



LITHUANIAN CENTRAL
CREDIT UNION



Lithuanian Central Credit Union

Sustainability Report 2023



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How We Connect and Unite

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HOW WE CONNECT AND UNITE

1.1. What is the LCCU?

The Lithuanian Central Credit Union (hereinafter referred to as **LCCU**) is the first and the largest central credit union in Lithuania, uniting 45 out of 59 credit unions operating in Lithuania. LCCU member credit unions have a network of more than 100 customer service outlets throughout the country. LCCU and all LCCU member credit unions form the Lithuanian Credit Unions Group (hereinafter referred to as **the LKU Group of Credit Unions**). The LCCU is legally obliged to maintain the liquidity of its member credit unions, to ensure their solvency and to monitor and control the risks they take. This strengthens the model of supervision of credit unions, as the Bank of Lithuania supervises both credit unions and the LCCU.

Vision of the LCCU: to be the credit unions' first choice and financial partner.

Mission of the LCCU: we are a close financial partner to communities, helping them to grow and develop.



1.2. Sustainability Within Our Organisation

We would like to begin this Report by sharing our views on sustainability within our organisation. The LCCU and our member credit unions focus on a balanced business strategy, on their contribution to a sustainable society and on their own environmental impact. In order to act as a sustainable business, we have developed a sustainability management strategy for the LKU Group of Credit Unions, establishing goals and objectives to help create a positive impact on the environment and society.

We want to contribute to a more sustainable future, and we start with ourselves. The strategy helps to raise sustainability awareness among all members of the LKU Group of Credit Unions. We believe that the value we create contributes to the welfare of the society.

Our goals on sustainable growth and the methods we use to achieve them are in line with the United Nations Sustainable Development Goals (SDGs), which were endorsed by the United Nations General Assembly in 2015.

On 16 March 2023, Blue/Yellow organised an appreciation event for the supporters of the Ukrainian troops at the Martynas Mažvydas National Library of Lithuania. During this event, the Central Credit Union of Lithuania, represented by its CEO Mindaugas, received a special gift of appreciation from the Ukrainian troops. This news was also published by the World Council of Credit Unions (WOCCU) in its news section, telling about active support of Ukraine by the LKU Group of Credit Unions.



In order to achieve the goal set out in the Paris Agreement on climate change, i.e. to hold “the increase in the global average temperature to well below 2°C” and the European Union’s goal of becoming a climate-neutral continent by 2050, we are working to reduce the environmental impact of our activities. We are trying to achieve this goal in the following ways:

- **Sustainable growth:** we create greener financial products, increase the share of sustainable investments, and reduce resource consumption. We are happy to join the ranks of businesses that support renewable energy sources – from 2024, LCCU’s office electricity needs will be 100% covered by a remote solar power station of the Ignitis Solar Park.
- **Education and inclusion:** we actively contribute to increasing financial literacy and more sustainable financial management practices, we increase access to financial services, engage employees, strengthen the sense of community through various activities and initiatives, reduce inequality at the workplace, and instil social values through collaboration and partnership.
- **Responsible operations:** we strengthen compliance practices and team competencies, and ensure data security.



Given the nature of our business, we believe that we can make a significant contribution to these overall environmental, social responsibility and governance (ESG) goals:



Goal 13: Climate Action.

We are actively working to reduce direct emissions in our operations and thus contribute to the management of the climate crisis. We are also convinced that our customers, empowered by the services of the LKU Group of Credit Unions, are also contributing to climate change mitigation – whether through the purchase of a solar power plant or a less polluting vehicle, or by employing more efficient business processes.



Goal 12: Responsible Consumption and Production.

With a sound financial foundation, our customers contribute to reducing consumption and optimising, and often improving, production patterns. Our Group also contributes to educating businesses and the public about this goal.



Goal 11: Sustainable Cities and Communities.

We are convinced that by strengthening the financial, environmental and social responsibility knowledge of urban communities, we create a more inclusive, resilient and sustainable society. In particular, we believe that the high reach of the LKU Group's of Credit Unions services in the regions contributes to reducing social exclusion.



Goal 5: Gender Equality.

LCCU is guided by the doctrine of equal opportunities – the organisation creates a level playing field in all aspects of gender equality. We do not differentiate our colleagues by gender, age, education or any other social aspect. We expect the same from our stakeholders.



Goal 8: Decent Work and Economic Growth.

The LCCU team, the organisation's supervisory bodies and the laws of Lithuania ensure that all people working at the LCCU have a decent place to work, are paid a fair wage, are protected from violations of labour law, and participate in the creation of economic well-being.



Goal 9: Industry, Innovation and Infrastructure.

The uniqueness of the entire LKU Group of Credit Unions is its extensive experience in working with smaller businesses, for whom innovation and entrepreneurship, access to financial services and bridging the digital exclusion mean the opportunity to grow and create ever greater added value for the country and its people. We believe that financially strong businesses create quality, reliable, sustainable and resilient infrastructure that contributes to economic development and human welfare.



Goal 10: Reduced Inequalities.

The services of the LKU Group of Credit Unions are available to a very wide public. In this way, we focus our energies on reducing inequalities, ensuring the social, economic and political inclusion of all people, and equal opportunities.



Goal 16: Peace, Justice and Strong Institutions.

We strictly follow internal documents and documents of supervisory authorities, as well as national laws. We actively participate in the activities of the Association of Lithuanian Banks and, as a social partner, in the decision-making process, and we meet our customers' expectations.



Goal 17: Partnerships for the Goals.

The LKU Group of Credit Unions is committed to transparency, thus, we are diligent in our financial reporting and responsible in our tax payment to the state budget. We are also a socially responsible partner and actively contribute our time to volunteering.

1.3. Our Sustainability Management Strategy

The objective of the LKU Group's of Credit Unions Sustainability Management Strategy is to develop an effective ESG risk management framework, including processes and tools for ESG risk-taking, assessment, monitoring, control and mitigation, while integrating ESG issues into other main risks identified by the LKU Group of Credit Unions (credit, liquidity, operational and others).

The Strategy covers all three areas of sustainability, i.e. environmental, social and governance. For each of these areas, there are long-term strategic objectives (up to 10 years), with short-term (up to 1 year) and medium-term (up to 3 years) targets for their implementation. All of the areas identified are aligned with the UN Sustainable Development Goals.

The Strategy is based on a materiality assessment of the LKU Group of Credit Unions and is being implemented in accordance with the implementation plan for the LKU Group of Credit Unions Sustainability Management Strategy.



1.3.1. Environment

In order to achieve the Sustainable Development Goals and the European Union's goal of becoming a climate-neutral continent by 2050, mitigation of climate impacts has been identified by the LKU Group of Credit Unions as the key area for environmental risk management. The following measures are in place to achieve this:

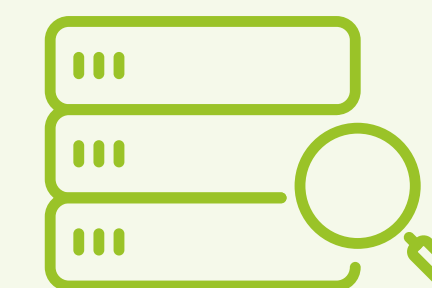
- Green product initiatives;
- Increasing sustainable investment;
- Reducing resource consumption.



1.3.2. Social Responsibility

The LKU Group of Credit Unions is very active in promoting financial literacy and practices among the public, which is why it is important to increase the engagement of the public and to instil the values of social responsibility within the organisation itself. The following measures are in place to achieve this:

- Increasing of access to financial services;
- Employee engagement;
- Community building;
- Reducing inequalities;
- Instilling social values through collaboration and partnership.



1.3.3. Governance

The LKU Group of Credit Unions aims to apply responsible business principles at all levels of the organisation and to address data protection issues responsibly. The following measures are in place to achieve this:

- Strengthening of compliance management practices;
- Strengthening the team's competences;
- Ensuring data management security.

Internal controls are in place to ensure the smooth implementation of the goals provided for in the Sustainability Management Strategy: The LCCU Financial Risks Department regularly provides the LCCU Board and the LCCU Supervisory Board with information on the implementation of the Strategy.

1.4. Materiality Assessment

During the development of this year's strategy and using 2022 data, we carried out a materiality assessment of the ESG topic, which helped us to look at the current situation and to develop an effective ESG risk management framework, including processes and tools for ESG risk-taking, assessment, monitoring, control and mitigation, while integrating ESG issues into main other main risks identified by the LKU Group of Credit Unions (credit, liquidity, operational, etc.).

The monitoring and management of the risks inherent to sustainability, in terms of data collection, analysis, process design and integration into the methodology, are centrally managed within the LKU Group of Credit Unions through the LCCU, i.e. by implementing only the most important processes in the credit unions to ensure the proper management of these risks across the Group.

A detailed assessment of the materiality of ESG governance in 2022 in the LKU Group of Credit Unions can be found in Annex 2 to this Report.



1.5. Our Initiatives: Strengthening People's Relationships and Nurturing the Environment

We believe that we can make a difference in our everyday lives, thus, we actively participate in various social actions and initiatives.

Together with the entire LKU Group of Credit Unions, we have been organising the Christmas Kindness Campaign for four consecutive years, where we reach out to a different organisation and group of individuals. The aim of this campaign is to remind people that kindness is revealed through human contact. In 2023, we focused on the Arka community in Kaunas, where people with intellectual disabilities discover their favourite activities and create handmade products through fellowship with a friend. We showed our support by buying candles made from recycled materials by members of the community together with ceramic candy pots. We gifted these crafts as Christmas presents to social partners and credit unions.

Our Christmas card was designed by the members of the Blessed J. Matulaitis Social Centre's Workshop. The drawn and digitised Christmas cards were sent electronically to our friends in Lithuania and abroad on behalf of the members of the LKU Group of Credit Unions.

On their own initiative, LCCU employees have been cooperating with the Municipal Budget Institution Kaunas District Social Services Centre for several years in a row and collecting festive donations for children living in poverty.

We also don't forget our four-legged friends. The LCCU volunteer team contributed to the well-being of the puppies living in Kaunas Animal Welfare Home Nojus and facilitated the work of

the volunteers working at Nojus by walking several dozens of dogs awaiting permanent homes.

To encourage a balanced lifestyle and physical activity among our employees, we take part in walks and runs. In the IKI Walking Competition 2023, we walked together and received the title of the most massive company (more than 30 participants representing the LCCU team). 12 LCCU employees took part in the Kaunas Akropolis Marathon 2023. Together they ran 112 km!

We believe that peace is integral to a sustainable society, which is why we are actively contributing to Ukraine's struggle for freedom, for example by supporting the purchase of drones with thermal imaging optics. The LCCU's support was appreciated not only by the Ukrainian troops, but also mentioned in foreign media – the World Council of Credit Unions (WOCCU) wrote about the LKU Group's of Credit Unions active support of Ukraine.

Being aware that the green planet is a human-friendly planet, we planted 700 trees in the Trakai region and made sure that they would not be cut down for commercial purposes over time.

We have also been cooperating with the Plant a Tree project since 2023: on the foundation day of the unions of the LKU Group of Credit Unions we donate trees that are then planted by the initiators of the project. The number of trees donated corresponds to the age of each credit union's celebrating its day of foundation. In this way, 1,010 trees were planted in 2023 on the initiative of the LCCU. The initiative continued until mid-2024. We were awarded the Climate Hero badge for this initiative.

1.6. Our Values



Fairness:

we use resources sparingly and offer the best solutions for our members.



Professionalism:

we are competent and constantly evolving, striving for the best result, as well as applying innovation.



Openness and sense of community:

we encourage self-expression, engagement, diversity of opinion and respect. We share experiences, ideas and information.



Leadership:

we aim to act as a leader to all the credit unions and other participants of the financial services market.



Competence:

we develop our abilities, skills and knowledge, learn from the best examples and experiences of credit unions at an international level.



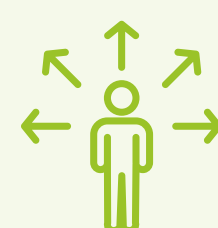
Reputation:

we operate based on the principles of ethics, transparency and openness.



Accountability:

we are consistently developing our activities, taking responsibility not only for the results, but also for the ways we choose to achieve good results.



Self-improvement:

we self-improve by developing and implementing innovative ideas that benefit credit unions and communities.



Sense of community:

we develop and promote teamwork, partnerships, communication between credit unions, cooperatives, communities and other organisations and institutions. We help develop community initiatives that improve the quality of life in different regions of Lithuania.



Equality and fairness:

we pursue our goals in accordance with the laws and regulations adopted by the European Union and the Republic of Lithuania.

1.7. Activities of the LCCU and LKU Group of Credit Unions

The LCCU unites 45 credit unions and more than 120,000 members nationwide. The LCCU and all LCCU member credit unions form the Lithuanian Credit Unions Group – the LKU Group of Credit Unions. The Bank of Lithuania and the LCCU supervise the activities of this Group. This strengthens the model of supervision of credit unions, as the Bank of Lithuania supervises both individual credit unions and the group of credit unions belonging to the LCCU.

The LCCU business model does not foresee the possibility of providing services directly to natural or legal customers. The core of our business is to ensure smooth and transparent operation of our member credit unions, as well as prompt and convenient provision of services to their customers.

We build long-term relationships with our member credit unions based on professionalism and the highest ethical standards. We listen to their needs and seek the best legal, technological and value-based solutions to ensure efficient operations, satisfaction of customers of member credit unions, as well as sustainable development of communities and the society in general.

We ensure efficient and stable operations and control of our members by maintaining their liquidity, guaranteeing their solvency, monitoring and verifying the risks that they take.

The LKU Group of Credit Unions is a member of the Single Euro Payments Area (SEPA) and a core member of the Mastercard organisation.

We also cooperate closely with our partners Public institution Deposit and Investment Insurance (VĮ „Indėlių ir investicijų draudimas“), UAB Investicijų ir verslo garantijos (INVEGA), the European Investment Fund, etc.

Our business model of a group of credit unions allows us to:

- Ensure efficient and stable operation and control of all LCCU member credit unions;
- Represent the interests of our members;
- Introduce and apply innovations and new technologies that meet the needs of credit union members and the supply of services;
- Provide a range of services to credit unions, including consultancy on personnel and specialised training for employees.

This business model provides significant added value to all the credit unions in the Group: it ensures fast and convenient services to the customers of all the member credit unions, and it allows for continuous improvement and professional development of specialists.



The following 14 LCCU activities are approved in the licence granted by the Bank of Lithuania:

1. Acceptance of deposits or other returnable funds from non-professional market participants.
2. Services enabling cash deposits into a payment account and all transactions related to the management of a payment account.
3. Services enabling cash withdrawals from a payment account and all transactions related to the management of a payment account.
4. Payment transactions, including the transfer of funds held in a payment account opened by the payment service user's payment service provider or by the institution of another payment service provider: direct debit transfers, including one-off direct debit transfers, payment transactions by means of a payment card or a similar instrument, and/or credit transfers, including recurrent transfers.
5. Payment transactions, where the payment service user has been granted funds under a credit line: direct debit transfers, including one-off direct debit transfers, payment transactions by means of a payment card or similar instrument and/or credit transfers, including recurring transfers.
6. Issuance of payment instruments and/or processing of incoming payments.
7. Remittances.
8. Payment initiation services.
9. Account information services.
10. Issuance of electronic money.
11. Investment services.
12. Provision of currency exchange services.
13. Acting as a lender under the Law on Real Estate Related Credit of the Republic of Lithuania.
14. Acting as a consumer credit provider.

The LCCU, together with the Bank of Lithuania, supervises the activities of its member credit unions and provides a range of financial services and carries out other functions:

1. Accepting deposits and other repayable funds;
2. Lending (including mortgage lending) to its member credit unions;
3. Providing payment services;
4. Executing clearing operations between its members, through the Bank of Lithuania Settlement Centre and other clearing institutions;
5. Assessing creditworthiness;
6. Participating in credit union-targeted programmes and projects initiated by the institutions of the Republic of Lithuania and other countries;
7. Issuing payment cards and other payment instruments and carrying out transactions;
8. Managing the e-banking platform;
9. Managing a stabilisation fund and ensuring the solvency of its member credit unions.

The LCCU also represents the interests of its member credit unions by:

1. Liaising with and representing its members in similar institutions in other countries and international institutions;
2. Taking decisions on LCCU membership.

1.8. Our Organisation Structure

The main management and control bodies of the LCCU are the following:

- Board (composed of five members);
- Supervisory Board (composed of seven members);
- Audit Committee (composed of three members);
- Loan Committee (composed of five members (four members during the reporting period));
- Risk Management Committee (composed of five members);
- Stabilisation Fund Commission (composed of five members);
- Ethics Commission (composed of four members).

The smooth running of the LCCU is ensured by the Chief Executive Officer, who is accountable to the Board, and to whom the following departments and divisions are subordinate:

- Prevention Department;
- Financial Risks Department;
- Finance and Accounting Department;
- Business Development Department;
- Legal and Personnel Department;
- Supervision Department;
- Credit Department;
- Treasury Department;
- Information Technology Department;
- Internal Audit Service.

The members of the governing bodies of the LCCU, as well as the directors of the member credit unions, must be of good repute and possess such qualifications and experience as to enable them to perform their duties properly. The qualification and experience requirements for credit union managers are set out in the legislation of the supervisory authority the Bank of Lithuania.

In 2022, LCCU's performance was assessed by Microfinance Rating, an Italian consultancy firm that advised the European Commission on compliance with the requirements of the Code of Good Conduct (CoGC). The assessed aspects of the LCCU's performance included relations with its members, customers and investors, organisational governance, risk management, reporting standards and management information systems.

The evaluator has decided to award LCCU a certificate of compliance with the Code of Good Conduct.



1.9. Our Activities in Associations

The LCCU is a member of the Association of Lithuanian Credit Union Members, and the head of the LCCU and the Chairperson of the Board are also members of the Association Board. This Association brings together credit unions operating in Lithuania and its aim is to provide a united and responsible voice and representation of its members' activities in the community and to achieve maximum visibility and attractiveness by implementing the principles of cooperation in the community.

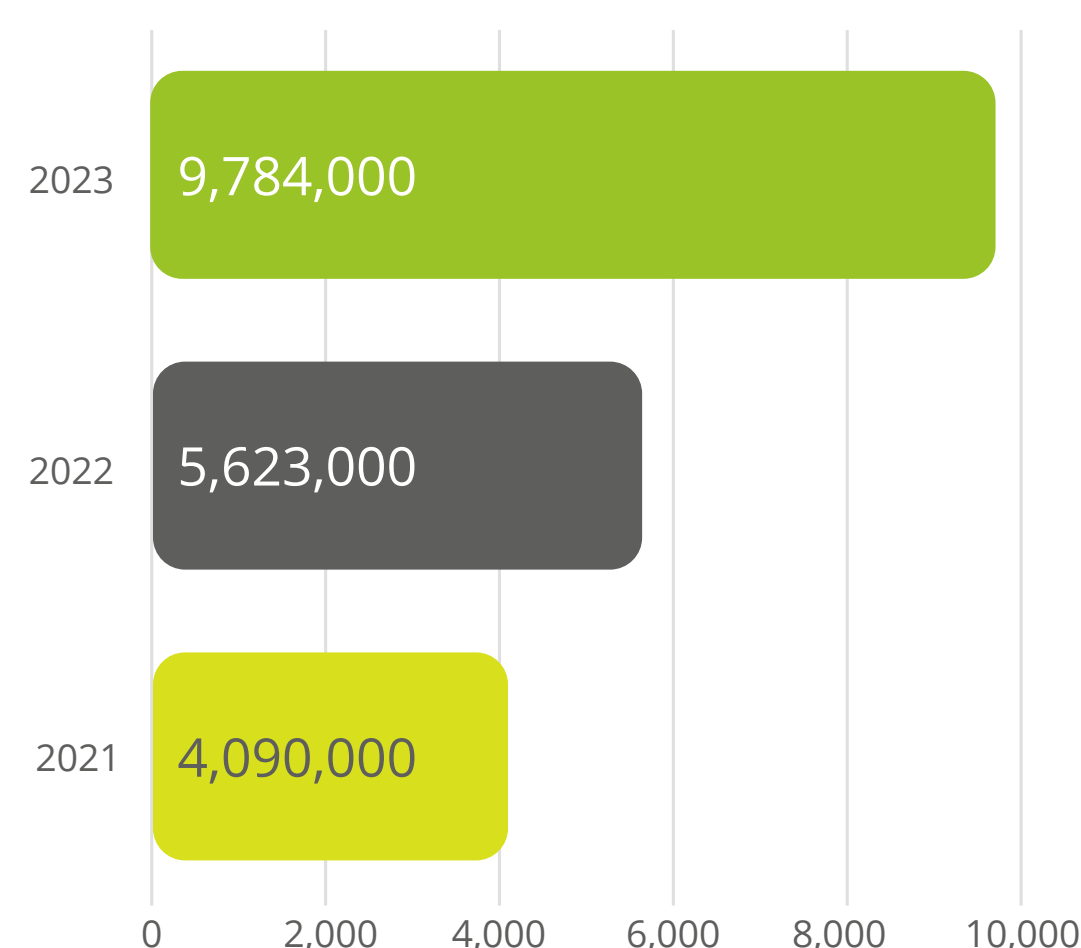
LCCU is also a member of the Association of Lithuanian Banks and participates in the general assembly of this organisation with voting rights. The aim of the Association of Lithuanian Banks is to create public welfare by ensuring constructive relations based on mutual understanding and trust between customers and supervisory and financial institutions.

LCCU is a member of the Proxfin network of the Canadian credit union movement Desjardins, where it participates in the General Assembly with voting rights. Founded in 2006, the Proxfin network promotes communication and best practices among the various established credit unions in the world, their associations and the Desjardins Group helping to strengthen their contribution to the communities they serve.

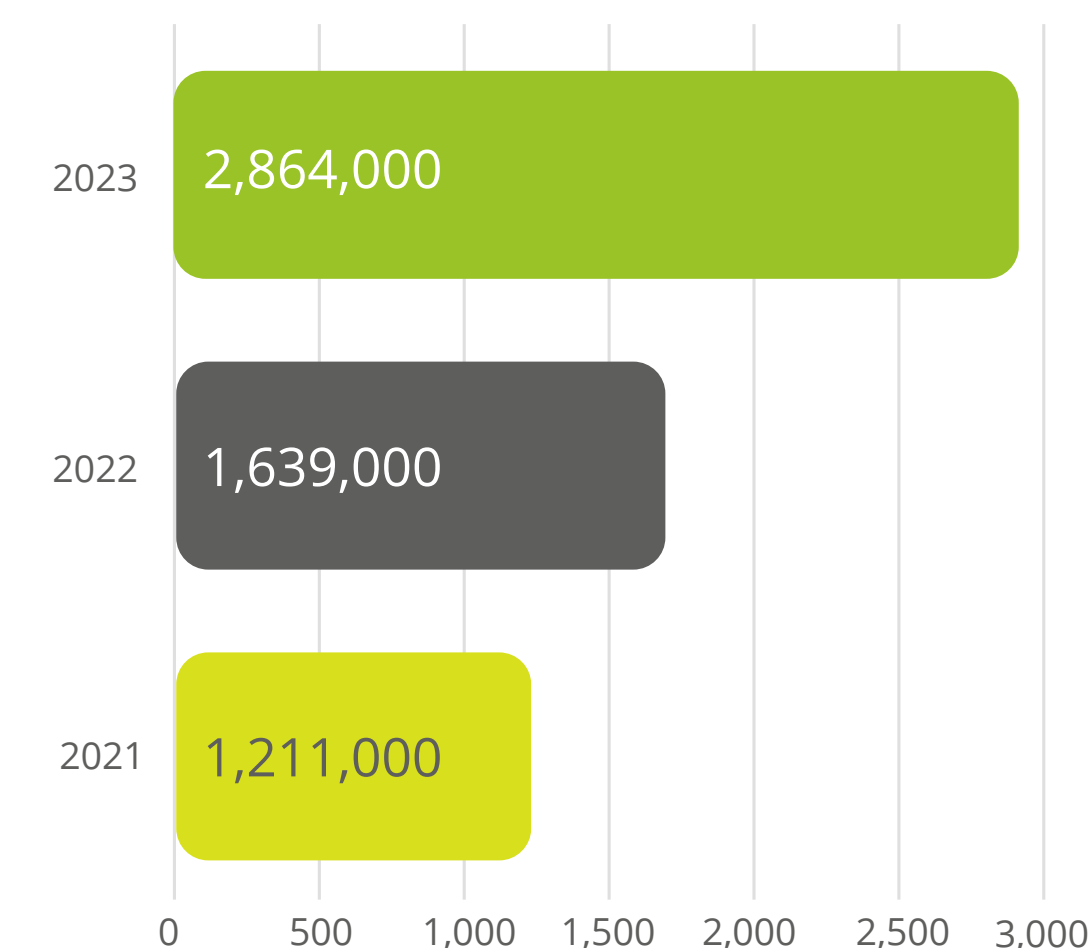
1.10. Our Financial Indicators

The LCCU's business model is based on generating interest income. The financial statements for the last three years show a steady increase in interest income of the LCCU, from EUR 4.09 million to EUR 9.78 million. The LKU Group's of Credit Unions interest income increased from EUR 27.63 million to EUR 59.70 million.

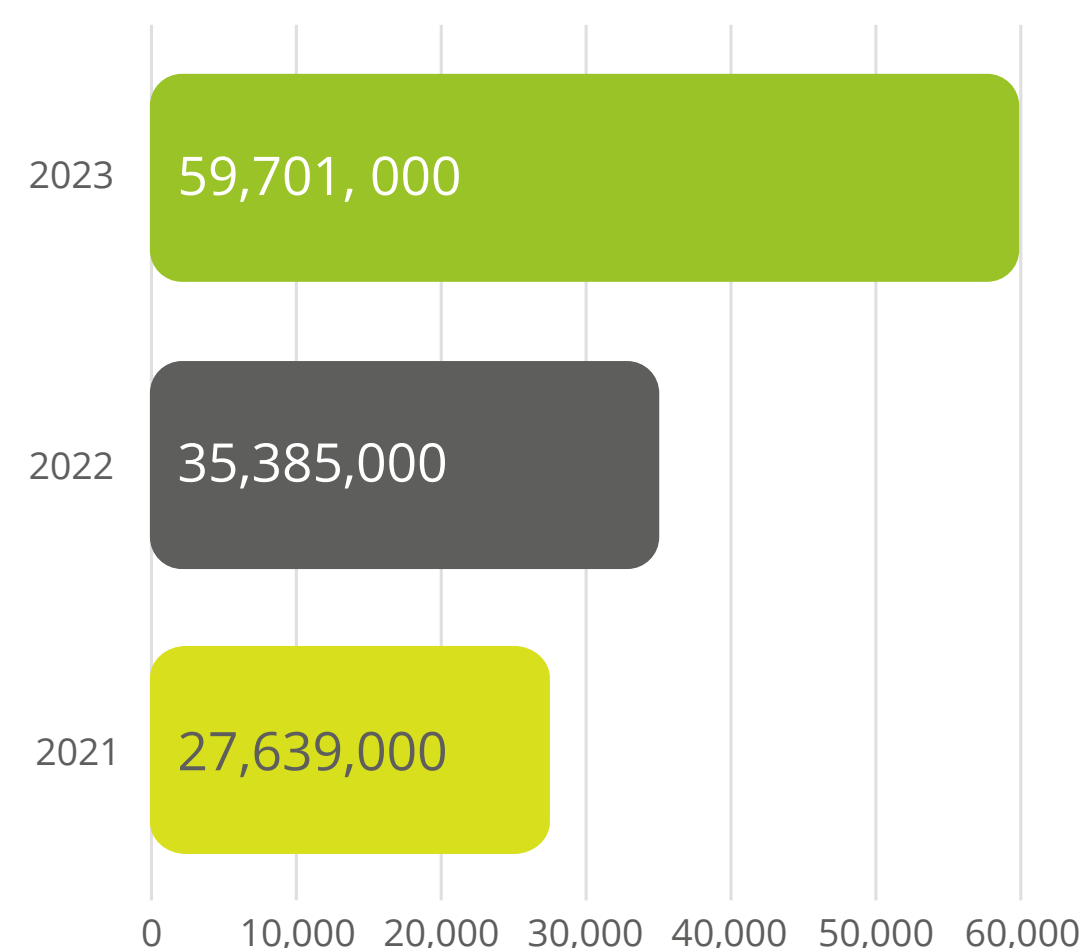
The LCCU interest income, EUR



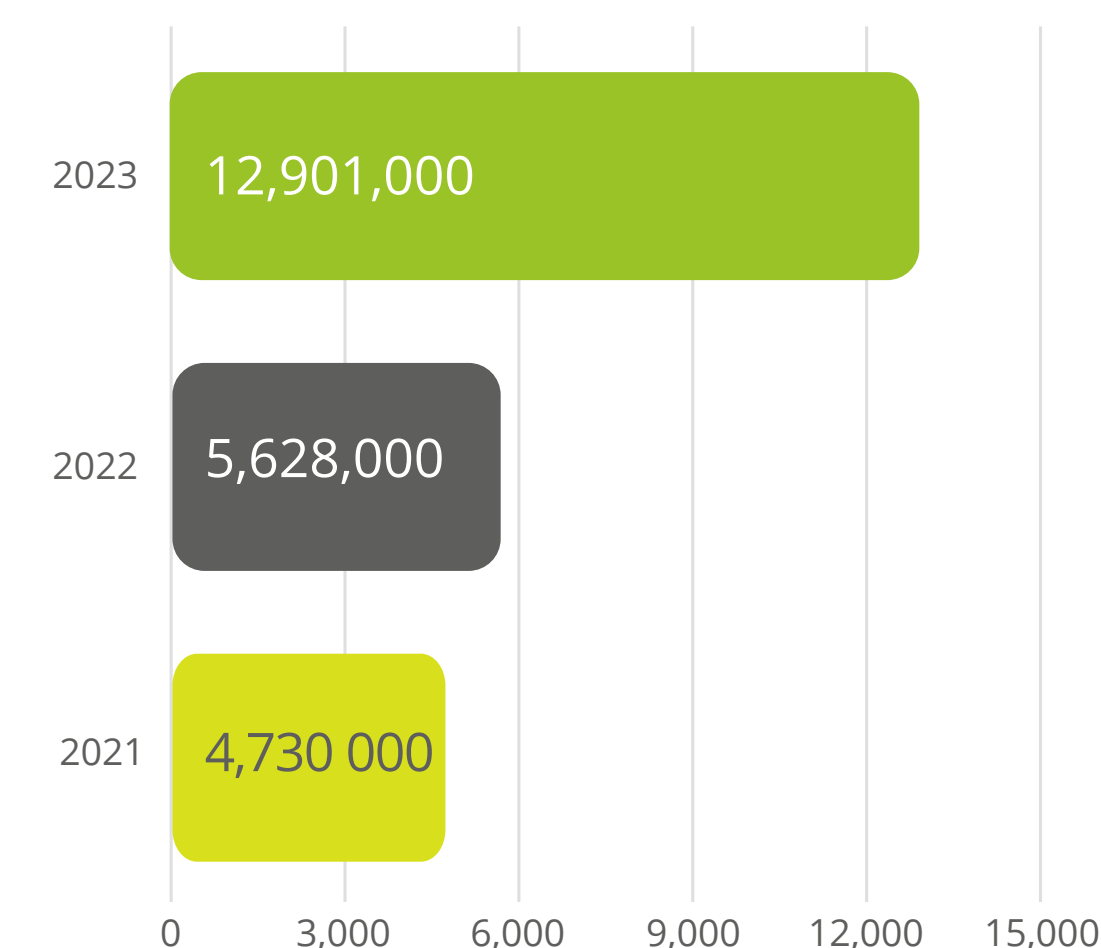
The LCCU net profit, EUR



The LKU Group's of Credit Unions interest income, EUR



The LKU Group's of Credit Unions net profit, EUR





2

How We Affect the Environment

2.1. Environmental Conservation Initiatives

2.2. Our emissions footprint

HOW WE AFFECT THE ENVIRONMENT

As part of the Paris Agreement commitments, EU states must achieve climate neutrality by 2050. An EU strategy, the **European Green Deal**, has been developed to achieve this goal. It underpins the EU's transformation into a just and prosperous society with a modern and competitive economy.

The financial sector also has an important role to play in this area. In order to contribute to sustainable business and economic growth, the LKU Group of Credit Unions focuses on sustainability issues and commitments related to environmental requirements, social responsibility and governance.

In order to achieve these objectives, the LKU Group's of Credit Unions sustainability-related risk management strategy and implementation plan have been developed. As a first step, a **materiality assessment** of the LKU Group of Credit Unions was carried out, the results of which have contributed to the development of an effective ESG risk management framework: the **Sustainability Management Strategy for the LKU Group of Credit Unions**, the main document governing the sustainability management of the LKU Group of Credit Unions was approved.

The assessment of sustainability-related risks and the development of a strategy for their management have been based on best practices and existing related documents:

- The European Central Bank's (ECB) Guide on Climate-Related and Environmental Risks: Supervisory Expectations Relating to Risk Management and Disclosure";
- European Banking Authority (EBA) Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms;
- Regulation (EU) 2020/852 of the European Parliament and of the Council;
- Resolution of the Board of the Bank of Lithuania of 25 September 2008 No. 149 Provisions for the Organisation of Internal Control and Risk Assessment (Management);
- And others.

In addition, following the update of the LKU Group's of Credit Unions business strategy, the organisational structure of LCCU's risk management has been updated to include risks related to climate change and the **Financial Risk Department (FRD)** has been assigned as responsible for these risks.

In order to effectively manage sustainability-related risks and meet the

objectives, the available resources and their future needs were identified:

- IT resources (changes or improvements to IT systems);
- Human resources (responsible employee development, participation in the Sustainability Committee of the Association of Lithuanian Banks, participation in various conferences);
- Services from external partners (consultancy, depending on the novelty and dynamics of the sustainability topic);
- Participation in projects of the Association of Lithuanian Banks.

It has been decided that the monitoring, management and other actions that pertain to sustainability-related risks in the LKU Group of Credit Unions are centralised through the LCCU.

In order to achieve environmental sustainability, the LKU Group of Credit Unions is guided by the three UN Sustainable Development Goals (SDGs):

Goal 11 promotes inclusive, safe, resilient and sustainable cities and human settlements;

Goal 12 promotes sustainable patterns of consumption and production;

Goal 13 calls for urgent action to combat climate change and its impacts.

2.1. Environmental Conservation Initiatives

The following are the LCCU's objectives for reducing environmental impacts:

Sustainable product initiatives

LCCU aims to develop financial products that would encourage members (customers) of the LKU Group of Credit Unions to apply more environmentally friendly solutions, such as solar power plants, retrofitting of buildings, investments in newer and more modern facilities.

Increasing funding for sustainable projects

The LKU Group of Credit Unions is encouraged to attract as many sustainable projects as possible within the concentration limits of the LKU Group of Credit Unions. This will be done by tracking the Green Asset Ratio and every effort will be made to calculate and disclose as accurately as possible the greenhouse gas (GHG) effect due to the lending and investing activities, which is calculated in accordance with the GHG Protocol.

Reducing resource consumption

The LKU Group of Credit Unions aims to find solutions to increase green energy consumption and to reduce the use of other resources (reduction of paper and other office products). This is done by calculating the CO₂ footprint, which shows the amount of CO₂ generated by the products consumed by the LKU Group of Credit Unions, as well as by services and daily activities of the group.

2.2. Our Emissions Footprint

In order to estimate the amount of CO₂ generated by the LCCU activities, related information was collected from member credit unions at the beginning of 2023 for the year 2022. This is the first time such information has been collected, so not all data related to LCCU may have been collected. The CO₂ data related to LCCU are presented in the table below, and the LKU Group's of Credit Unions calculations for the years 2022 and 2023 may be found in Annex 2. The data collection system will be improved in order to achieve more accurate CO₂ calculation results.

Structure of the LCCU GHG emissions by year and assessment areas		
Activity (area)	2023	2022
Scope 1 Emissions: Direct Emissions		
Cars: petrol (mobile emission source)	18.1	18.3
Cars: diesel (mobile emission source)	20.4	23.5
Consumption of refrigerants	0.0	0.0
Scope 2 Emissions: Indirect Emissions		
Electricity (direct and indirect emissions, not owned and owned)	0.2	42.4
Heat (direct and indirect emissions, not owned and owned)	6.7	6.8
Scope 3 Emissions: Other Indirect Emissions from Sources outside the Company		
<i>Category 1: Purchased Goods and Services</i>		
Paper goods for operations	0.087	0.116
Water use, preparation services	0.331	0.324
<i>Category 2: Waste Generated in Operations</i>		
Waste water	0.752	0.735
<i>Category 3: Business Travel</i>		
Taxi services	0.286	0.128
Scope 1 emissions	38.5	41.8
Scope 2 emissions	6.9	49.2
Scope 3 emissions	1.456	1.304
Total CO₂	46.856	92.304
Number of employees	94	89
CO₂ emissions per 1 employee	0.50	1.04

2.2.1. Electricity Consumption

Electricity consumption of LCCU for the needs of the Administration in 2023 was 97.7 thousand kWh (8.7 thousand kWh less than in 2022). Other activities accounted for 374 kWh of electricity (38 kWh less than in 2022).

	2023	2022
Administration (office), kWh	97,733	106,491
Other functions, if any, kWh	374	412

Electricity for the needs of the LCCU administration is supplied by UAB Ignitis. Since November 2022, only green energy from renewable sources has been supplied. This energy is produced using less or no fossil fuels, thus, the generation of green energy has a significantly reduced or no environmental footprint.

2.2.2. Energy Consumption for Heating and Cooling

67,433 mW of energy was consumed for heating of the LCCU administration (542 mW less than in 2022). Heating is supplied by AB Kauno energija. No cooling energy was purchased and the office is air-conditioned.

As declared on the website of AB Kauno energija, the heat supplied by this company is the cheapest and the most environmentally-friendly way for businesses to provide themselves with heat. Heat is largely produced using renewable energy sources.

	2023	2022
Administration (office)	67,433	67,975

2.2.3. Consumption of Water Resources

The water consumption for the administration of the LCCU in 2023 was 1,135 cubic metres (35 cubic metres more as compared to 2022).

	2023	2022
Administration (office)	1,135	1,110

Water is supplied to the administration by UAB Kauno vandenys, which has implemented and is continuously improving its quality and environmental management system compliant with ISO standards in order to supply good quality water and to efficiently collect and treat wastewater.

Undeterred by the autumn weather, at the end of 2023 the LCCU team planted 700 deciduous and coniferous trees in Trakai district. The growth of the trees will be maintained while ensuring that they are not cut down for commercial purposes. In 2023, the Central Credit Union of Lithuania has also implemented an initiative and planted as many trees as each credit union had years since their establishment. In this way, a further 1,010 trees were planted.



2.2.4. Trips

The member credit unions of the LKU Group of Credit Unions work closely with customers, natural and legal persons, in various parts of Lithuania, focusing on the most vulnerable members of society, for whom traditional financial services are more difficult to access due to geographical, social or other reasons.

Although modern technologies enable remote communication, in the financial market, contact-based communication is preferred in order to ensure secure, confidential and efficient communication and service delivery. For this purpose, employees use cars and taxis.

In 2023, the LCCU administration owned 3 diesel and 1 petrol cars. A further 2 diesel and 2 petrol cars were used under use right agreements. No hybrid or electric cars were used. The number of cars has remained almost unchanged over three years.

	2023	2022
Administration:		
Number of diesel cars	5	6
Number of petrol cars	3	3

In total, in 2023, the LCCU administration consumed 11.1 thousand litres of fuel, split evenly between diesel and petrol. Compared to 2022, diesel consumption has decreased by 1.2 thousand litres, while petrol consumption has remained the same.

	2023	2022
Diesel cars	5,609	6,809
Petrol cars	5,560	5,657

The LCCU employees also used taxis and couriers.

During the last year, the LCCU employees went on 44 secondments in Lithuania and 33 secondments abroad. When an employee goes on a secondment abroad, an order from the Chief Executive Officer is issued and a report is submitted on his/her return showing the results of the secondment.

The number of secondments has increased significantly compared to 2021–2022. This change can be attributed to the end of the COVID-19 pandemic and the removal of special travel requirements.

	2023	2022
Business trips to Lithuania	44	13
Business trips abroad	33	11

2.2.5. Paper Consumption

The member credit unions of the LKU Group of Credit Unions consumed 12.7 thousand kilograms of white A4 paper in 2022.

In the financial services sector, the use of paper for printing documents, transaction receipts and other paper-based transactions has long been commonplace. It depends on co-existing legal and compliance requirements for documentation, security or even customer preferences.

However, the transition to digital documents in the financial sector is proceeding rapidly and the reduction of LCCU's paper costs is being promoted through the organisation's document management system Avilys, which has enabled electronic versions of documents to replace the previously printed documents.

In 2021, the LKU Group of Credit Unions introduced a remote membership self-service system that allows an individual to become a member of a credit union remotely, thus avoiding the need to travel to the credit union's point of service and decreasing the need for paper documents.

3

How We Implement Social Responsibility

3.1. Our Team

3.2. Our Team's Development

3.3. Code of Conduct

3.4. Code of Ethics

3.5. Human Rights

3.6. Voluntary Activities by Team Members

3.7. Additional Benefits for the Team

3.8. Accessibility of Our Services

3.9. Our Help for Businesses and Communities



HOW WE IMPLEMENT SOCIAL RESPONSIBILITY

One of the most important conditions for sustainability is Corporate Social Responsibility (CSR), i.e. the impact on employees, communities, society, partners and other stakeholders.

Social responsibility is integrated into the LCCU's management strategy and is implemented in accordance with international cooperative principles and standards, taking into account local business risk challenges and opportunities.

LCCU's corporate social responsibility policy is based on the global values of cooperation. Priority principles for cooperation:

- Open membership;
- Democratic governance of members;
- Economic participation of members;
- Autonomy;
- Education, training and information dissemination;
- Cooperation between cooperatives;
- Caring for the community.

In order to achieve social sustainability, the LKU Group of Credit Unions is guided by the four UN Sustainable Development Goals (SDGs):

- **Goal 5** encourages gender equality and the empowerment of women and girls;
- **Goal 8** encourages sustainable, inclusive and balanced economic growth, productive employment and decent work;
- **Goal 9** encourages resilient infrastructure, broad-based industrialisation and innovation;
- **Goal 10** encourages reduction of inequalities between and within countries.

The main objectives of the LCCU to achieve a positive social impact are to increase access to financial services and to promote the values of social responsibility.



We aim for positive social impact by:



Increasing the financial literacy of the society (through quality consulting, initiatives or other projects such as participation in exhibitions, academic institutions, etc.);



Increasing access to financial services (more remote access to financial services, more access to financial services in the regions, access to financing possibilities for new business start-ups, state-assisted housing, intermediation of loans for victims of war and natural disasters, etc.);



Reducing inequalities (equal pay for male and female employees for equal work or work of equal value, we conduct an annual audit of our remuneration system to assess whether it is gender neutral);



Increasing employee engagement (includes transparent remuneration policy and employee development);
Strengthening the sense of community (includes involvement of both LCCU and LKU Group of Credit Unions member credit unions in regional public activities, assistance and financial support to organisations, volunteering programmes);



Embedding social values through collaboration and partnership (the aim is to support transparency and social responsibility not only within the organisation but also in collaborative activities and partnerships). Preference should be given to partners that contribute to promoting and supporting sustainable and socially responsible activities.

Our social values are based on responsibility, equality, community and excellence. In our day-to-day operations, we do everything we can to ensure fairness and equality in the workplace and in our communities as a trustworthy and responsible business, guided by the highest standards of ethics and professionalism.

3.1. Our Team

At the time of reporting, 94 employees are employed at the LCCU. 92 of them are on permanent contracts and 2 on fixed-term contracts. There is an upward trend in the number of employees: there were 80 employees in 2021, while in 2022 – 89 employees.

	2023	2022
Total actual number of employees	94	89

The Internal Audit Service carried out an audit of the implementation of the provisions of the LCCU Remuneration Policy from 2 February 2024 to 29 March 2024, which also included a review of the implementation of the provisions of the Remuneration Policy for Employees Who May Have a Significant Influence on the Risks Undertaken. In accordance with the instructions of the Bank of Lithuania, the Internal Audit Service is obliged, at least once a year, to carry out a review of the compliance with the provisions of the Remuneration Policy for Employees Who May Have a Significant Influence on the Risks Undertaken.

The audit also assessed whether the LCCU’s remuneration system adequately implements the principles of gender

equality and non-discrimination, i.e. the remuneration policy for all employees should be gender-neutral, and employees should be paid the same remuneration for the same work, or for work of equal value, irrespective of their gender, in line with the requirements of Article 3(1)(65) of Directive 2013/36/EU and Article 157 of TFEU.

In order to measure employee motivation and engagement, the overall engagement and other indicators were measured in 2023 across the organisation and across individual departments in cooperation with an external partner, i.e. Unlock Tests. The Employer Net Promoter Score (eNPS) assessment system was used to help employers measure employee satisfaction and loyalty within their organisation. The results show that:

- in 2023, the overall eNPS score was 22.67 (rated as very good);
- In 2023, the overall employee diversity and inclusion rate was 69.13% (higher than the average score in Lithuania).

The overall eNPS indicator means that the majority of the LCCU employees are likely to recommend their employer to others. This shows that the organisation is implementing a successful work organisation strategy.

The high level of diversity and inclusion shows that the LCCU actively promotes diversity and inclusion in the workplace. This outcome is important for creating a working environment where every employee feels accepted, valued and has equal opportunities to develop and contribute to the success of the business.

The figures for employee diversity and inclusion and eNPSs show that LCCU’s attitude and values have a positive impact on an organisation’s reputation, ability to attract talent and long-term business success.

In 2022, employee satisfaction was 7.65 on a 10-point scale. No data is available for previous years.

The LCCU is concerned not only with the common interests of the entire team, but also with the individual interests of separate team members. That is why annual review interviews are organised to find out the views, needs and expectations of employees – every year, the LCCU’s managers conduct annual interviews with their employees, discussing ideas and recommendations for improvement.

3.2. Our Team's Development

One of the key qualities of a person working in the financial sector is professionalism and continuous improvement. The LCCU employees participate in a wide range of training courses to maintain a high level of professionalism, skills and competences. In total, employees spent 220 days last year developing their competences (an increase of 67 days compared to 2022).

	2023	2022
Employee participation in training (number of days)	220	153
Training per employee (number of days)	2.3	1.7

When one of the credit unions' legal, technical or software-based processes changes, the changes and new ways of managing the processes are presented to credit union employees and managers. In addition, credit union representatives are briefed on topical issues such as marketing, public relations, personnel and strategic management, risk management and other topics.

Credit union employees and representatives of the governing bodies regularly undertake internships at foreign credit unions, cooperative banks or microfinance institutions. The experience gained is useful in improving and developing the credit union movement in Lithuania. Partners from abroad come to Lithuania to learn about our credit union movement.

Every new employee is acquainted with occupational safety rules.

GRI 2-3

GRI 2-24

GRI 404-1

GRI 404-2

3.3. Code of Conduct

The LCCU employees and managers are held to high ethical and professional standards, which are important for ensuring fair and reliable operations and customer trust.

Key documents outlining the LCCU Employee Code of Conduct:

- Code of Ethics for LKU Group of Credit Unions Member Credit Unions;
- Policy on Equal Opportunities, Violence and Harassment Prevention and its implementation procedures.
- Policy on Identification and Avoidance of Conflicts of Interest.

3.4. Code of Ethics

Policy on Equal Opportunities, Violence and Harassment Prevention and its implementation procedures. The main provisions of this Policy that guide us are the following:

- Direct or indirect discrimination, violence, harassment, sexual harassment, or instructions to discriminate against employees, trainees or applicants is prohibited.
- It shall be ensured that staff members, trainees or applicants who submit a complaint or otherwise report such cases are not subjected to harassment, hostile treatment or other adverse consequences.

- Employees, trainees and applicants must not tolerate or encourage discrimination, violence or harassment, and must take appropriate action if they become aware of such cases.
- Employees shall be provided with a healthy and safe working environment, equal working conditions for the performance of their duties and functions, and the tools they need to do their specific job.
- Employees shall have equal access to further training, vocational training, retraining and practical work experience.
- Employees shall receive equal wages, severance pay or compensation for the same work or work of equal value.
- Equal guarantees and benefits, equal and objective criteria for performance review, dismissal and application of professional or material liability shall be provided.

We have also prepared LCCU's Policy on Identification and Avoidance of Conflicts of Interest.

3.5. Human Rights

Although there is currently no independent document defining the human rights policy of LCCU, human rights are fully ensured. This is done through human rights legislation and the full range of conditions for employees set out in the Labour Code of the Republic of Lithuania, including taking care of their health and safety.

One of the most important documents guiding our work is the Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948, which proclaims the inherent rights of the human person, inalienable of the individual, and unrelated to territory, nation, sex, religion, age, or any other personal traits, and which are inherent in all human beings, whether enshrined in the law of the land or in national legislation.

3.6. Voluntary Activities by Team Members

Volunteering strengthens community ties and solidarity, addresses social and humanitarian challenges, and contributes to social justice, responsibility and the common welfare of the society. Volunteering also gives the volunteer the opportunity to feel useful and included, and promotes higher self-esteem and personal fulfilment. Active participation in volunteering helps to improve the quality of a person's life and promote personal development.

The LCCU therefore encourages the involvement of employees in volunteering projects and has stipulated in its Rules of Procedure that each employee may devote one day per three months to volunteering activities. He/she is paid his/her average wage for the day.

3.7. Additional Benefits for the Team

As part of its commitment to the health and well-being of its employees, the LCCU provides the following fringe benefits to its employees:

- One day every three months is devoted to wellness.
- One day every three months is devoted to volunteering.
- A recharge on the wellness benefits platform is provided. Doctors are also invited to the workplace for the convenience of the employees, and vaccinations and compulsory health examinations are carried out.
- A birthday is a day off.
- Financial support or a bonus for important life events is provided.
- A separate budget for team building is allocated.
- A pet can be brought to the office on the last Friday of the month.
- Budget for qualification training is allocated.

In addition, in order to promote an active lifestyle, the employees periodically organise bowling, volleyball and basketball tournaments, as well as trips to museums, exhibitions, Nordic walking lessons, cycling and canoeing. Lectures on healthy lifestyle habits and health care are also organised for credit union employees. In 2023, employees took part in the Kaunas Marathon and contributed to sustainable forest planting.



3.8. Accessibility of Our Services

Accessibility to financial services is important because it increases people's financial inclusion (accounts, loans, savings, insurance) and fosters economic growth (investing, saving, starting a business). Ensuring public access to financial services is essential for social justice, economic development and financial stability.

The accessibility of LKU Group of Credit Unions services in Lithuania is good, with the largest network of more than 100 credit union service points. Credit unions are located not only in the country's largest cities, but also in towns and cities in less densely populated regions, so that local people can get professional financial management advice conveniently and at the right time.

There is also a remote membership system for those who wish to save time and access services remotely. For our members, basic banking services are available through the i-Unija electronic system and mobile application.

The LCCU also participates in the Bankomatas.lt project: Lithuanian commercial banks, credit unions, including the LCCU, and the Association of Lithuanian Banks, which represents them, have signed a Memorandum of Understanding (MoU) with the Bank of Lithuania on increasing the availability of cash in 2021. Under this agreement, the supplier Worldline Lietuva is installing a network of 100 new ATMs in areas where there were no ATMs, accessible to the LCCU members.

The LCCU, together with its 45 member credit unions, encourages start-up entrepreneurs to be bolder with their new ideas. The Entrepreneurship Promotion Fund helps newcomers expand their catering, hairdressing, beauty salon, car service, accountancy and retail businesses.

Credit unions have traditionally been one of the most important financial partners of cultivators and active members of farmers' and cultivators' associations. The LKU Group of Credit Unions cooperates with UAB Investicijų ir verslo garantijos and actively participates in the implementation of financial instruments for business and agriculture, while also supporting instruments aimed at strengthening the Lithuanian agricultural sector.

Information on credit unions' service fees and changes to them is available at www.lku.lt, www.lb.lt and on the websites of 45 credit unions. The website will be updated in 2025 to render it accessible to the visually impaired.

Each member credit union holds regular membership meetings to present its financial performance and implemented initiatives to its members. The needs of the members are heard during the discussions. All members have a voice, when taking decisions important to the union and approving its financial results. This ensures members' trust, as well as transparency of the organisation and openness to customers.

3.9. Our Help for Businesses and Communities

We consider the following to be the most important areas of our impact on society:

Soft loans for farms and businesses.

Since their inception, the main mission of credit unions has been to focus on the credit union's members, which can be various entities (e.g. farmers or businesses affected by the COVID-19 pandemic or the war in Ukraine, or young start-ups). The LCCU cooperates with the UAB Investicijų ir garantijų fondas (INVEGA) in order to offer its members soft loans to farms and businesses facing economic, geopolitical or climate-related difficulties.

Support for communities.

Credit unions are local financial institutions limited to the region in which they operate. Credit unions are known as community-based financial institutions, contributing to projects, events, beautification and other initiatives that are important to their communities. This can be compared to profit sharing with your community. Examples of such support include:

- Utena Credit Union supported the final stage of Aukštaitija Basketball Fiesta 3×3 and sponsors Utena Juventus Basketball Club.
- In 2023, Utena Credit Union became a partner and sponsor of Utena Chamber Theatre.

- Neris Credit Union supports the volleyball team of M. Povilaitytė-Paulikienė and her partner A. Raupelytė.
- Utena Credit Union has made a donation to commemorate the 762nd anniversary of the city.
- Panevėžys Credit Union supports the Lietkabelis Basketball Club.
- Every year, Credit Union Germanto lobis sponsors the Movement and Healthy Lifestyle Festival 'Judėk sveikai' in Telšiai.
- Magnus Credit Union has made a donation to the Young Athletes Charity and Support Fund of the Balzekas Tennis Academy.
- The Lithuanian Central Credit Union won the title of the most massive company in the IKI Walking Competition 2023.
- The team of the Lithuanian Central Credit Union took part in the Kaunas Akropolis Marathon 2023.
- The Lithuanian Central Credit Union regularly donates to Ukraine's fight for freedom.
- The Lithuanian Central Credit Union supported employment organisations for people with intellectual disabilities and children living in poverty.

In 2023, the Lithuanian Central Credit Union joined the Fraud Prevention Campaign initiated by the Association of Lithuanian Banks. At the same time, we want our customers to be vigilant and informed about how to protect themselves in the face of increasing cybercrime.

Society.

By improving the existing infrastructure and services across the market, we are committed to reducing economic exclusion. We promote business growth and economic development, create jobs and bring financial benefits to the society. Our goal is long-term investment and citizenship.

Students.

Partnerships with educational and scientific organisations and institutions contribute to increased financial literacy and competence development. Students can do their internships both at the LCCU's headquarters and at other credit unions around the country.

Mass media.

We actively engage with the media to ensure that we provide the public with comprehensive and accurate information on credit union activities, developments and achievements. Our communication with the media is based on the principles of honesty, accuracy and transparency. The information is provided based on the principle of confidentiality.

4

How Our Organisation is Governed

- 4.1. United in the Pursuit of Sustainability
- 4.2. Disclosure of Information to Others
- 4.3. Meeting the Expectations of Our Stockholders, Shareholders and Stakeholders
- 4.4. Head of Our Organisation
- 4.5. Our Management Team
- 4.6. Involvement of Our Employees
- 4.7. Prevention of Corruption
- 4.8. Procurements
- 4.9. Data Protection in the Organisation
- 4.10. Management Systems



HOW OUR ORGANISATION IS GOVERNED

Sustainable management refers to the principles and practices that help companies develop and apply a long-term business strategy that takes into account social, environmental and economic aspects. Sustainable governance also defines the relationships and responsibilities between the board, the management, the control bodies and the stakeholders.

Key principles of sustainable business governance:

- Transparency and accountability to the public about own activities, decisions and impacts on the environment and communities.
- Responsibility for the social impact on employees, the society and the community well-being (safe working conditions, various social initiatives and support for community projects).
- Environmental protection to reduce the negative environmental impact of business (energy efficiency, waste reduction, introduction of management systems, etc.).
- Involvement of all stakeholders in the decision-making process.
- Long-term profitability of the business, not only in terms of its financial performance, but also in terms of its social and environmental impact.

These principles enable us to act responsibly and sustainably, contributing to economic, social and environmental sustainability and the well-being of society. The LCCU aims to create long-term value for the company, its stakeholders and the society.

In order to achieve sustainability in governance, the LKU Group of Credit Unions is guided by the two UN Sustainable Development Goals (SDGs):

- **Goal 16** promotes peaceful and inclusive societies for sustainable development, empowering all to demand justice and building effective, accountable and inclusive institutions at all levels.
- **Goal 17** promotes the strengthening of the means of implementation and the revitalisation of the global partnership for sustainable development.

Maintaining and enhancing transparency and credibility is a key objective of the LCCU for sustainable governance.

Maintaining and improving transparency is achieved by strengthening compliance practices. The methodology used by the LKU Group of Credit Unions is centralised, i.e. all member credit unions follow the same methodologies approved by the governing bodies of the LCCU. This centralised methodology allows for the assurance and evaluation of operational control mechanisms. It also aims to ensure adequate disclosure and support for methodological orientations, which include (but are not limited to):

- Rules of Procedure for Governing Bodies and Committees.
- Remuneration Policy (valid for the LCCU, recommended for credit unions).
- Policy for Organising Internal Control.
- Secrecy Regulations.

- Compliance Policy.
- Code of Ethics.
- Rules on Handling Complaints and Accessibility.
- Rules of Procedure.
- Personal Data Processing Policy.
- The LCCU's Policy on Equal Opportunities, Violence and Harassment Prevention and its implementation procedures (applicable to the LCCU, recommended for credit unions).

In order to strengthen the competences of the LCCU team through proper implementation of the processes set out in the LCCU methodology, employees are provided with training, presentations of procedures, knowledge tests, meetings and discussions to ensure the strengthening of the competences of the team.

Reliability is enhanced through security systems. Managing a large database of important physical and legal persons requires adequate security in data management, which is why it is important to analyse and assess the adequacy of IT systems, and to put in place security measures to prevent cyber-attacks (e.g. IT Incident Management Procedures, IT audits). This ensures that reliability and security are maintained at all times.

4.1. United in the Pursuit of Sustainability

We believe that environmental, social and governance sustainability is everyone's responsibility. Only the combined efforts of businesses, organisations and community members can deliver the best results.

The LCCU is introducing this approach to every employee, and at the same time has undertaken to develop an effective management system for the topic of sustainability, including processes and tools for risk assumption, assessment, monitoring, control and mitigation.

In 2021, following the update of the LKU Group's of Credit Unions business strategy, the organisational structure of LCCU's risk management has been updated to include risks related to climate change and the Financial Risk Department (FRD) has been assigned as responsible for these risks.

The implementation of the Sustainability Management Strategy is the responsibility of the LCCU Board. The LCCU Financial Risks Department regularly provides the LCCU Board and the LCCU Supervisory Board with information on the implementation of the Strategy.

This LCCU Sustainability Report is the first report prepared by the organisation. We have developed it in line with the principles of the United Nations Global Compact, the Global Reporting Initiative (GRI) and the guidelines of the European Sustainability Reporting Standards (ESRS).

4.2. Disclosure of Information to Others

The LCCU actively engages with the media to ensure comprehensive and accurate information to the public on credit union activities, developments and achievements. Communication with the media is based on the principles of honesty, accuracy and transparency, and information is provided on the basis of confidentiality.

4.3. Meeting the Expectations of Our Stockholders, Shareholders and Stakeholders

In order to ensure the fulfilment of credit union members' expectations, the LCCU has a Board, a Supervisory Board, an Audit Committee, a Loan Committee, a Risk Management Committee, a Stabilisation Fund Committee and an Ethics Committee. The Head of the LCCU is also a member of the Board (Chairperson). There are no independent members.

Every day, we represent the expectations of our shareholders, creating services that meet their needs, and listening to their needs at our regular general assemblies. The management team of the LCCU is also formed by decision of the shareholders.

4.4. Head of Our Organisation

The Chief Executive Officer of the LCCU, as well as other managers of the LCCU, is subject to specific requirements imposed by the supervisory authorities and legislation. Managers are subject to authorisation from the supervisory authority the Bank of Lithuania, thus, their pre-employment assessment is very thorough. A declaration of private interests is completed.

Key requirements: the manager must be of good reputation and possess the qualifications and experience necessary to perform the duties of the position properly.

A person may not be a manager if he/she does not consent to the processing by the supervisory authority, in the cases and in accordance with the procedure established by laws and regulations, of the data about him/her, including personal data and information on his/her criminal record and health, necessary for the granting of the licenses, permits and consents provided for in this law.

In order to check whether the credit union's managers are of good reputation, the credit union shall have the right to apply to the Register of Suspected, Accused and Convicted Persons, and to process the personal data of such persons in accordance with the procedure established by the legal acts regulating the legal protection of personal data, including the data on the person's criminal records.

4.5. Our Management Team

All managers of the LCCU (except members of the Board and Supervisory Board) are subject to the same incentive scheme as all employees. Performance indicators related to sustainability may be taken into account in the evaluation of a specific position.

4.6. Involvement of Our Employees

The LCCU does not currently have a works council or a trade union, despite the fact that the LCCU management periodically initiates the establishment of a works council. There is a lack of employee initiative on this issue.

4.7. Prevention of Corruption

The main objective of preventing corruption is to ensure transparency and integrity in the public and private sectors. Preventing corruption guarantees national security, social welfare, the quality of administrative, public and other public sector services, and freedom of fair competition. In other words, it ensures that corruption is as little as possible an obstacle to the development of democracy and the economy.

To this end, the LCCU has adopted the Corruption Prevention Policy. Confidentiality is guaranteed when the information is sent to the reporter's e-mail account, but in the near future it is planned to evaluate the possibility of sending the report anonymously via the LCCU website.

4.8. Procurements

The LCCU's procurement procedures are governed by two documents:

- Policy on Outsourcing Operational Functions.
- Rules on procurement, transfer of operational functions and evaluation of suppliers.

These documents have been prepared in accordance with the Resolution of the Bank of Lithuania on the Approval of the Rules on the Outsourcing of Operational Functions of Financial Market Participants and the EBA Guidelines on Outsourcing Arrangements EBA/GL/2019/02, which do not provide for an obligation to distinguish between green procurement, environmental protection or social responsibility aspects. The evaluator has the possibility to assess the supplier's ESG risk in the 'Other information' field of the supplier evaluation form.



4.9. Data Protection in the Organisation

In order to ensure the protection of data of the candidates, employees and customers, the LCCU follows the Personal Data Processing Policy. The Policy applies to and is used by the Credit Unions belonging to the LKU Group of Credit Unions when processing personal data. This policy aims to ensure transparent collection, use and storage of information.

The collected data is processed in accordance with the provisions of the General Data Protection Regulation (EU) 2016/679 (hereinafter referred to as the Regulation), as well as the requirements of the Law on the Bank of Lithuania, the Law on Legal Protection of Personal Data, the Law on Electronic Communications and other legal acts.

4.10. Management Systems

The information security of the LCCU is managed in accordance with the Information Security Management System (hereinafter referred to as ISMS) in accordance with the requirements of the Lithuanian standard LST EN ISO/IEC 27001:2017.

The purpose of the ISMS is to protect all information received, sent, managed and used by the LCCU in all its forms from all potential threats that could affect its operations and reputation, as well as to meet the needs of its customers and other stakeholders and to meet its contractual obligations.

The management of information security at LCCU aims to preserve the confidentiality, integrity and availability of information.

Information security is ensured by managing security risks, raising employee awareness and applying control measures based on information security risk assessments.

The ISMS applies to:

- All the information owned and managed by the LCCU, irrespective of its form and method of storage.
- The activities referred to in the Central Credit Union Services section of the LCCU Statutes, which include, but are not limited to, the provision of financial, supervisory and risk management, information technology, legal, publicity, training and consulting services.
- All employees of the LCCU.
- Services provided by external service providers

The Chief Executive Officer and the Board of the LCCU allocates the necessary amount of resources and human resources to the achievement of the information security objectives and to the proper functioning, development and improvement of the ISMS in order to ensure that it complies with the requirements of the LST EN ISO/IEC 27001:2017 standard and of the relevant national and international legal acts.

The provisions of the ISMS are binding on all employees of the LCCU.





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About this Report

ABOUT THIS REPORT

This Report presents the activities of the Lithuanian Central Credit Union in 2023. The Sustainability Report is drafted once a year. In this Report, we provide non-financial responsible business information to our stakeholders: customers, employees, business and social partners, as well as the public.

The report takes into account the principles of the United Nations Global Compact, the Global Reporting Initiative and the guidelines of the European Sustainability Disclosure Standard. It also takes into account the Bank of Lithuania's Sustainability Disclosure Guidance.

The Report is made publicly available on the websites of the LCCU and the LKU Group of Credit Unions at www.lcku.lt and www.lku.lt. The report is unaudited.

We welcome comments or questions from all interested parties via the general LCCU e-mail address lcku@lku.lt.

In the summer of 2023, the LCCU team took part in the Kaunas Akropolis Marathon, where it overcame all distances: 5 km, 10 km and 42 km. The team ran a total of 112 km.



OUR OFFICE

The main office of LCCU is located in Kaunas, at Savanorių pr. 363B-201, LT-51480.

Detailed information about our members, activities, services and values can be found on our websites at www.lcku.lt and www.lku.lt and on our social media accounts:

-  „Facebook“ – @Kredito unija
-  „Instagram“ – @kredito_unija
-  „LinkedIn“ – @Lietuvos centrinė kredito unija
-  „YouTube“ – @kreditounija

In 2023, a team from the Central Credit Union of Lithuania took part in the Walking Competition and won the title of the most massive company, with a team of more than 30 people. Together, they walked more than 15,000 steps.





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Annex 1 – List of GRI Indicators

ANNEX 1 – LIST OF GRI INDICATORS

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Annex 2 – Assessment of the Materiality of ESG Governance

ANNEX 2 – ASSESSMENT OF THE MATERIALITY OF ESG GOVERNANCE

1. RELEVANCE OF THE ESG TOPIC

With the adoption of the Paris Agreement on climate change in 2015 and the UN's 2030 Agenda for Sustainable Development, governments around the world are taking steps to move towards a low-carbon technologies and more circular economy. Europe has adopted the European Green Deal roadmap¹, which sets the goal of making Europe the first climate-neutral continent by 2050. The financial sector also has an important role to play in this area. In order to contribute to sustainable business and economic growth, the LKU Group of Credit Unions focuses on sustainability issues and commitments related to environmental requirements, social responsibility and governance. According to the Regulation on the Organisation of Internal Control and Risk Assessment (Management)² approved by the Bank of Lithuania, the requirements for a credit institution to have an effective ESG risk management system in place will come into force from 1 July 2023. To this end, Environmental, Social and Governance (ESG) risks are identified as a separate risk within the LKU Group of Credit Unions.

The **materiality assessment** will help to assess and, at the same time, develop an effective ESG risk management framework, including processes and tools for ESG risk-taking, assessment, monitoring, control

and mitigation, while integrating ESG issues into other main risks identified by the LKU Group of Credit Unions (credit, liquidity, operational and others). The monitoring and management of sustainability-related risks, in terms of data collection, analysis, process design and integration into the methodology, will be centrally managed within the LKU Group of Credit Unions through the LCCU, i.e. by implementing only the most important processes in the credit unions to ensure the proper management of these risks across the Group.

The assessment of the materiality of sustainability-related risks will reveal the physical and transition drivers of risks related to environmental degradation and climate change. The impact of the materiality of sustainability-related risks on the LKU Group's of Credit Unions key strategies (credit, market, operational, liquidity risks and overall business strategy) was assessed. The materiality assessment identified the extent of ESG risks, the potential impact on the Group from the existing portfolio of customers, which helped to set targets and indicators related to sustainability management and their further monitoring within the LKU Group of Credit Unions. It also considered the potential impact of sustainability-related risks on the operations of the LKU Group

of Credit Unions in the short to medium term (up to 5 years) and in the long term (at least 10 years). **To this end, the LKU Group's of Credit Unions sustainability-related risk management strategy and implementation plan have been developed.**

The integration of sustainability-related risk assessment (environmental, social and governance factors or ESG) in the context of the LKU Group of Credit Unions will be based on the good practice and existing related documents (such as the European Central Bank's (ECB's) *Guide on Climate-Related and Environmental Risks: Supervisory Expectations Related to Risk Management and Disclosure*, the European Banking Authority (EBA) *report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms; Regulation (EU) 2020/852 of the European Parliament and of the Council (hereinafter referred to as Taxonomy)*, etc.).

In addition, following the update of 29 June 2021 of the LKU Group's of Credit Unions business strategy, the organisational structure of LCCU's risk management has been updated to include risks related to climate change and the Financial Risk Department (hereinafter referred to as FRD) has been assigned as responsible for these risks.

¹ https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_lt

² <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/47892d5006d011edbf9c72e552dd5bd>

2. RESOURCE ASSESSMENT

Resources are needed to properly identify, manage and monitor ESG and sustainability-related risk factors in the Group. Available resources and future needs:

IT Resources.

In order to identify factors relevant to the management of sustainability-related risks in relation to borrowers and other relevant information for data collection, measurement and monitoring, there is a need for IT resources (modifications to the IT system used by the LKU Group of Credit Unions, i.e. I-Kubas). The LCCU roadmap of planned projects 2023–2025 already foresees the need for IT resources arising from the integration of sustainability-related risks into the LKU Group of Credit Unions (e.g. Sustainable Investment Attribute, etc.).

Human Resources.

The LCCU risk management organisational structure includes climate change-related risks and assigns responsibility for these risks to the FRD. Involvement of other departments or responsible persons will be carried out through a review of procedures and assignment of responsibilities, if necessary.

The LCCU raises the level of expertise on ESG:

- The responsible employee of the FRD has successfully completed the training session SUSTAINACADEMY with mentoring programme – Sustainability in the Organisation (44 academic hours with mentoring programme, CPD certificate). During the session, a preliminary sustainability strategy for the LKU Group of Credit Unions was developed.
- Participation in the Sustainability Committee of the Association of Lithuanian Banks.
- Participation in various conferences such as MAKING GREEN FINANCE A REALITY IN THE BALTICS 2022.

Services from External Partners.

ESG risk assessment requires specific data that has not been collected so far (there was no purpose to collect data, and excessive data collection is regulated by GDPR³). Given the IT base and resources available to the LKU Group of Credit Unions, there is a need to look for external data providers that can offer the data solutions needed for ESG management. Therefore, in the preparation of the LCCU Budget Plan, estimated preliminary costs have been earmarked for this purpose under a separate line.

Given the novelty and dynamics of the topic, there was a need for external expert consulting. Thus, ESG experts and consultants from UAB Fabula ir partneriai have been consulted in regards hereto.

Miscellaneous.

The Association of Lithuanian Banks (ALB), of which the LCCU is a member, is initiating projects that will contribute to the creation of a unified database necessary for ESG management. The tools will also be used by the LKU Group of Credit Unions.



In 2023, a team from the Central Credit Union of Lithuania took part in the Walking Competition and won the title of the most massive company, with a team of more than 30 people. Together, they walked more than 15,000 steps.

³ General Data Protection Regulation

3. ASSESSMENT OF THE RISKS OF CLIMATE CHANGE AND ENVIRONMENTAL DEGRADATION

Climate change and environmental degradation affect economic activity and therefore the financial system. Climate and environmental risks consist of two main factors:

- **Physical risks** – these risks should be understood as the financial impact of a changing climate, including more frequent extreme weather events and gradual climate change, and environmental degradation, such as air, water and soil pollution, water shortage, loss of biodiversity and deforestation. Physical risks can have a direct impact, such as damage to property or loss of productivity, or an indirect impact, such as the disruption of supply chains due to other events caused by these risks.
- **Transition risks** – these risks should be understood as the risk that institutions may suffer financial losses, directly or indirectly, as a result of the process of adapting to a lower carbon technologies and more environmentally sustainable economy. For example, they may be caused by relatively sudden changes due to the adoption of climate change and environmental policies, technological advances or changes in market sentiment and consumer preferences.

Given the concepts of physical risks and transition risks, these risks can have a real impact on the other key risks identified in the LKU Group of Credit Unions. The main risks are identified as credit, market, operational, liquidity and business.

Table 1: impact of climate and environmental risks on the main risks of the LKU Group of Credit Unions

Climate and environmental risks	Physical risks		Transition risks	
	Climate	Environmental	Climate	Environmental
Risk managed by the LCCU	Extreme weather events Chronic weather events	Water shortage Declining resources Loss of biodiversity Pollution	Policy and regulation Technology market sentiment	
Credit risk	Borrowers may be exposed to physical risks through particularly sensitive sectors in which they operate or the geographical areas in which they operate and reside. This can work through the probability of default (PD) and the potential loss given default (LGD)		The application of certain regulatory measures may result in higher adjustment costs and lower profitability, which may affect borrowers' PD and LGD	
Market risk	Sudden physical phenomena – changes in market expectations that would threaten sudden re-pricings		Regulatory changes related to GHG, manifested through interest rate risk and issuer credit risk	
Operational risk	Physical damage to LKU Group's of Credit Unions assets and data centres due to extreme weather events, resulting in potential disruption to the organisation		Due to changing public attitudes on sustainability, there may be reputational risks, if the LKU Group of Credit Unions does not focus on this topic	
Liquidity risk	The costs incurred due to adverse weather events could force depositors to withdraw funds held in the LKU Group of Credit Unions and use them to repair damage		A sudden revaluation of securities, for example due to underutilisation of assets, could lead to a decrease in the value of the LKU Group's of Credit Unions high-quality liquid assets, which would impact the liquidity cushion	
Business risk	Threats arising from physical risks may affect the business environment targeted by the LCCU and the products and services provided within the LKU Group of Credit Unions (by sector or geography). For example, meteorological phenomena can cause droughts or floods that could affect local agricultural production or housing demand.		Due to changing public attitudes on sustainability, there may be reputational risks, if the LKU Group of Credit Unions does not focus on this topic. Regulatory factors drive action on sustainability management and monitoring	

It should be noted that elements of climate and environmental risks are planned to be included in the LKU Group's of Credit Unions stress testing and Internal Capital Adequacy Assessment Processes (ICAAP) from 2023 onwards, to the extent possible, taking into account each risk and its proportionality (this risk may not be isolated, but may be a component of other risks). Future work should aim to improve and refine the climate and environmental risk scenarios for the stress tests, and to build up the data needed for the tests, by assessing the information that is continuously being gathered on the main drivers of climate change risk and their impact on the occurrence of the climate change risk.

4. SUSTAINABLE INVESTMENT

The LKU Group of Credit Unions uses financial products that may fall under the definition of a Sustainable Investment in accordance with Regulation (EU) 2020/852 of the European Parliament and of the Council (Taxonomy). The main financial products that would fall under the definition of a Sustainable Investment are **loans** granted to members of the LKU Group of Credit Unions (business, agricultural, consumer or housing loans to natural persons) and investments in **securities**.

An environmentally sustainable investment⁴ is an investment in one or more economic activities that are considered environmentally sustainable under the Taxonomy Regulation. In order to determine the degree of environmental sustainability of an investment, an economic activity is considered environmentally sustainable when:

- **Mitigation of climate change** – an economic activity is considered to make a significant contribution to the mitigation of climate change when it makes a significant contribution to stabilising the concentration of greenhouse gases in the atmosphere to an extent that halts dangerous anthropogenic impacts on the climate system, and which is consistent with the long-term temperature objective set by the Paris Agreement, by avoiding or reducing greenhouse gas emissions or by better absorbing greenhouse gas emissions, including through process or product innovation.

- **Adaptation to climate change** – an economic activity is considered to make a significant contribution to adaptation to climate change if:

- the activity involves adaptation solutions that either significantly reduce the risk of current and expected future adverse climate impacts on that economic activity, or significantly reduce those impacts without increasing the risk of adverse impacts on people, nature or property; or
- these activities provide adaptation solutions that not only meet the conditions set out in the Taxonomy Document, but also make an important contribution to avoiding or reducing the risk of current and future climate-related adverse impacts on people, nature or property without increasing the risk of adverse impacts on other people, nature and property.

- **Sustainable use and protection of water and marine resources** – an economic activity shall be considered to make a significant contribution to the sustainable use and protection of water and marine resources when that activity either makes a significant contribution to ensuring the good environmental status of water bodies, including surface water and

groundwater bodies, or to preventing the deterioration of water bodies, which are already of a good environmental status, or it makes a significant contribution to ensuring the good environmental status of marine waters, or to preventing the deterioration of marine waters, which are already of a good environmental status.

- **Transition to circular economy** – an economic activity is considered to make a significant contribution to the transition to circular economy, including waste prevention, reuse and recycling.
- **Pollution prevention and control** – an economic activity is considered to make a significant contribution to pollution prevention and control, if it contributes significantly to the protection of the environment from pollution.
- **Biodiversity and ecosystem protection and restoration** – an economic activity is considered to make a significant contribution to the protection and restoration of biodiversity and ecosystems, when it contributes significantly to the protection, conservation or restoration of biodiversity, or to ensuring the good status of ecosystems, or to the safeguarding of ecosystems that are already of a good status.

⁴ <https://eur-lex.europa.eu/legal-content/LT/TXT/?uri=CELEX%3A32020R0852>

In order to determine the level of Sustainable Investment, the Taxonomy Document and other guiding and complementary documents contain a wide range of qualitative, quantitative and technical criteria that should be assessed. When providing financial products, there was no need to collect certain information that would help to assess the level of Sustainable Investment to date, and the LKU Group of Credit Unions focuses on small and medium-sized businesses (hereinafter referred to as SMEs) and crediting of natural persons, for whom the regulations related to the Taxonomy have not come into force to a wide extent, therefore, it is difficult to obtain all the necessary information from customers themselves. In this context, loans could qualify as **Sustainable Loans** in the LKU Group of Credit Unions today, if they are given for the following eligible activities:

- The purchase and installation of solar panels and/or power plants. In order to install a solar power plant, it is necessary to enter into an agreement with the Energy Distribution Operator (ESO) and to meet other requirements. Technologies that are using energy from renewable resources and their minimum technical requirements:
 - Voltage converter (*inverter*) and/or solar modules must comply with EU standards;
 - Certificates of conformity for equipment should be provided.
- Purchase of a remote solar power plant – this service is offered by bodies that have to meet all standardised EU requirements,

which ensures the definition of a Sustainable Project.

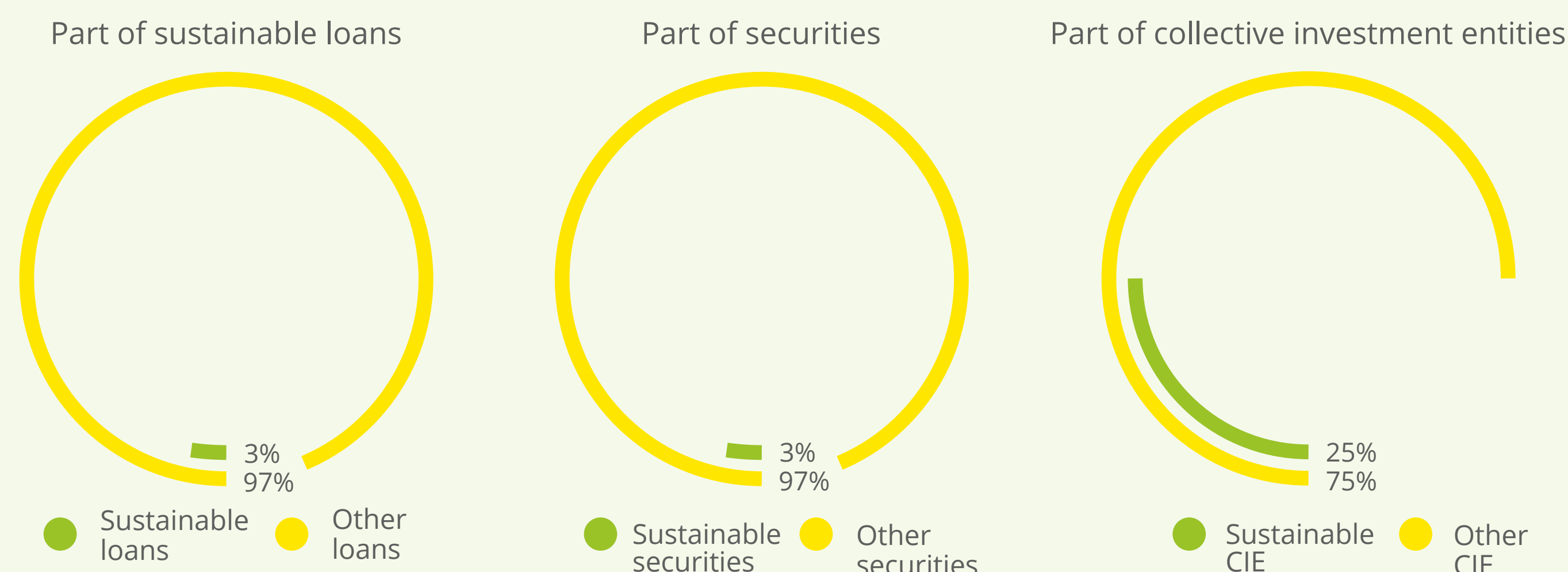
- Purchase and installation of a new heat pump(s) or biofuel boiler. In order to contribute to the improvement of energy efficiency in households and to the reduction of air pollution, equipment complying with Class 5 efficiency and emission requirements, according to the Lithuanian standard LST EN 303-5:2012, could be financed.
- Purchase of electric or hybrid cars.
- Installation of electric car charging points at workplaces.
- The acquisition or construction of A++ energy performance class buildings, whose construction year is not older than 2021. In 2021, the requirement to build A++ houses, i.e. the highest energy efficiency class of houses with almost no energy consumption, came into force.

The design and certification requirements are defined in the Technical Regulation for Construction STR 2.01.02:2016 Energy Performance Design and Certification of Buildings, which is in line with the requirements set out in the Taxonomy Document.

- Other projects, financed under the Environmental Projects Management Agency (EPMA) under the Ministry of Environment of the Republic of Lithuania.
- Development of organic farming⁵, provided that the specific financed investment does not have a significant negative impact on at least one of the activities included in the Taxonomy.

In the context of securities, **sustainable securities** could be defined as securities that are certified by certain certificates or other documents.

Figure 1: Part of sustainable investments in the LKU Group of Credit Unions, 12/31/2022*



*Information is based on the data available at the time of reporting, which were obtained during the materiality assessment.

5. IMPACT ON LKU GROUP'S OF CREDIT UNIONS LOAN PORTFOLIO

Based on external sources, the ESG impact on the financial items of the LKU Group of Credit Unions (loans and securities) is assessed by ranking them from the lowest rank, where there is no risk exposure, to the highest rank, where the risk exposure is high. Five ranks have been chosen (see Table 2) to allow the most rational assessment of which risk category/level a given financial item falls into, based on geographic, sectoral or other homogeneous criteria.

Table 2. Structure of physical and transition risk levels

Name of the risk	Description of the risk	Risk score
High impact	A financial item that is significantly affected by physical or transition risk. For example, coal mining	4
Increased impact	a financial item that is exposed to physical or transition risk and the exposure is elevated. For example, construction activities. Also assigned if there is no possibility/data to estimate the level of exposure.	3
Low/medium impact	A financial item, whose impact of physical or transition risks is felt, but the impact is not significant.	2
Insignificant impact	A financial item, whose impact of physical and transition risks, under the circumstances known to date, is insignificant.	1
No risk	A financial item with no impact of physical and transition risk, under the circumstances known to date.	0

In the assessment of exposure risk levels, the first criteria selected for assessment are the physical and transition risks. Criteria for physical risks include floods, droughts, forest fires, rainfall, cold, heat, strong winds, and rise of the sea level. The above-mentioned criteria are broken down by Lithuanian counties: Alytus, Kaunas, Klaipėda, Marijampolė, Panevėžys, Šiauliai, Tauragė, Telšiai, Utena, and Vilnius. The level of risk may be low, medium, high or non-existent. Estimated levels of various risks under future climate conditions (2031–2060) are based on the *Study on Climate Change Risks by the Middle of the 21st Century conducted by the Climate and Research Division of the Lithuanian Hydrometeorological Service*. In the case of transition risks, the GHG level for legal entities is calculated on a sector-by-sector basis. In the case agriculture, a distinction is made between organic and non-organic farming activities, and in the case of natural persons – the purpose of the loan is considered (lower/higher than class A asset investments).



Second, the LKU Group of Credit Unions loan portfolio is divided into homogeneous groups, i.e. it is broken down into segments that may be similarly exposed to both physical and transition risks (matrix construction):

- Business loans – broken down by sector. The physical risk assessment uses the predicted level of various risks under future climate conditions (2031–2060). In order to assess the transition risks, the average GHG emissions of a given sector are calculated, based on 2021 data for

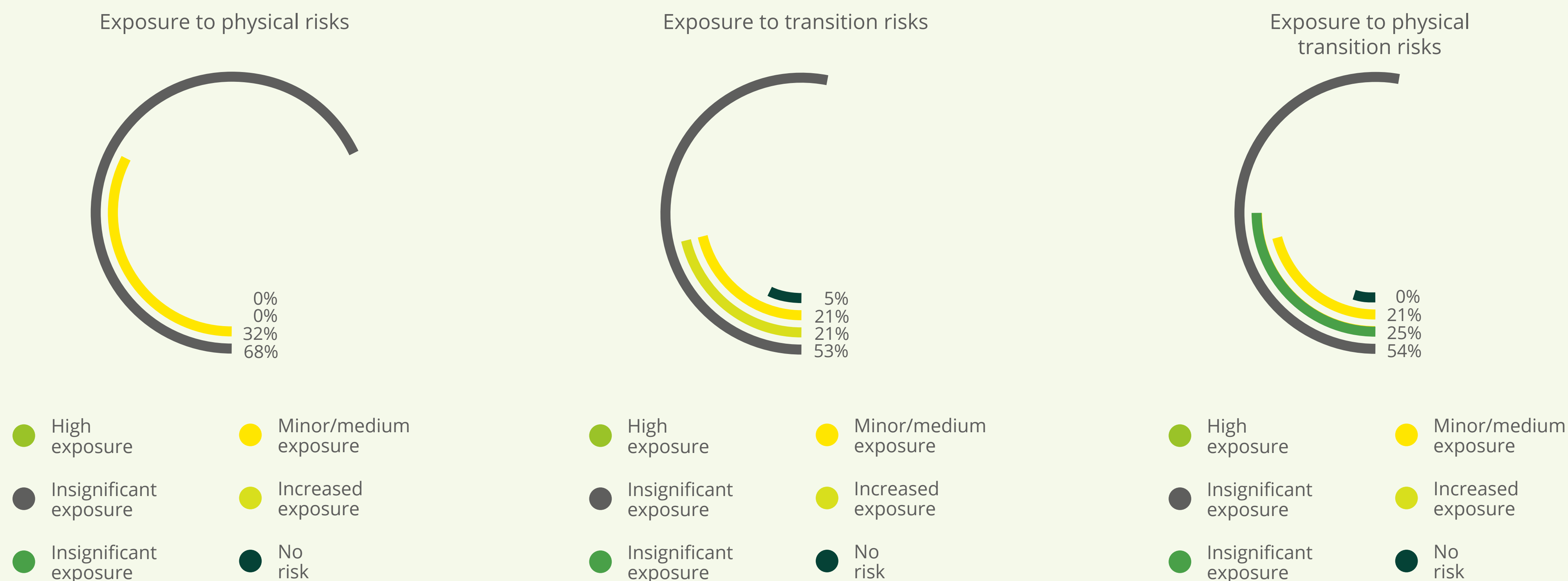
businesses operating in Lithuania from the *Department of Statistics*, as well as other studies and sources.

- Loans to non-commercial natural persons with real estate collateral – based on the address and energy efficiency class of the collateral.
- In the case of agricultural loans, it is influenced by whether the investment was intended for the development of an organic or non-organic farm.

- The determination of the level of risk in each case may be influenced by whether the loan is identified as sustainable (i.e. a sustainable loan).

The physical and transition risk levels are assessed separately, followed by the final risk level. When evaluating the loan portfolio data of the LKU Group of Credit Unions, the risks of small and medium impact prevail (see Figure 2).

Figure 2: Exposure to physical and transitional risks at the LKU Group of Credit Unions, 12/31/2022*



*Information is based on the data available at the time of reporting, which were obtained during the materiality assessment.

6. HIGHLIGHTING OF ESG RISKS

It should be noted that the draft on ESG directions was coordinated and presented to managers of credit unions in 2022 and 2023. Given the nature of the LKU Group of Credit Unions, one of the most important areas is the implementation of social responsibility, since as a trusted financial partner, the Group is particularly active in contributing to the development of financial literacy and practices for the public, but both the mitigation of climate impact and assured governance are also areas of particular importance. The meetings highlighted the following key areas, which were combined with the Sustainable Development Goals (SDGs) outlined in the document Transforming Our World: the 2030 Agenda for Sustainable Development, adopted during the High-Level Meeting of the Heads of State and Government in New York (USA), 25–27 September 2015. The document sets out 17 Sustainable Development Goals (SDGs), made up of 169 targets covering a wide range of policy areas, to be achieved by 2030:

1. Environment (E).

In order to achieve the Paris Agreement's overarching goal of becoming a climate-neutral continent by 2050, mitigating climate impacts is one of the focus areas of ESG governance. The organisation will aim to reduce resource consumption and footprint, and its financing products will focus on positive impacts on the environment, society and economic growth. This will be achieved through the following measures:

- **Green product initiatives** – the aim is to develop financial products that enable more favourable financing conditions for environmentally friendly solutions.
- **Increasing of funding for sustainable projects** – in the future, the monitoring of the concentration of sustainable projects and tracking of the Green Asset Ratio is planned.
- **Reducing resource consumption** – the CO₂ assessment will continue to be calculated and improved; other initiatives aimed at reducing CO₂ will also be encouraged.

2. Social Responsibility (S)

By becoming a financial partner the LKU Group of Credit Unions contributes very actively to the development of financial literacy and forming a 'good' image/practice for the society, which is why it is very important to increase the society's involvement, as well as to introduce the values of social responsibility into the organisation itself. This will be achieved through the following measures:

- **Increasing the access to financial services** – promoting financial literacy through quality consulting, initiatives and other projects.
- **Reducing inequalities** – transparent remuneration policy, continuous employee upskilling, and feedback through employee engagement surveys.
- **Community building** – activities and initiatives involving the member credit unions of the LKU Group in regional public activities, provision of support and financial assistance to organisations, volunteering programmes.
- **Employee engagement** – equal pay for equal work or work of equal value, reducing inequality and increasing diversity.
- **Installing social values through collaboration and partnership** – preference for partners who contribute to the promotion of sustainable and socially responsible activities.

3. Governance (G).

The LKU Group of Credit Unions aims to apply responsible business principles at all levels of the organisation and to address data protection issues. The following priority areas, i.e. transparency and credibility, are identified and will be implemented through the following measures:

- **Strengthening of compliance management practices** – continuously improving compliance processes to ensure transparency and compliance with legal and regulatory requirements.
- **Strengthening the team's competences** – organising education and training within the LKU Group (training sessions, policy introductions, knowledge tests, meetings and discussions) to enhance employee knowledge and practical preparedness.
- **Ensuring data management security** – ensuring proper data security management, regularly assessing IT systems' adequacy, and implementing cybersecurity measures to protect against potential threats.