LHV Bank AS Engagement Policy in Securities Portfolio Management

1. General provisions

1.1. This policy of LHV Bank AS (hereinafter LHV) describes how LHV monitors the investee companies in the provision of securities portfolio management services and sets out the policy for exercising the voting rights related to the shares or other voting securities (hereinafter shares) in the securities portfolios being managed (hereinafter portfolios).

1.2. At the customer's request, LHV discloses additional information to the customer regarding the policy measures and clarifies the details as necessary.

1.3. This policy is reviewed at least annually, and a decision is made to amend the policy as needed.

2. Monitoring significant events related to shares

2.1. The custody specialist monitors important events regarding the shares on the basis of information provided by the companies (issuers) and, where relevant, forwards the information to LHV portfolio managers.

To follow events in the companies, portfolio managers also use sources based on public information, including periodic financial reports, ESG and sustainability reports, press releases, company management meetings and other relevant material.

2.2. The provisions of this article apply to other voting securities as well as shares.

3. Exercising voting rights

3.1. Exercising voting rights is one of the rights of investors and the primary way to be engaged in the development of the company in which they have invested. LHV exercises voting rights on the basis of the authorisations granted in the terms and conditions of the portfolio management agreement and based on the best interests of customers. LHV may use a provider of proxy voting services when exercising the voting rights related to the shares.

3.2. If the exercise of voting rights is related to an event that goes beyond the practice of regular securities portfolio management and/or involves additional costs for the portfolio customers, LHV may coordinate the detailed circumstances and instructions for exercising voting rights with the customers in advance.

3.3. The prudent use of voting rights should bring positive financial benefits to the portfolios in the long run. Using voting rights is one of the ways to follow the principles of sustainability (ESG principles). LHV proceeds from the principle that considering ESG factors generally has a positive effect on the return on investment, helps to identify potential investment risks and provides information on the company's quality of management.

3.4. By exercising voting rights, LHV promotes better corporate governance and corporate responsibility and influences companies to increase transparency and disclosure of information.

3.5. As a rule, LHV exercises its voting rights regarding a share included in the portfolio assets jointly across the portfolios. Voting rights are exercised in the best interests of the portfolio investors, taking into account the investment strategies and objectives of the portfolios.

3.6. LHV may decide not to exercise voting rights in a situation where, in LHV's judgment, exercising voting rights (including performing the analysis underlying the exercise of voting rights) would entail unreasonably high costs or if non-exercise of voting rights would not harm the interests of the portfolio customers.

3.7. LHV does not have to disclose insignificant votes due to the matter being voted on or the size of the holding held in the company.

3.8. LHV records the circumstances and maintains the documents related to the exercise of voting rights.

4. Prevention and management of conflicts of interest

4.1. The LHV portfolio manager exercises the voting rights related to shares. In certain cases, LHV may also involve suppliers of proxy voting services. When exercising voting rights, the portfolio manager proceeds solely from the interests of the portfolio customers and does not represent third parties (such as other LHV customers and companies belonging to the LHV consolidation group).

4.2. In assessing the existence of a conflict of interest, LHV identifies, inter alia, the following:

4.2.1. Whether the person involved in the exercise of voting rights may have a personal interest in a particular voting result, taking into account whether the person holds (significant amounts of) securities issued by the company or is otherwise closely related to the company.

A significant holding is established based on whether the person's securities or votes, together with the positions in the portfolio assets, give the person an opportunity to significantly influence the management of the company.

4.3. If there is a significant conflict of interest situation, LHV assesses whether the conflict can be managed, for example, by delegating the exercise of voting rights to another LHV portfolio manager who has no personal interest in the voting results.

4.4. In the event of an unavoidable conflict of interest, LHV will, if possible, act in the interests of the customer or refrain from using its voting rights arising from the respective securities.

5. Exercising voting rights in typical situations

5.1. For typical agenda items at general meetings or extraordinary meetings of shareholders, LHV generally exercises voting rights as set out below.

Agenda item	Vote for	Vote against	Impartial	Comment
Approval of annual report with positive auditor's opinion	x			
Election of an auditor for the next term (Big 4 company)	x			
Remuneration of management via stock-option programmes			x	
Amendments to the articles of association			x	
Implementation of take-over defences		x		
Abolition of take-over defences	x			
Delisting		x		
Reporting political donations	x			

Optimisation of capital structure through:				
Dividend payment	x			
Return of capital to investors	x			
Raising new capital			x	
Raising capital through private placement		x		
Supervisory board:				
Removal of supervisory board members			x	
Election of new supervisory board members			x	
Adding of independent supervisory board members	x			
Changes in the remuneration of supervisory board			x	
ESG principles:				
Making new ESG investments	x			
Reporting on environmental sustainability and climate change	x			The quality of the data already disclosed by the company and its level compared to other similar companies are taken into account.
Setting carbon reduction targets	x			Efforts are to be made to obtain additional information on how the company measures ESG risks to encourage the disclosure of data so that investors can make informed decisions about reduction targets.
Making donations to political parties			x	Voting against the introduction of rules restricting employees' membership in political parties.
Equal treatment of employees	x			As a general rule, voting for the diversity of management bodies and reducing the gender pay gap while considering the situation in comparable companies.
Standards governing employees' rights and human rights	x			As a rule, voting for the disclosure of the company's activities and standards and their impact, and for complying with UN and ILO international standards and conventions.

Document history

Version number	Valid from	Description of modification
1	24 August 2021	Original version
2	6 November 2026	The document has been updated to reflect the company's name change from AS LHV Pank to LHV Bank AS.