

Responsible Investment Policy

In this document, LHV Pank AS (LHV) publishes information on sustainability risks and principal adverse impacts of investment decisions in accordance with EU Regulation No. 2019/2088 (the SFDR regulation) on sustainability-related disclosures in the financial services sector. LHV makes investment decisions within the framework of securities portfolio management. LHV does not currently provide investment advisory services to its customers.

When making investment decisions, LHV takes into account the principal adverse impacts on sustainability factors in accordance with the requirements of the regulation and the principles described herein, including disclosing yearly mandatory information about such adverse impacts.

Vision

We believe that well-managed companies have strong governance and social responsibility, enabling preparation for future risks and opportunities, such as environmental risks arising from climate change.

LHV considers its mission to act responsibly and move towards reducing any negative impact on the environment or people due to its business activities. We are a member of the United Nations Environment Programme's Finance Initiative (UNEP FI) and have signed the Principles for Responsible Banking. LHV's sustainability ambitions are described in more detail in the [LHV Group ESG Policy](#), and its sustainability projects are presented on the [website](#).

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Assessing sustainability risks and considering the principal adverse impacts on sustainability factors in line with the regulation is part of the investment analysis process carried out in the course of portfolio management. These risks are assessed and considered alongside other traditional investment analysis methods, such as fundamental analysis and valuation.

Sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Considering sustainability risks when making investment decisions can have both negative and positive impacts on investment returns. Possible adverse impacts on the potential return of the portfolios are mapped within the above analysis. Materialisation of sustainability risk may be caused by drivers such as changes in government policies on emissions reduction, restrictions for environmentally harmful activities or certification requirements, as well as use of new technologies and changes in consumer preferences or public opinion, all of which may have an effect on the profitability of a company or the value of its assets. Value of assets and profitability may decrease due to physical climate risk factors e.g. floods or the overall degradation of the environment. Sustainability risk may be driven also by social factors such as human rights violations, cases of discrimination or workplace accidents.

When managing its securities portfolio, LHV invests directly in securities issued by companies (such as shares, bonds) or in investment funds. Where appropriate, the cost rate, potential and other characteristics of a security or fund are also evaluated with sustainability factors.

The sources for analysis are based on public information, including periodic financial reports, sustainability reports, press releases, meetings with the company management and other relevant material. ESG ratings from external providers can also be taken into account in the analysis where relevant databases are available, for example, data compiled by Bloomberg. We expect portfolio companies to focus on long-term sustainability and sustainability risk management issues and follow the international UN and ILO standards and conventions. The availability and quality of the sustainability information underlying the analysis can be inconsistent and often the information is based on estimates, especially regarding investments outside the European Union. With the phased implementation of the EU sustainability reporting directive 2022/2464 in the coming years, data availability can be expected to improve.

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After comprehensive analysis, the investment team considers how the investment object or the issuer manages sustainability issues and what potential sustainability risks may arise in the future. When investing in the assets of a securities portfolio attempts are made to avoid investments which, as a result of analysis, carry significant sustainability risks.

We focus on sustainability issues through management quality and engage, where possible and reasonable, with the companies we invest in through company management meetings and by actively monitoring the investment quality. Regarding the exercise of voting rights in investments, sustainability aspects are considered in line with the [LHV Pank AS Engagement Policy in Securities Portfolio Management](#). LHV also evaluates the engagement policy and practices of the issuer or management company.

Possibility for the exercise of voting rights depends on the type of the investee and the size of the particular holding. LHV does not guarantee the achievement of any actual mitigation of the principal adverse impacts by means of engagement.

Potential sustainability risks related to the investments are monitored regularly just like other company financial and non-financial indicators. Based on the analysis and opinions on sustainability issues, the investment team decides, after all alternatives and aspects have been considered, whether the investment continues to be attractive or not.

Within the above analysis also the principal adverse impacts of investment decisions on sustainability factors are considered.

To identify the principal adverse impacts of investment decisions the mandatory impact indicators are used which are listed in the EU Regulation No. 2022/1288 specifying the SFDR regulation. In addition to the mandatory indicators the same regulation lists additional indicators from which LHV has selected two. Listed below are all the principal adverse impact indicators which LHV follows.

MANDATORY INDICATORS	
Indicators applicable to investments in investee companies	
Greenhouse gas emissions	1. GHG emissions
	2. Carbon footprint
	3. GHG intensity of investee companies
	4. Exposure to companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production
	6. Energy consumption intensity per high impact climate sector
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas
Water	8. Emissions to water
Waste	9. Hazardous waste and radioactive waste ratio
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap
	13. Board gender diversity
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
Indicators applicable to investments in sovereigns and supranationals	
Environmental	15. GHG intensity
Social	16. Investee countries subject to social violations
Indicators applicable to investments in real estate assets	
Fossil fuels	17. Exposure to fossil fuels through real estate assets
Energy efficiency	18. Exposure to energy-inefficient real estate assets
ADDITIONAL INDICATORS	

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Emissions	1. Investments in companies without carbon emission reduction initiatives
Human Rights	2. Lack of a human rights policy

LHV has based the selection of the additional indicators on the sustainability objectives set out in the group's ESG policy, mainly reducing the impact of climate change. Considering the general lack of reported sustainability data the selection has been made also considering data availability and quality. LHV reserves the right to modify the selection of the additional indicators.

LHV publishes mandatory information on the principal adverse impacts of investment decisions at entity level in the document 'Statement on principal adverse impacts of investment decisions on sustainability factors'. The document shall be published once a year at the latest by 30 June and the information published shall cover the previous calendar year.

To identify the principal adverse impacts LHV collects data from the reports made public by issuers. If the issuer itself does not publish any data LHV shall use the third-party service provider Morningstar Sustainalytics to obtain the data, in which case the data made available is either reported by the issuer or estimated according to the service provider's internal methodologies. If the data is not available in public reports or via the third-party services provider LHV will contact the issuer to request the data.

Given the absence of uniform mandatory disclosure standards for issuers and the possibility of issuers being located outside the European Union, LHV cannot guarantee the availability of impact indicator data for all investees. Even when impact data are available, the methodologies used to calculate certain indicators or generate their underlying data may vary among issuers or third-party data providers, making the data incomparable. Data availability is expected to improve in the coming years with the phased implementation of the EU Directive No 2022/2464, also known as the Corporate Sustainability Reporting Directive.

The internal responsibility regarding consideration of principal adverse impacts of investment decisions is allocated as follows. The Supervisory Board of AS LHV Group approves the group's ESG Policy. The Management Board of AS LHV Pank approves the Responsible Investment Policy. LHV Pank AS Engagement Policy in Securities Portfolio Management is approved by the Head of Private Banking at LHV and voting rights are exercised by LHV portfolio manager. LHV portfolio managers are responsible for the selection of the additional principal adverse indicators and for ensuring that the impacts are identified. These documents undergo annual review and assessment for potential amendments.

The principles and process described herein is followed for all model portfolios. Information on principal adverse impact indicators is also available in the annual report on the management of the securities portfolio.

In the case of underlying investments made within the framework of LHV's securities portfolio management service, the EU criteria for environmentally sustainable economic activities are not taken into account.

Remuneration policy and consideration of sustainability risks

The general remuneration strategy set out in the LHV remuneration policy is based, among other things, on the Group ESG policy and the principles for remuneration specify that sustainability related criteria are considered when determining remuneration.

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Document history

Version number	Valid from	Description of modification
1	24 August 2021	Original version
2	30 December 2022	The document has been amended in connection with the gradual implementation of the requirements of EU Regulation No. 2019/2088 and specified as part of a regular review
3	27 June 2023	The document has been amended in connection with the requirements of EU Regulation No. 2022/1288 and specified as part of regular review