinion leader and it is in our hands to contribute to the formation of the prevailing mindset towards responsibility in entrepreneurship by leading the way. By communicating with different target groups, including clients, we can raise awareness, share knowledge, recognise responsibility.

## Expectations to the financial sector

In addition to honest and transparent activity, the banking sector is facing new requirements, moral expectations and global cooperation initiatives supporting these, which assume setting a clearer focus on responsible and sustainable business. Global challenges bring the promotion of a positive environmental impact and social welfare increasingly into focus for the financial sector.

The year 2019 was a year where higher attention than ever before was paid to climate change and ecological problems throughout the world, coming more and more to the forefront in the business sector as well. For example, in the latest risk report published by the World Economic

Forum (WEF), the risks dominating in the top list of risks that threaten the world, based on the likelihood and impact, are environmental problems. For the first time in history, all five most likely risks were related to environmental problems (these were extreme weather, loss of biodiversity, failure of climate measures, natural disasters, man-made environmental disasters). Clearly, there is also a prevailing trend in the financial sector to place higher priority on sustainable development and understanding of the urgency of the situation is improving.

## Development of LHV's principles of responsibility

In 2019, the definition of responsibility was given a new dimension in LHV. We launched an extensive series of projects, the substantial work and public communication of which is to be carried out in 2020 and at a later time. The inclusion of LHV's employees in September was a landmark. A survey was organised among LHV's employees on corporate social responsibility, in which 162 employees (39%) attended, as well as an idea hackathon with more than 60 participants.

While the most popular choices in the employee survey were related to the economy, financial literacy and management, the following idea hackathon helped to see the wider need to also discuss the environmental issues in the future more. As LHV has already previously strongly contributed to the topics of social responsibility, financial literacy, support of economy and management quality, our target now is to also better manage the impact of our further activities in the environmental and climate areas.

**In 2020, we intend to create an umbrella of LHV's sustainability principles**, by phrasing the principles of corporate social responsibility more broadly and establishing the relevant goals. In doing so, we will proceed from the **UN Sustainable Development Goals** or the so-called **SDG-s**. The results of initial analysis revealed that LHV has the highest likelihood of influencing eight global goals.

- End poverty in all its forms everywhere
- Ensure healthy lives and promote well-being for all at all ages
- Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

- Ensure sustainable consumption and production patterns
- Take urgent action to combat climate change and its impacts
- Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

The goal for 2020 is to move on with our analysis by also involving external stakeholders and thereby developing more important sustainable development goals to which we can contribute.

## 1. Promotion of the economy and capital market

Promotion of the Estonian economy and capital market is a part of LHV's mission. The better the economy, the higher the welfare of Estonian people. We recognise the role of LHV as an influencer of the economy – we want to have an impact on Estonian entrepreneurship as well as on the financial behaviour of the people of Estonia towards smarter management. We apply our strategic strengths – investment and entrepreneurial experience – in order to enable the growth of a modern and viable financial group based on Estonian capital, that helps Estonian companies and people invest their money, and is the most internationally cooperative partner for companies developing financial technology. We are the largest domestic capital provider in Estonia.

### Economic value created by LHV Group in 2018-2019

EUR thousand	2018	2019
<b>Total taxes paid</b>	<b>7 180</b>	<b>8 631</b>
Taxes paid (except labour taxes)	3 614	4 249
Labour taxes	3 566	4 382
<b>Salaries paid</b>	<b>12 190</b>	<b>14 883</b>
<b>Jobs created</b>	<b>70 jobs</b>	<b>55 jobs</b>
<b>Dividends paid</b>	<b>4 123</b>	<b>5 463</b>
<b>Purchases from suppliers</b>	<b>20 180</b>	<b>26 560</b>
incl. Estonian suppliers (%)	77%	69%
<b>Investments made</b>	<b>1 632</b>	<b>2 200</b>
incl. investments on innovation	905	697

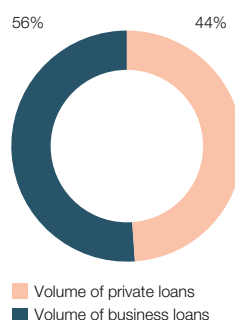
### Promotion of credit market

As a local financial group we bring capital from Estonian depositors by directing it to Estonian companies. LHV has loan products that meet the needs of Estonian companies and private individuals. Our role in financing the plans of Estonian people and companies has grown strongly.

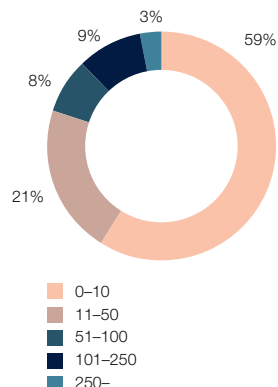
We offer our private clients loan products ranging from student loan and small-scale financing to home loans. In 2019, we took over the private loan portfolio of Danske Bank Estonian branch.

At the end of 2019, LHV's loan portfolio amounted to EUR 1.7 billion. At the same time, LHV's market share increased to nearly 10%. We are a caring financial partner for Estonian companies of all sizes. We have the competence and desire to delve into the plans of Estonian companies and provide them with support in implementing these plans. As an intermediary of domestic capital we respond fast and make decisions on the spot. Together with Kredex, we can offer credit to companies that do not have enough collateral to borrow. In cooperation with the European Investment Fund, we have improved the credit facilities of small and medium-sized enterprises. We also offer trade financing products.

**Division of the loan portfolio by private and business clients**



**Division of business loan portfolio by number of employees in the company**



### Promotion of the economy through pension funds

The aim of LHV pension funds is to become Estonia's most important institutional investor. This role contributes to the development of capital market. Through pension funds, the money of pension savers helps the local economy, while growing the investment value for the saver.

Over the last three years, LHV funds have notably increased their investments in Estonia. In 2017, the investment decisions concerning Estonia (also include future commitments to invest) amounted to EUR 170 million, in 2018, EUR 153 million and in 2019, EUR 60 million.

From the investments directed to the local market we could highlight the purchase of an office building at Akadeemia tee, known as the Skype-building, as well as the bond investment of Ekspress Group. In addition, the Lumi Kodud rental home project with 127 apartments was completed in Tallinn.

Also, several local venture capital funds in which LHV has a holding, invested in domestic companies. Funds were raised by innovative companies of different sizes and different fields, such as Bolt, UpSteam Eesti, Ezil Productions Intelligence, Fractory Solutions, Vumonic Datalabs.

In order to provide the best possible overview to the people about their pension assets, in 2019 LHV launched a unique app My Pension, where people can view the size of their I, II and III pension pillar assets and the potential monthly pension payment achieved with the accumulated assets upon retirement. The app can be used by the clients of LHV pension funds as well as by people who save for a pension elsewhere. We believe that modern, smart and good tools help people make the best decisions for their future.

### **Export of financial services**

Through the operations of the UK branch, LHV Pank has become a financial services exporting company. We commission the services created in Estonia to serve international FinTech companies. By doing this, we have contributed to the development of innovative global services and tightened relationships between the financial system of Estonia and other countries. Operating on a highly competitive international market develops the people of LHV, increasing their knowledge.

We are a contributing partner to FinTech companies. Although our clients have innovative ideas, they often lack access to the banking infrastructure. The services of LHV help to solve this problem. The clients aim to increase the speed, convenience and availability of financial services. New service providers bring the client a new level of quality of service, making it more available and affordable. Therefore, we contribute to the growth of competition and help to expand the opportunities of end-consumers.

In 2019, we continued to provide services to the clients of the financial intermediaries business line. In spring, we opened access to virtual IBAN services and real-time euro payments to them, based on which the financial intermediaries can create new services and speed up the movement of money. In May, we technically joined the pound payment system as a direct member. By doing this, LHV Connect became the first bank application programming interface (API), through which financial technology companies can access euro and pound payments. We opened pound payments for clients in January 2020.

### **Development of Estonian banking**

Together with the expanded market share we also acknowledge the increased role of LHV in the development of Estonian banking sector. Besides competition, LHV has constructive cooperation with other actors in the financial market. As market participants we have a say in developing public policies; we aim to develop the Estonian business environment and B2B cooperation by enhancing partnership, innovation and transparency. We create and develop our services based on the principles of open banking. At the same time, we are also a partner to the state in developing innovative solutions.

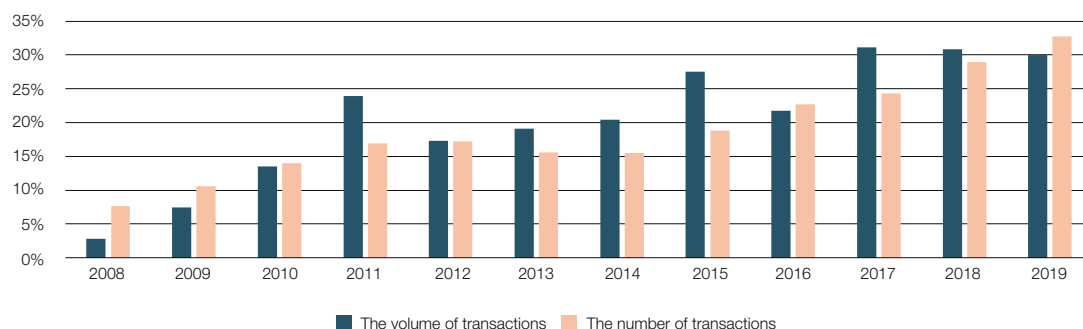
LHV Pank is an active member of the Estonian Banking Association. Additionally, we cooperate with other financial service providers through the non-profit association FinanteEstonia. We contribute to cross-sectoral issues, such as the sharing of money wisdom in Estonia, law making, the adaptation of regulations, prevention of money laundering and tackling terrorist financing, and processing payments. In 2019, Erki Kilu, Chairman of the Management Board of LHV Pank, was the Chairman of the Board of the Estonian Banking Association. LHV is represented in the work of all 28 units/workgroups of the Banking Association. Seven units are led by LHV. At the beginning of 2020, we initiated the formation of a sustainable banking workgroup at the Banking Association.

### **Development of capital market**

As an institutional broker, LHV Bank helps Baltic companies to engage funds from investors. In 2019, we assisted AS Coop Pank in organising the initial public offering of shares. We helped the Lithuanian agricultural company AUGA in issuing green bonds. We also helped other Baltic companies to raise money from the public market and advised them on important transactions.

LHV Pank is the leading market participant on the Baltic stock exchanges. Our daily brokerage activities as well as our efforts to set an example, contribute to the functioning of Baltic capital markets. In 2019, LHV Pank received the "Best Stock Exchange Member of the Year" award of the NASDAQ Baltic stock exchanges. LHV has received this award six times altogether. We have become the market leader in the Baltics in terms of trading activity of exchange members. We prepare and publish analyses about publicly listed companies in the Baltics. We are market makers for 7 publicly traded companies.

### LHV's market share on the Baltic Stock Exchange over the years 2008-2019



### The best investor relations in the Baltics

As a public company we aim to lead the way in governance and communication with the public. We want to organise exemplary investor relations, act in an open and transparent manner, adhering to all requirements established with the Rules and Regulations of the Stock Exchange. We want to maximise transparency, for example by disclosing for this purpose, the salary of the issuer's management board, continuing to publish the monthly reports and financial plans. We would like as many clients and partners as possible to be shareholders and investors in LHV and to participate in the building of our shared business.

As a result of the above, Nasdaq declared LHV Group a public company with the best investor relations in the Baltics in 2019.

## 2. Sustainable products and services

LHV wants to conduct its daily business in a way that is sustainable in the long run and based on responsible decisions. We are not only concentrating on maximising short-term profits, but we also keep in mind the long-term, mutually beneficial relationships with the market, partners and clients.

### Products and services tailored to the client's needs

We focus on active and independent clients with an enterprising frame of mind. We position ourselves as a local bank in Estonia. We are a home bank offering a full service for clients whose income is received in LHV and who are actively using our services. In terms of asset management, our long-term ambition is to become a pension fund manager in Estonia who grows the assets of clients in the best way through a high rate of return.

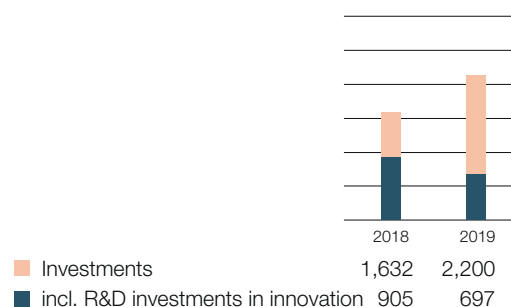
For them, we are a partner who is reflective, understands the needs of clients, and offers the most advanced banking services and the best service. New initiatives can be implemented much faster and more successfully if the parties involved have the same interests and each other's long-term

support. In relations with all stakeholders, we consider partnership, honesty, goodwill, engagement, transparency and trust to be important and wish to create long-term value for the stakeholders.

By virtue of the stakeholder, our products and services are simple, transparent and appropriate. Client interaction is mainly conducted using modern electronic communication channels. The saved costs will reach our clients through affordable prices of everyday services.

As we value highly innovative thinking, we contribute to ensuring that our solutions and services offered to clients are modern and internationally excellent. In 2019, the Entrepreneur Account created through the cooperation of LHV and the Tax and Customs Board was awarded the innovation award of the Banking Association, as the most innovative solution in Estonian banking; our innovation is also reflected in the development of electronic channels.

### Investments in innovation



### The best service in Estonia

We want to offer impeccable, caring and polite customer service. Our respect for our clients is reflected in understanding the client's needs, in our responsibility, in our availability to our clients and effective administration. We offer our clients convenient and diverse communication channels for communication. The official channels include phone, e-mail and live chat; information and feedback can be shared on social media channels and through the LHV financial portal.

- LHV was declared the best Estonian bank for the second year in a row by Euromoney.
- The Banker named LHV bank of the year 2019 in Estonia.
- According to the survey of the survey company DIVE, LHV Pank is the bank offering the best service in Estonia. In the service study of 2020, we achieved the score of 90.1% out of the maximum (target >90%).
- We organised mystery shopping events internally as well as for our partners 132 times altogether, the consolidated result of which was 93.4% (target >90%).
- Requesting feedback, to learn what the clients like or what we could improve, continued to be important in 2019. We asked for feedback to e-mails or phone calls on 105,402 occasions. We received feedback from 36,069, i.e. 34.2% of clients and 93.5% (target >90%) of them were satisfied with the service. The number of clients who were dissatisfied, identified deficiencies or made proposals, was only 2344.
- All client complaints and proposals are registered and taken into account when organising the bank's work. In 2019, LHV Pank registered 138 client complaints (338 in 2018). Complaints were solved efficiently, transparently and quickly.
- Starting from 2019, the clients can chat on LHV's homepage with a virtual assistant Uku, to get fast real-time answers. The chatbot answered 45% of the questions automatically without the help of a human assistant.
- Additionally we implemented an in-house self-assessment environment Soket in the second half of the year, helping our employees to test and improve their knowledge about the company and services. The response rate to the 15,000 questions asked was 83%.
- In February 2019, we organised an in-house service month for LHV, where we paid attention to good service

and organised evaluations more than usual. We have taken various steps for the engagement of clients.

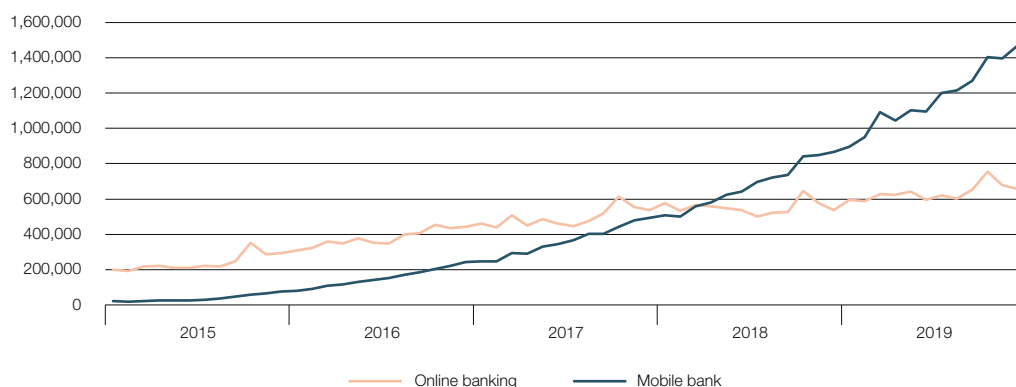
- We organise regular internal training sessions and the necessary certification to provide the best customer service. In order to provide the best service, in addition to a customer service book, we have also developed a literary standard textbook, as LHV considers it extremely important to communicate in a simple and human way using correct Estonian language. During the year we organised 191 training sessions for the service team plus weekly language courses and statutory training across the company.

#### Available services, the best electronic channels

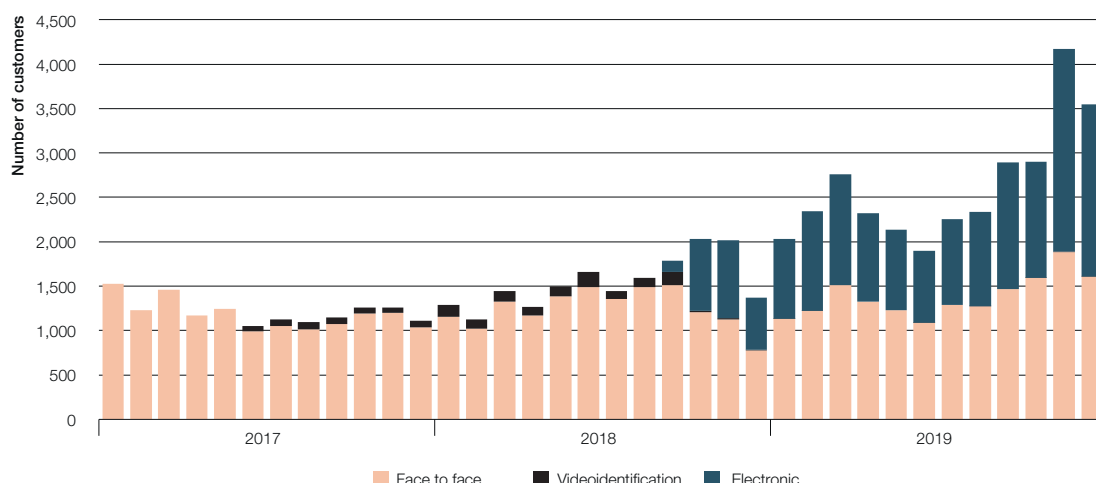
When providing the services, LHV deliberately focuses on electronic service channels. This helps clients to access the services as easily as possible, saving the environment, resources, manpower, etc. In 2019, we developed the LHV mobile app as the first priority. Over the year, the app was supplemented by the following services: account opening, ordering of a bank card, forwarding money request, securities transactions, application for loan. Internet Bank is still the number one service channel.

Electronic channels provide significant added value to target clients. The availability of the service has been greatly supported, above all by offering electronic identification. LHV clients can open accounts, use services, sign agreements, and make transactions by using the options of electronic identification and signing. For clients, this reduces the time spent, helps save on transport, etc. We have also considered the needs of visually impaired people when developing our channels.

**LHV online banking and mobile bank usage activity by login**



### Identification upon onboarding of customers (private customers)



### Secure and fair services

In terms of responsibility, it is of the utmost importance to ensure the protection and security of clients when providing the service, besides access to services, meeting the needs of the target group and modernity. This is why we pay attention to the below aspects for services.

### Responsible lending

We strive to minimise any negative social impact involved in financing products. LHV's credit policy stipulates acting in a socially responsible manner. All credit decisions are governed by the principle that LHV does not finance counterparties whose activities are liable to cause disproportionate damage to the environment or do not comply with the principles of social responsibility. When crediting private individuals we make sure that we introduce the products to the consumers in a balanced way and do not encourage them to make financial decisions that may prove harmful to them.

### Protection of a banking secret

LHV's operations are based on trust. Clients' assets and personal information are reliably protected at LHV. We treat all the information related to our client, including the fact that they are our bank's client, as a banking secret. LHV's employees are not permitted to disclose client-related information treated as a banking secret to persons who are not entitled to such information. We have applied measures to ensure that client data are kept confidential, including legally required security measures for the protection of personal data and prevention of the processing of personal data by unauthorised persons.

### Information security and cybersecurity

LHV takes information security and the protection of clients' data seriously. LHV has formed a separate team for this purpose. We organise information security training in the company. In the Banking Association, we engage in cooperation with other banks to raise awareness on topics related to information security.

In 2019, the number of cyberattacks in LHV's area of activity increased. Although there were also attacks against LHV's systems in 2019, there were no data leakages in any of the cases. In the second half of the year, the volume of phishing letters and messages increased, also resulting in losses for unsuspecting clients. We made serious efforts to recover as large a part of the client's funds as possible. We also organised a notification campaign to warn clients. Additionally, we implemented several technical measures to reduce the possibility and impact of fraud. Thanks to the measures taken we have managed to significantly reduce the scams committed with Smart ID.

In the second half of the year, LHV experienced Ransom-Driven DDoS (RDDoS) attacks that gained momentum in Scandinavia. An extensive RDDoS attack was also directed against LHV's services, however we also managed to keep the bank services available to clients with minimum interruptions during the attacks. We plan to develop the resilience of our infrastructure in the near future.

### Prevention of money laundering and terrorism

We clearly acknowledge the higher expectations of society, legislators and supervisors in respect of the AML. This is a topic on which the sustainability of the financial institutions themselves depends, as demonstrated by several events on the market.



We are exemplary in respecting all the requirements for identifying clients and the persons related to them by understanding their activities, i.e. the KYC principle. We take a risk-based approach in our operations. We also monitor our clients' activities to identify operations raising a suspicion of money laundering or terrorist financing. LHV implements international financial sanctions and does not offer services to entities subject to them. LHV Pank pays particular attention to the clients who offer financial services to their own clients. When providing services to such clients, the same due diligence measures as those used in the provision of correspondent banking services are implemented.

Also in 2019, we continued to increase our anti-money laundering and terrorist financing team, which is active in both LHV Pank as well as the bank's external initiatives. We also significantly upgraded the monitoring and screening systems. In both areas we selected and implemented the software solutions of internationally known service providers. LHV's employees are leading both AML and compliance control working groups in the Estonian Banking Association. Through the said working groups, but also other channels, we provide our input to the legislative process, help to develop good banking practices, and are active in the development of the entire anti-money laundering and terrorist financing system. We also engage in active cooperation with supervisory bodies.

### **Fair competition**

We are accurate, honest and respectful towards the competitors, and avoid talking poorly of them in any way. We abide by the principles of fair competition, and shall only use legal and ethical means for gaining a competitive edge. Any agreements or concerted practices between market participants, which have the restriction of competition as their object or effect are prohibited.

### **Honest and transparent marketing and communication**

LHV abides by the generally accepted marketing principles and shall neither use information that does not reflect reality nor demean competitors in advertisements. We ensure that any information provided to clients, including all marketing materials, is factually correct, easily understandable and competent, and draws sufficient attention to the potential risks and costs related to the service. LHV has compiled their advertising content guidelines. LHV has internal control measures to make sure that their advertising is in compliance with the law and its internal regulations.

Any stock exchange announcements, press releases and statements published by LHV are accurate and timely, without distorting any facts. Our statements give an open, true and fair view of the financial position, economic results and cash flows. We comment and provide information on topics related to LHV's business activities. In 2019, we informed the public with 50 stock market announcements and 39 press releases.

### 3. Motivating and developing working environment

People are the most important assets of LHV. The team of LHV is a community of 430 people, who carry the corporate values and act 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 the employees to have a view of an owner in respect of LHV, which is why we have established an option programme, that is the performance pay programme for key employees, thereby integrating 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 and motivate them, raise their competence (knowledge, skills, experience and capacity), expand personal fulfilment opportunities, guide the development of staff satisfaction and ensure the availability of young talents, and foster the feelings of solidarity and pride. The main focus of LHV as an employer is set on an inspiring organisational culture and a good feeling of employees when coming to work every day and "fulfilling" themselves.

LHV is a fast-growing company, which is also reflected in recruitment. In a year, LHV created 55 new jobs. Of all people in LHV, 94% work full time. In 2019, the voluntary staff turnover in LHV Group companies was 10.9%, being higher than the 7% in 2018 (9% in 2017). Generally, staff turnover in Estonia is on the increase, as the average number of years people work with one company is dropping. Nevertheless, the LHV's indicator is good and shows satisfaction with the employer.

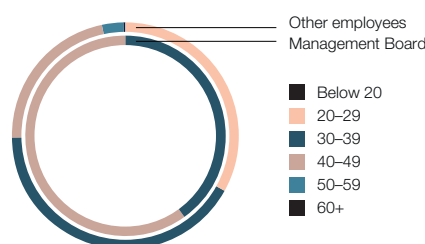
In the selection of LHV's employees and executives, we are guided by LHV's best interests and therefore make the choices in a gender-neutral and non-discriminatory manner based on the person's education, skills and prior experience and, if necessary, requirements arising from the respective legislation. LHV has not found it necessary to implement any diversity 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 important for LHV. In 2019, there were no such violations in LHV. There were no labour disputes, discrimination cases or violations of human rights.

#### Gender division of employees in 2019



#### Division of employees by age in 2019



#### We include employees

We have developed various measures to get feedback from our employees and encourage in-house communication. Every two years, we hold an employee satisfaction survey. As the survey was not conducted in 2019, we plan to do it in 2020. In 2018, the satisfaction survey was filled in by 290 employees, which is 79% of the whole staff. The overall result of the survey was 6.2 points (out of 7); the overall net promoter score was 71%, which was a record result. Our goal is to improve this score. We take employees' suggestions into account in our management decisions. Employees can give 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 the organisation of their future work.

#### Development of employees

We contribute to the individual development of our people. LHV's training department is guided by a person-centred approach, based on the personality needed to improve the skills, motivation, qualifications, including providing training, teaching materials etc. If necessary, we offer rotation within LHV. We have developed an internal training programme, including thorough training for new employees and language courses. In 2019, the development programme organised for the development of executives and getting their feedback has showed good results. Training designed for executives has provided the managers with practical tools to



improve the management, instructions for smoother internal communication, advice for recruitment on the renewed labour market. Based on the feedback from executives, there has been an improvement in their skills in communicating with different parties, mutually sharing their experience and support. We are updating the format of performance and development discussions to make sure that people benefit more from it. In 2019, about nine out of ten employees participated in performance and development discussions.

### **We promote employees' health**

LHV contributes to the physical and mental health of its employees. We offer the employees of LHV a possibility to use the free psychotherapy service for personal or professional consultation and also support the sports initiatives of employees (such as football, basketball, volleyball, squash, tennis, badminton, public sports events) and offer sports benefits (sports expenses, rehabilitation). The employees are provided quarterly health compensation, which was used actively in 2019: AS LHV Pank 70%; AS LHV Varahaldus 76%; AS LHV Finance 73%. In April we organised a Health Week and provided our employees courses on nutrition, exercise, mental health.

We reimburse dental care. We provide vaccinations. LHV has an outstanding occupational health package. LHV is part of a health-promoting network of employers. We consider health care recommendations: we use eye-sensitive computer screens, 100% adjustable chairs and desks, and, if necessary, provide people with assistive devices. In the office, we have healthy and natural carpeting with high wool content. The share of sick days in LHV companies in 2019 was 0.74%.

A work environment council operates at LHV, including the representatives of both the employer and the employees. We emphasise occupational safety. All worksites have undergone risk analysis. On each floor of the offices, there are first aid assistants who have received the required training, and those responsible for fire safety. There were no occupational accidents at LHV in 2019.

### **Winter office**

For the third year in a row we enabled the employees to work partly at a winter office. In 2019, this remote work opportunity in Cyprus was used by 150 people (130 people in 2018). Employees were provided with a workplace and part of their transportation costs was covered. The winter office has received positive feedback and the project will continue next year.

### **We maintain balance between work and family life**

We value a suitable balance between the employee's work and private life and among other goals, as a family-friendly employer, we wanted to harmonise our activities with the family-friendly employer programme of the Ministry of Social Affairs. As a result of two years of work we earned the gold level of family-friendly employer 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 a good work-life balance, we value family life: upon the birth of a child, fathers are also granted 15 days' leave, employees receive monetary bonuses when their child starts school, can work reduced hours on their child's birthday, and get a day off for marriage. We offer a childbirth allowance and a death grant. We have special events for employees with families: family days, children's Christmas party.

### **LHV is a recognised employer**

LHV as an employer has also been noticed outside of the company. In the employer survey of CV-Online, published at the beginning of 2020, LHV was considered the second most attractive employer in Estonia. We were also recognised as an attractive employer among students of economics and experienced specialists (based on Instar survey). Attractiveness as an employer enables LHV to have flexible recruitment, as the interest in LHV has improved year by year. During the year we communicated with more than 3,500 candidates and selected 4% of them to work with us. We have also placed emphasis on 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 traineeship and job-shadowing. Every 10th employee started at LHV as a trainee. In 2019, we hosted 13 trainees, of whom 1 continued to work at LHV.

## **4. Managing environmental impact**

Climate change occurring as a result of human activity is the biggest challenge of this century. Achievement of the goals set out in the Paris Agreement on climate requires the joint effort of all sectors and parties of society. At the same time, the financial sector, directing the cash flows, has a specifically important role in supporting transition to a climate-neutral economy. LHV understands the critical nature of environmental and climate problems and has accordingly placed the topic under sharper focus, to take effective and fast steps towards a more sustainable future.

In the second half of 2019, LHV initiated a series of projects for the better management of environmental impact in order to define more detailed goals and create action plans for moving towards climate-neutral operations. A significant input for this came from LHV's hackathon, held in October, where the participants elected the best ideas, namely those that relate to the mitigation of environmental impact. Accordingly, the hackathon helped to map an important direction for LHV and raise awareness of the employees' expectations about the better management of environmental impact. The input obtained from the event was worked on further and by the end of the year, strategic focuses of the environmental projects were laid down and external experts involved to support their implementation.

It was agreed more specifically on the managerial level that in 2020, LHV will take next steps to reduce its negative CO2 footprint:

- Within the UN Environment Programme, we will join the **UN Principles for Responsible Banking**, taking on the commitment to define the societal, economic and environmental impact of our activities, and formulate the principles of LHV's sustainability; to prepare a strategy that conforms to the UN Sustainable Development Goals and clearly considers the bank's environmental impacts; and to transparently report our progress and challenges in achieving the goals we have set;
- We begin by **evaluating the environmental impacts of our products and services**;
- We will begin measuring our carbon footprint to achieve a **carbon-neutral LHV by 2022**;
- We will bring new financial products focusing on responsibility and sustainability to our clients, to offer green alternatives to existing financial products and services;
- We will actively engage in applying for the **Green Office Certificate** for our Tallinn and Tartu offices;
- **We will increase the awareness of our employees** and involve them in being more environmentally friendly in our activities;
- We will **cooperate with clients** to also help them take their environmental impacts into account and reduce them;
- **We will support cooperation and information exchange within the sector** to accelerate the transition of the whole financial sector to a more sustainable foundation;
- We will examine the opportunities to apply for a LEED or BREEAM certificate for our Tallinn office building.

LHV is only at the beginning of this journey, but we are committed to reducing our negative environmental impacts and fulfilling the goals set out in the Paris Climate Agreement. We will involve experts and stakeholders, and promise to be

more open and transparent in our activities. We will also cooperate with other market participants: for example, in the Estonian Banking Association, within the new panel of sustainable banking; through MTÜ Finance Estonia, we will support organising a conference on the topic of climate in 2020.

### Environmental impacts of LHV's offices

From the beginning of LHV's operations, the effect of our office on the natural environment has been limited due to our operating procedure. We do not manage a wide network of offices, and we offer our services through electronic channels, which reduces the effect of LHV's operations on the natural environment to a certain extent. LHV Group companies are located in three places of business, in the centre of Tallinn and Tartu, and also in London. In 2019, LHV is also rented a smaller office space on Telliskivi Street in Tallinn.

In recent years, we have worked towards our offices having a smaller environmental impact:



We have reduced the use of paper (paperless document management, electronic client agreements, the so-called follow-me solution during printing). We separate the waste paper from other household waste. In 2019, LHV spent 1872 kg of paper.



To reduce water consumption, we use tap water at our offices, instead of water dispensers. In 2019, LHV offices used 2474 m3 of water.



To reduce transport volumes, we have adopted electronic means of communication for holding meetings.



We use energy efficiently. In 2019, LHV offices consumed about 409 498 kWh of electricity. For heating 1474.47 mWh of thermal energy was used.



At our offices, we adopted a system that allows for waste sorting. In 2019, LHV generated about 200,000 litres, i.e. 40 tonnes of waste. This means about 93 kg of waste per year, per one employee.



In 2019, the employees of the companies in LHV Group travelled a total of 716,247 flight kilometres with 639 flights related to work (in 2018, 1,103,797 km on 911 flights).

In relation to the aforementioned environment-related projects, we are already planning to collect significantly more data about LHV's activities in 2020, and to give an open overview of these in the reports to come.

## 5. Contributing to increasing financial wisdom and the development of society

Partnership, as an operating principle of LHV, is also reflected in our wider contribution to society. We are a part of the communities, into the life and activities of which we regularly contribute. Good examples here are the investor community, football community, but also many other spheres in social life.

The Estonian investor community is closely associated with LHV. On the one hand, it is reflected in our activities as a listed company; and on the other hand, in our activities which we perform to increase investor education. LHV Group has over 9000 equity or bond investors.

As a leader of the investor community, LHV takes responsibility for sharing money wisdom and advancing investor education. We contribute through the following activities:

- We organise the Investment School seminars, free of charge, which have over 6000 participants (aim: 5000; participants in 2018: 4700).
- We organise the annual stock market game Börsihai, where 4600 interested people participated (in 2018: 2600).
- We participated in projects for improving financial wisdom, organised by the Estonian Banking Association.
- We have set up and we manage a library of investment and economic literature for our clients.
- LHV manages the LHV financial portal and the forum set up for discussing investment-related subjects and sharing information.
- We offer simple products to investors for getting a start, such as the Growth Account.
- In 2019, we published the free-of-charge web magazine "Investeeri", addressing various topics related to entrepreneurship and investing.
- We supported the news portal Rahageenius, which provides economy-related content to regular consumers.
- We organised activities on the topic of financial wisdom within LHV Youth Bank.
- Enn Soosaar Foundation – we support issuing the Ethical Essayists Award. In 2019, the award went to Hasso Krull.
- Intsikurmu Festival in Põlva – we supported the organisation of the festival for the fourth time to help deepen common cultural values in society through art, music and nature.

### Sport and a healthy lifestyle

- The Estonian Football Association – LHV Pank has been the main sponsor of the Association and the Estonian National Team since 2010. In addition, we have created the support system of LHV's Football Card that earned 77,694 euros for Estonian football clubs in 2019. The Football Card system enables us to unite and maintain the football community.
- Estonian Optimist Class Association – we have helped to ensure the sustainability of Estonian sailing for more than ten years. With the support of LHV, the activities of the association were revived in 2007 when active work started again, sparking interest in sailing among children.
- Running competitions – in 2019, we supported the Peetri Run and the Rapla Selver Grand Run.
- We organise a corporate football event, the LHV Cup. In 2019, it was held for the third time.

### Economy and Entrepreneurship of Estonia

- Estonian Entrepreneur of the Year competition – we have been one of the main sponsors of the Estonian Entrepreneur of the Year competition since 2012. In 2019, the title of Entrepreneur of the Year was awarded to Tõnis Kaasik.
- The Gazelle movement – LHV is the sponsor of the Gazelle movement. The movement supports and acknowledges rapidly growing Estonian companies.
- We supported organising the tech conference Latitude59 for the third year in a row.
- We supported organising TEDx Lasnamäe.
- We support many smaller local initiatives with our knowledge, LHV's thematic gifts, advice and performances by our people. We participate in fairs, cooperate with universities, also within the framework of internship programmes. We belong to the Estonian Association of Information Technology and Telecommunications, the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation. We also consider it essential to help Estonian producers and companies through our procurement and cooperation relations. LHV consciously uses the products and services of Estonian entrepreneurs.

### Sponsorship

Within its means, LHV supports activities and initiatives which 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 four years already, we have supported the Estonian New Music Award, which was awarded to Helena Tulve in 2019.

## 6. Transparent and responsible management culture

Responsibility is one of our operating principles and one of the prerequisites that LHV's mission, vision and values are based on. We believe that an ethical and appropriate course of action will ensure success in the long term. Therefore, all LHV's managers and employees must behave ethically and responsibly. Following the Code of Ethics is mandatory for all of LHV's employees.

LHV's Code of Ethics is the foundation of LHV's various policies, including the Company Governance Policy, internal rules and procedures governing the specifics of adherence to the Code of Ethics. Primarily we rely on lawfulness, good practices and the principle of common sense, doing our job responsibly, transparently and openly. 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 basic principles of governance are described in more detail in the "Best Practice of Corporate Governance".

The LHV management structure is organised in an easy-to-understand manner and includes understandable lines of responsibility. One important part of responsible governance is a high level of risk management and analysing our own activities. LHV takes the mapping and mitigation of credit risks, liquidity risks, market risks, crime risks, and operational risks very seriously. The supervisory board, the management board and subdivisions pay attention to this. We have three lines of defence for risk monitoring and risk control. The internal control framework covers both well-functioning independent risk management, compliance checks and staff performing audit functions. Management has 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 important 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 2019, no nonconformities to regulations or requirements were identified regarding LHV.

We have acknowledged the complexity of the legal environment, which is why the management board and the supervisory board are given regular reviews of the changes. In our business development, we are trying to find a balance between requirements and opportunities – a high level of awareness and a risk-based approach enable better decisions to be made. We are working on possible changes as early as possible to avoid the later realisation of risks.

As the regulation of banking increases, so do the costs related to fulfilling requirements. The changes also involve sanctions for breaching the regulations. It must be taken into account that Estonia is transposing the financial sector punishments set out in European Union Law. There are no grounds for thinking that the supervision is not ready to implement these. Considering the changes in the environment, the Financial Supervision Authority has also changed its management structure. The area of responsibility of the new field is management of risks related to regulations, and enforcement. We also take these changes into account and continuously implement measures to effectively manage conformity risk.

In addition to everyday activities of identifying changes to regulations and assessing their effects, among other things, in 2019, we have separated compliance control and risk management for improving the efficiency of compliance control and emphasising its independence, and have brought compliance control in LHV Pank under the direct subordination of the Chairman of the Management Board.