

Luminor

Luminor Bank ESG Due Diligence Guidelines Principles

May 2022



1 OBJECTIVES

In order to identify and address any adverse or potential adverse impact from environmental, social or governance (hereinafter - ESG) risk drivers of our activities, we have developed ESG Due Diligence Guidelines (hereinafter - the Guidelines), which outline the basic due diligence principles, and the applicable steps to follow when ESG Due Diligence (hereinafter ESG DD) process is applied in our business activities, decision making and relationships with our employees, customers, vendors, and suppliers.

The Guidelines are developed in accordance with the OECD Due Diligence Guidance for Responsible Business Conduct¹, and are aligned with the Luminor Risk Policy and Strategy and the Sustainability Policy with regards to the non-financial risk assessment grid and exclusion list from our direct investments and financig universe respectively.

The Guidelines provide a high-level guidance to supplement our existing policies where ESG risk drivers arise including, but not limited to the Luminor Risk Policy and Strategy, the Risk Appetite Framework, the Compliance Policy, the Sustainability Policy, the AML/CFT and Sanctions Policy, the Procurement Policy, the Equality, Non-discrimination and Diversity Policy and their respective underlying standards and procedures.

These Guidelines apply to all our divisions and the structural units therein, functional areas and business processes. All employees from relevant units and departments engaged in the ESG DD process should ensure due implementation set out in these Guidelines. In addition, we expect our customers, vendors and suppliers to adopt practices as Luminor to the extent possible to better integrate ESG risk drivers management in their value chain and by taking responsibility for the impact of their business conduct on human rights, governance, society, and environment.

2 GENERAL PRINCIPLES

2.1 Commensurate risk-based approach

Luminor conducts risk-based due diligence, taking the severity, nature and likelihood of the impact from ESG risk drivers into account. We aim to identify adverse or potential adverse impact of our activities related to human rights, environment, social and governance, and their likelihood to affect Luminor Bank AS. Among others EBRD Environmental and Social Risk Categorisation List can be used for identifying high risk economic activities that require a due diligence approach. When involvement is material we focus on the appropriate measures to either avoid, accept, transfer or mitigate, in accordance with Luminor Operational Risk Management Standard.

2.2 Leaning on international frameworks and integrating best practices

We are determined to ensure effective coordination and alignment across all our risk-related internal processes to integrate the ESG DD principles and to strengthen the ESG DD processes. We lean, where applicable, on internal regulations for performing ESG DD and integrate into our processes the international requirements, voluntary commitments and recognized frameworks by EU regulations (including EU Taxonomy²), OECD Due Diligence Guidance for Responsible Business Conduct, the UN Sustainability Goals³, and the UN Guiding Principles on Business and Human Rights⁴.

Our methodology approach applies, where applicable, the technical screening criteria of 'do no significant harm' for environmental risk drivers and the requirement to 'meet minimum safeguards' for human and labour rights, social, and governance risk drivers, established by the EU Taxonomy. This approach combines both qualitative and quantitative information, collected in the scope of the relevant business or product area internal regulations, to identify ESG risk drivers to our operations, customers, vendors and suppliers.

¹ Available at: [OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf](#)

² Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment

³ Available at: [THE 17 GOALS | Sustainable Development \(un.org\)](#)

⁴ UN (2011) Guiding Principles on Business and Human Rights, Available at: [GuidingPrinciplesBusinessHR_EN.pdf \(ohchr.org\)](#)

2.3 Transparency in performance

We are transparent and inform our customers, employees, vendors and suppliers about our ESG DD related principles, requirements and processes as well as findings. The purpose of this is to build trust in our actions and decision-making and to encourage cross-functional and cross-stakeholder alignment, as a part of the ESG DD process as recommended by the OECD Due Diligence Guidance for Responsible Business Conduct.

2.4 Continuous improvement over long term

We are committed to apply the ESG DD in order to involve our relevant stakeholders in a process of continuous assessment and progressive improvement, to reduce our exposure to material ESG risk drivers and strengthen our business relationships with our employees, vendors, suppliers, investors, investee companies and customers.

2.5 Focus on material information for compliance and monitoring

Our ESG DD related processes focus on material information to support Luminor's decisions relating to our business relationships. Our employees, customers, vendors and suppliers, shall maintain material information, and should be able to provide documented evidence, to demonstrate compliances when ESG DD is applied, to support consistency, completeness, clarity and accuracy with the answer provided and to monitor the effectiveness of the measures to address impact from ESG risk drivers.

3 ESG DUE DILIGENCE PROCESS

The ESG DD shall be applicable for all Luminor customers, vendors and suppliers. For corporate credit customers, additional requirements are provided within the ESG Risk Assessment Guidelines which are to be applied. For non credit corporate customers and investment activities, the due diligence is done based on the KYC and background check processes. the ESG DD approach should be applied only to entities where either the potential environmental or social risk is deemed to be high based on the EBRD Environmental and Social Risk Categorisation List. For vendors and suppliers the ESG DD process is based on this Guideline.

3.1 Identification of ESG risk drivers and collection of information

The identification of ESG risk drivers should abide by the principles in these Guidelines. The evidence can be provided by our customers, suppliers and vendors or can be retrieved from public sources and/or databases. It can include, but not limited to, internal regulatory framework documents such as policies and procedures, public declarations and statements on the website or in the regular reports of management systems or voluntary adoption of international standards and best practices, certifications of environmental performance, sustainability reports, environmental and social impact assessments by external ESG assurances providers and verification certificates.

3.2 Assessment of the ESG risk level

The assessment of the risk severity and probability score should result in the classification of risk level into four categories - Low (1), Moderate (2), High (3) and Critical (4) in accordance with the non financial risk assessment grid in Luminor Risk Policy and Strategy.

The risk treatment is a collection of measures that we propose to our customers, vendors and suppliers based on the risk level obtained. For all risk levels, the risk treatment needs to be documented and stored in line with the established internal regulations for risk management and customer, supplier or vendor engagement in the relevant archiving systems.

Luminor refrains from the provision of financing or engaging into business relationships when a potential customer, vendor or supplier is part of our exclusion lists, as defined in the Sustainability Policy and AML/CTF and Sanctions Policy.

3.3 Monitoring

Monitoring is an ongoing and periodic assessment to control the effectiveness of the measures taken for the purpose of reducing the risk level. Monitoring needs to be carried out considering that for any legal entities (customers, vendors, suppliers or our own operations) or product level the monitoring interval should be 3 years if the ESG DD risk exposure level provides a result of Low level and annually if the ESG DD results in Medium, High, or Critical level. For the annual monitoring, the agreed (and any other, if applicable) measures need to be considered in monitoring the progress.

In case an adverse or potential adverse impact materializes or a new impact is detected within the monitoring interval, re-assessment of ESG risk drivers needs to be done and risk treatment mechanisms re-defined as soon as the impact is discovered.

ABOUT US

Luminor is the leading independent bank in the Baltics and the third-largest provider of financial services in our region. We serve the financial needs of individuals, families, and companies. Just like our home markets of Estonia, Latvia, and Lithuania we are young, dynamic, and forward looking. Further information about us can be found at www.luminor.ee.

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