

Information on investment services

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1. Background information on LHV Bank

1.1. General information on LHV Bank

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AS LHV Pank (hereinafter: 'LHV Bank') holds the authorisation of a credit institution, issued with the Resolution No. 4.1-1/37 of the Management Board of the Financial Supervision Authority (Sakala 4, 15030 Tallinn, Republic of Estonia, telephone: 668 0500, e-mail: info@fi.ee, web page: www.fi.ee) on 6 May 2009. The Financial Supervision Authority conducts supervision over the activities of LHV Bank and the preservation of the assets of its clients.

The legal form of LHV Bank is a public limited company (AS). The company's sole shareholder is AS LHV Group (registry code: 11098261). Information on the [directors of the LHV Bank and their tasks](#), as well as the [annual reports](#) of LHV Bank available on the LHV Bank website.

In Estonia, LHV Bank also operates through licenced investment agents, with the corresponding information available on the website of the Financial Supervision Authority at www.fi.ee.

1.2. Language and means of communication

clients may communicate with LHV bank, and request documents or information from LHV Bank in Estonian or English, unless otherwise agreed.

LHV Bank shall communicate information (including declarations of intention) to its clients at its branch offices, on its website, through mass media or other agreed channels (e.g. e-mail, post or Internet bank). If the client has informed LHV Bank of his/her e-mail address and/or has access to the Internet bank, LHV Bank shall have the right to send all messages (including declarations of intention) to the client by e-mail or Internet bank, unless otherwise provided in legal acts.

The client may communicate information (including declarations of intention) to LHV Bank on a hard copy, by e-mail, through the Internet bank or through other agreed channels.

1.3. Information on the classification of clients

Prior to the provision of investment services and ancillary investment services, LHV Bank shall gather information on the client's experience and knowledge, financial position and investment objectives as well as other circumstances related to the investment service and securities, so as to assess the client's experience in operating on the securities market, and knowledge of the financial market, the planned investment services and securities, and consider the suitability and relevance of the investment service.

All clients to whom LHV Bank provides investment services shall be classified into "retail clients" and "professional clients" in accordance with the Securities Market Act (a professional client may, under the conditions stipulated in the Securities Market Act, also be treated as an eligible counterparty) in order to ensure the level of protection stipulated in the legal acts.

A retail client is a person (e.g. a natural person, small company) who does not necessarily have sufficient knowledge and experience to measure the suitability of the investment decision against the current financial position and investment objectives, or to weigh the risks associated with investment. A retail client is provided with the highest level of protection.

A professional client is a large undertaking, a company operating on the financial markets, a state institution or agency, or a similar person competent to make its own decisions with regard to suitability of the investment decision and the accompanying risks. The level of protection of a professional client is somewhat lower than that of the retail client:

- the information available regarding the nature and risks of financial instruments may be more restricted;
- the financial capability of a client is not assessed in the provision of investment counselling (covers professional clients that meet certain criteria);
- the knowledge and experience of a client are not assessed in the provision of investment services;
- less detailed information related to costs and fees is disclosed.

A professional client may apply for being treated as a retail client or eligible counterparty.

An eligible counterparty is a professional client who is an investment fund, insurance provider, credit institution, central bank, government or an international organisation. Eligible counterparties have the lowest level of protection.

Unless the client is otherwise notified, LHV Bank shall treat both clients who are natural persons and those who are legal persons as retail clients, which provides for a higher protection level of the client. In order to apply for treatment as a professional client or eligible counterparty, the client must contact the LHV Bank customer service at the e-mail address info@lhv.ee or the telephone number 6 800 400.

2. Information on the investment services provided by LHV Bank, and the general risks involved in investment

2.1. Information on investment services and ancillary investment services

LHV Bank shall provide investment services and ancillary investment services to its clients in accordance with the current [Terms and Conditions for the Provision of Investment Services](#) of LHV Bank.

Employees of LHV Bank who provide investment services and ancillary investment services, and also provide information about investment products, must possess the requisite knowledge and skills. Employees must participate in training, successfully pass knowledge based tests and observe the other relevant guidelines of LHV Bank in order to ensure the validity of the prescribed level of knowledge at all times while working in the relevant position.

LHV Bank holds an authorisation for the provision of the following investment services and ancillary investment services:

- reception and transmission of orders related to securities;
- performance of an order related to securities on behalf of or for the client;
- trading with securities for its own behalf;
- management of a securities portfolio;
- investment-related consultation;
- guaranteeing a security or guaranteeing the offer, issue or sale of a security;
- organising an offer or issue of securities;
- operation of an MTF where the interests of different people for acquisition and transfer of securities are brought together under uniform conditions which result in entry into a contract;
- safekeeping and administration of securities for a client and activities related thereto (including receipt of securities transfer and pledge orders and other orders related to the encumbrance of financial securities from clients and communicating or execution thereof);

- grant of a credit or loan to an investor to conduct securities transactions on the condition that the creditor or lender itself is related to the transaction;
- advising a company on issues related to the structure of capital, strategy of a business sector, etc.; consultation related to the merger of companies and purchasing of a shareholding, and related services;
- services related to the exchange of foreign currency if they relate to the provision of investment services;
- preparation or issue of an investment or a financial analysis or some other general recommendation in connection with securities transactions;
- services related to the guarantee of the offer or issue of securities;
- provision of other investment and ancillary services in connection with derivative instruments.

Additional information on securities and their features is available on the LHV Bank website ([Investment School](#)).

2.2. General description of the risks related to investment and securities

Each investment has two sides: risk and profit. Each client a different risk tolerance, thus the client has to choose an investment product in accordance with his/her risk level. LHV Bank may share information on investment opportunities and securities-related risks, yet it is the client alone who is responsible for analysing all of the risks involved in investing and for assessing their potential effects and consequences.

LHV Bank recommends that clients:

- exercise caution when choosing an investment product or security and make the investment decision in view of the risks. LHV Bank may provide information, yet it is up to the client to make the decision;
- work out the nature of securities or investment products and the risks involved prior to making the investment decision;
- monitor the investment portfolio via the LHV Bank's Internet bank with sufficient frequency to keep an eye on the changes in the market price, transaction execution, transfer execution and other such changes. In case of questions, the clients are advised to contact the LHV Bank client support at the e-mail address info@lhv.ee or the telephone number 6 800 400.

The following introduction provides an overview of the principal risks involved in investing in securities, yet it is not an exhaustive list of all risks.

What is a risk?

Risk is the danger of suffering a loss or a smaller-than-expected profit. It is crucial to first of all be aware of risks and appreciate that risks related to the fluctuations in the price of a security are unavoidable. The price of a security is affected by the issuer's financial performance, market depth and the liquidity of the security, trends in general economic environment, the political situation and many other factors. Further to the risk tolerance of the investor concerned, these risks need to be reduced or taken into consideration.

It is useful to distribute risks, for example, instead of investing in the shares of one issuer, invest in several different shares. In case of an investment fund, a share is being purchased in the distributed portfolio assembled by the fund manager. When investing, it is necessary to make sure that the portfolio is not exposed to various risks at the same time; for example, a portfolio is risky if it only includes companies in a single industry, as these are exposed to similar risks.

Price risk

Price risk is the danger of incurring a loss due to an unfavourable change in the market price of a security. With negative news, a security can lose value quickly and in extreme market conditions, it is possible to lose one's entire investment. The price of a security may be affected by the publication of financial performance, cessation of contracts vital to the company, departure of employees, issuance of additional shares and other events.

Market risk

Market risk is the prospect of incurring a loss due to general price changes in the securities market or unfavourable price changes in a certain sector. Unfavourable price changes may be caused, for instance, by the poor financial performance of a country or sector of the economy, unstable economic environment, unstable securities market and the like.

Currency risk

Currency risk is the prospect of incurring a loss due to the price securities being calculated in one currency while purchases and sales are in another. For example, a loss can be incurred due to unfavourable changes in exchange rates between various currencies, devaluation, long-term depreciation, depegging of a pegged currency exchange rate and the like.

Liquidity risk

Liquidity risk involves a reduction in or absence of the liquidity of the securities market, for instance, when the sale of securities at the desired time at the desired price is impeded or impossible. In case of steep drops, there are few buyers in the market and the sale of a sizable position may exacerbate the drop and increase any losses.

Interest rate risk

Interest rate risk is the prospect of incurring a loss because of changes in interest rates in an unfavourable direction. Unfavourable market changes can generate a loss, for example, due to a change in the interest rate, a change in interest rate volatility, a change in the difference in the interest rates between financial instruments of diverging risk levels, repayment of debts before term or the like. For example, a steep rise in interest rates in the bond market will entail a drop in the prices of bonds.

Issuer risk

Issuer risk is the prospect of the value of a security declining due to an issuer's poor financial indicators, financial difficulties or incapacity to meet its obligations toward investors arising from the securities issued by it. For example, filing for bankruptcy protection implies a rapid reduction in the price of shares issued by the company.

Country risk

Country risk or political risk is the prospect of events in the country or region where the issuers of securities are active or registered that will affect the political or economic stability or future development of that country. Due to such events, an investor may lose in part or completely its investments in that country and incur a significant loss on the investments made. For example, changes in the political system (revolution), economic policy (nationalisation, imposition of trade restrictions, changes in the tax system), political crises (popular unrest, political confrontation).

Tax risk

Tax risk is the prospect that a client's securities held with the account manager in an account opened on behalf of LHV Bank are treated for tax purposes as if they belonged to LHV Bank. In such a case, for instance, it may happen that the client will be unable to enjoy the benefits arising from an agreement between his country of location and the securities' country of registration to prevent double taxation.

Legal risk

Legal risk is the prospect of investment in securities without an overview of the legislative acts in the issuer's country of operation and the obligations flowing therefrom. Thereby an investor may incur a loss or be subject to sanctions arising from legislation. In addition, legislative acts in the country may be amended (see Political risk), entailing the creation of an unfavourable restriction or obligation for the investor.

Information risk

Information risk is the prospect of an investor not receiving adequate and accurate information about securities or an impediment in receiving such information. For instance, certain corporate events may be reflected in the portfolio in the form of a time reference, an investor may misunderstand the conditions of the take-over bid and miss the exercising of his right to subscribe.

Systems risk

A systems risk is the prospect of incurring a loss due to technical malfunction in the systems of depositories, custodians, stock exchanges and other settlements of securities transactions. As a result, transactions may fail to be effected, post-transaction transfers may be late and the like. For instance, shares or dividends paid do not reach a client's account on time. Losses may result from a transaction unaffected or deferred due to the slowness or temporary unavailability of an internet connection.

Custody risk

A custody risk is the prospect of an incomplete guarantee, in the event of the account manager's prospective bankruptcy, for the separation of the securities and other assets held in the nominee accounts with him from the securities and other assets belonging to the manager itself. Recourse to external managers runs the risk of the investor losing the securities held in the nominee accounts with this manager in case of the manager's bankruptcy or the application of coercive measures by government.

Short selling risk

In case of short selling, shares which the investor does not have are sold and these are borrowed from the broker with the obligation of returning them to the broker later. If the prices of the shares sold begin to rise and the assets held in the account as a security are insufficient to meet the obligations, the position must be closed out in any event. This may involve the loss of a lot more money than the original value of the transaction, since the price of a share may rise without limit. Thus, it may happen that the

purchase transaction required for the liquidation of a short selling position will use up all the money in the account and, additionally, the securities held as collateral must be sold.

Loan collateral risk

Borrowing against collateral consisting of securities involves the prospect of a market decline and a decline both in the market value of the financial instruments providing the collateral and in the prices of the securities acquired against the loan. Thus, akin to short selling, the securities providing the collateral in case of leverage (gearing) may have to be sold.

Trading risks

In the LHV Bank electronic trading system, transactions are effected in a very short time, and because of this losses may be heavy in case of errors due to a lack of knowledge or experience in trading on a securities market. In trading, it is possible to lose all assets invested. Day trading may involve major transaction costs, which may obliterate the entire profit earned. Additionally, prospective disruptions in the functioning of information systems must be allowed for in trading, as these may disrupt the availability of information and the communication, amendment or cancellation of transaction orders. Prior to the commencement of trading, an investor should examine the rules on electronic trading, order types and other particulars.

Risks involved in trading outside of regular trading time

Securities prices or quotations may diverge considerably, outside the regular trading time of stock exchanges, from what is regular. Prices in this period may fluctuate more violently; the market may be considerably less liquid. When the stock exchange is closed, stock exchange announcements or other information affecting the market may be released and this may amplify the fluctuation of prices.

What risks are involved in shares?

Traded shares are susceptible to nearly all of the above risks. Share profit is not guaranteed; disbursed dividends may change; and a company may terminate its operations due to bankruptcy, implying for a shareholder the loss of an entire investment. In case of the termination of a company's operations, shareholders are the last to have their claims settled. In share purchases, a major risk is concentrating on one company, region or sector.

What risks are involved in debt securities?

The owner of a debt security has given a company a loan and in case of the liquidation of an issuer, the claims of shareholders take priority over the claims of the owners of debt securities. In case of debt securities purchased for the purpose of trading, the reliability of the issuer of the debt security must be considered, which may affect the market value and liquidity of the debt security.

What risks are involved in fund shares?

A fund share involves lower than usual risks, since funds distribute their assets amongst various securities. A fund share owner may be affected by all of the above risks, since a fund invests investors' funds in assets exposed to the above risks. Information on risks involved in a specific fund is provided by the fund's prospectus and terms and conditions.

What risks are involved in derivatives?

The purchase of options, futures or other derivatives involves the acquisition of a contract, the market value of which is related primarily to the price of underlying assets or the exchange rate of a currency. Derivatives thus involve a risk related to the change in the price of underlying assets. Read further information on the website of LHV Bank on risks involved in derivatives.

A client has to consider at least the above risks involved in investment activity. A client has to take into account that the risks described in this overview are not presented in an exhaustive list; thus the client must also carefully analyse and assess other risks involved.

3. Rules for the best execution of a transaction order

These rules for the best execution of a transaction order (hereinafter: 'Rules') set forth the principles further to which LHV Bank executes and communicates clients' transaction orders. Where possible, LHV Bank shall execute transactions orders on regulated markets and in multilateral trading systems and, if this is not possible, LHV Bank may communicate transaction orders to a third-party intermediary (broker).

When and to what extent do the Rules for the best execution of a transaction order apply?

These Rules apply to all securities mediated by LHV Bank. You will find the selection of securities tradable by LHV Bank's proxy on the [website](#) of LHV Bank. Likewise, the Rules apply to the execution and communication of orders related to the management of a security portfolio. The principles laid down in the Rules do not apply to clients classified by LHV Bank as eligible counterparties.

If the client gives LHV Bank specific instructions for the execution of a transaction order (for instance, as regards the price of execution), LHV Bank will execute the transaction order further to the client's instructions and this may diverge from the procedure described in the Rules. Where the client's instructions cover an order only in part, LHV Bank shall endeavour to ensure the best execution of the order as regards its remaining parts. If the client does not give specific instructions to execute an order, LHV Bank shall execute the order as per the Rules.

If the client uses automatic trading systems, LHV Bank will be unable to apply the Rules and the transaction order will be executed further to the specific parameters (including market price, quantity, the other party) specified by the client. For instance, where the client submits an order via the Internet bank and it is executed without interference from LHV Bank (i.e., it is automatically and promptly communicated to the stock exchange), the client shall be deemed to have submitted a specific instruction and LHV Bank shall be deemed to have proceeded from the best interests of the client. Read more on the automatic trading system and recommended order types on the [website](#) of LHV Bank. However, if the bank interferes in any way with the execution or communication of the order, the best execution rules shall nevertheless apply.

Where the client submits an order and it is executed, for instance, via trading platforms such as LHV Trader and LHV Broker, the order shall be deemed to have been given without interference from LHV Bank, i.e., the client has given a specific instruction and LHV Bank proceeded from the best interests of the client. A similar situation arises where LHV Bank communicates an instruction of the client to the place of execution via a third-party intermediary with whom a relevant agreement has been entered into. In such a case, LHV Bank cannot monitor the execution of each order and the service provider of the relevant trading platform or the third-party intermediary proceed from their own current rules for the execution of orders. LHV Bank shall assess and make sure that the best execution rules of service providers and intermediaries provide for equivalent protection of clients' interests.

In extraordinary market conditions, LHV Bank may decide that it is necessary, for the best interests of clients, to use measures to execute or communicate orders that diverge from the measures usually applied to such orders. Such extraordinary market conditions are, for instance, situations where the stock market is extremely fluctuant or where there are external or internal (within LHV Bank) system failures. Disruptions may occur in the information systems of both LHV Bank as well as service providers. Disruptions may occur both in the communication of an order to LHV Bank and in communication with the places of execution. In such an event, LHV Bank will notify the client of any delay in the execution of an order.

Certain securities transactions are performed in such a way that the counterparty to the client may be LHV Bank, a service provider or a third party and the order is not executed on a regulated market (hereinafter: over-the-counter transactions or OTC transactions). Where LHV Bank or a service provider of LHV Bank offers the client a quotation or negotiates the terms and conditions of an OTC transaction with LHV Bank or a service provider of LHV Bank as a counterparty, then LHV Bank normally does not act on behalf of the client and is not guided by these Rules. LHV Bank performs an OTC transaction upon receipt of an order to this effect.

What parameters does LHV Bank consider in the best execution of orders?

- Market price of the security
- Peculiarities of the financial instrument (see more on the [website](#) of LHV Bank)
- Trading hours of markets (see more on the [website](#) of LHV Bank)
- Speed of the transaction execution
- Market depth and liquidity
- Likelihood of the transaction or settlement actualisation
- Amount of the transaction order (see section "Sizable orders")
- Transaction execution costs
- Transaction order types (see more on the [website](#) of LHV Bank)
- Constraints preset by the client
- client data (including classification into retail client or professional client)
- Impact on the market of the disclosure of the transaction order (see section "Sizable orders")
- Other circumstances impacting on the efficient execution of a transaction order (including the current market conditions)

The above factors have not been listed in any order of significance, since, depending on the peculiarities of instruments, the degree of significance of each factor may vary. LHV Bank takes into account that in the execution of a transaction order there may be factors counteracting one another, and in the best execution of transaction orders LHV Bank allows for the joint effect of these factors.

In case of retail clients, the best possible result is ascertained on the basis of the total cost. Total cost consists of the price of the financial instrument and the costs of execution, comprising all costs which have been borne by the client and which are directly

related to the execution of the order, e.g. trading venue, clearing and settlement fees and other fees payable to third parties participating in the execution of the order.

LHV Bank forewarns retail clients that other factors of execution, such as the speed of execution, likelihood of execution, speed of settlement, likelihood of settlement, volume of the order and type of the order are less important than the total cost factor.

In case of professional clients, the best possible result is ascertained on the basis of the volume of the order and speed of execution.

LHV Bank forewarns professional clients that other factors of execution, such as the total cost, likelihood of execution, speed of settlement, likelihood of settlement, type of the order and other factors are less important than the volume of the order and the speed of execution. Still, LHV Bank will also consider the total cost as an important factor in case of professional clients.

Places of execution and third-party intermediaries

For the best execution of a transaction order, LHV Bank may use the following places:

- regulated markets;
- LHV Bank's partners in regulated markets or multilateral trading systems;
- LHV Bank;
- other elements ensuring liquidity or persons performing such functions.

The list of places of execution and third-party intermediary is provided in [Annex 1](#).

In choosing the place of execution LHV Bank considers the price and the amount of costs connected with execution and, among other things, LHV Bank considers where the execution of a transaction order is likeliest. LHV Bank does not assess the likelihood of execution anew prior to each transaction execution; rather, LHV Bank selects the place of execution for a given transaction on the prior indicators for transactions of a similar type.

On the Riga, Vilnius and Tallinn stock exchanges, and in the multilateral First North and Bloomberg Trading Facility Limited, LHV Bank operates as a member, and on other regulated markets by proxy of its foreign partners who have access to the foreign market where the security specified in the transaction order is traded. If on the list of prospective places of executions there is only one place, LHV Bank deems itself to have provided the best possible execution and that the transaction order will be executed as well as possible in such a case.

Orders related to initial public offerings (IPOs) are accepted and communicated by LHV Bank to the issuer or its representative in accordance with the terms of the IPO.

In choosing a third-party intermediary (e.g., a broker), LHV Bank considers such factors as the price, costs, speed, likelihood of execution and settlement as well as other factors that may be critical at the moment when the order is communicated.

Communication of a transaction order

Orders may be communicated to LHV Bank via the Internet bank, in writing or by any other means agreed upon (e.g., by telephone). LHV Bank shall execute all orders of clients accurately, fairly and promptly. If LHV Bank needs to communicate transaction orders to a foreign market through the business partners, LHV Bank will be unable to monitor the execution process directly and, because of that, LHV Bank has, in choosing business partners, considered their reliability, stability and professionalism as well as capability in executing orders in accordance with the best execution rules of LHV Bank.

Time required for the execution of a transaction order

LHV Bank accepts a transaction order communicated by the client for execution at the earliest opportunity after receipt of the order; however, the temporal sequence of receiving orders may depend on the method of communicating the order. In its execution, the specifications related to the securities will be considered, which are available on the [website](#) of LHV Bank.

Amalgamation of transaction orders

Sometimes it makes sense, in the interests of best execution, to consolidate the transaction orders of several clients or of clients and LHV Bank into one order. Though LHV Bank consolidates orders only if an adverse effect from a consolidation is unlikely, this may, however, impair the execution of the client's order in some instances. If the execution of a consolidated order is affected only in part, LHV Bank will execute clients' individual orders based on the obtained average price and in proportion to the amount executed, allocating the related transactions first to clients and only then to the bank. Subject to an agreement with the clients, LHV may split a partially executed consolidated order between all the participating clients in a way that diverges from the rules laid down in this procedure.

Sizable orders

If the client's transaction order clears a certain threshold, LHV Bank will treat it as a so-called sizable order. The execution of a sizable order may cause unwelcome fluctuations on a market, which will prevent the implementation of the procedure for the best execution, and, because of that, LHV Bank may decide autonomously in what proportions to communicate a transaction order to the market.

Sizable orders may diverge based on the type of instrument, place of execution and market conditions. Hence, LHV Bank is unable to specify the amount and execution procedure of a sizable order in the best execution rules.

Low-liquidity products

If the client wishes to place a transaction order for the trading of a financial instrument whose liquidity is low or which is not traded on a regulated market, the client will have to allow for significant price fluctuation and the fact that the best execution rules cannot be honoured. To perform transactions with low-liquidity financial instruments, LHV Bank advises clients to find their own partner and negotiate the price for the transaction with the partner.

Five key places of execution and brokers

The following information will be published on the website of LHV Bank once a year:

- five key places of execution in terms of the trading volume – concerns all client orders that have been executed and is broken down into classes of financial instruments, retail and professional clients;
- for each of the five key places of execution – financing via securities in transactions concerning all client orders that have been executed;
- summaries of analyses and conclusions made on the basis of assessing the quality of the places of execution.

LHV Bank will publish the aforementioned information also for five key brokers.

Monitoring, assessing and modifying the best execution rules for orders

LHV Bank assesses and regularly verifies the efficiency of its best execution rules directly through the units responsible for ensuring the best execution and via compliance checks. To this end, LHV Bank reviews the best execution rules at least once a year and updates them if an essential change is found in the arrangements for the execution of transactions. An essential change may, for instance, be an event that may affect the parameters of best execution such as costs, prices, speed, likelihood of execution and settlement, volume, nature, etc. Updates of the best execution rules are always published on the website of LHV Bank.

Likewise, LHV Bank regularly assesses whether the chosen places of execution and cooperation partners (brokers included) comply with the current criteria and follow the best execution rules.

For more information concerning the execution of orders, please contact the customer service of LHV Bank by e-mailing to info@lhv.ee or calling 6 800 400.

4. Description of and procedure for averting potential conflicts of interest

What is conflict of interest?

Conflict of interest is a situation that may arise in the performance of a contract or work duty, through an action or failure to act, or by performing various roles simultaneously. In the event of a conflict of interest, the financial interests of one party are in conflict with those of the other, and it is difficult to maintain objectivity.

LHV Bank aims to avoid situations where the interests of a client or LHV Bank are in conflict, and aims to discharge its obligations toward a client in the best possible manner. It is not always possible to avoid such situations; we will provide notice of a possible conflict of interest, giving the client the opportunity to assess its impact on the investment decision.

Preparation of investment analyses and Pro ideas

A possible conflict of interest may arise if the team of analysts or an analyst preparing an investment recommendation or analysis with respect to an issuer may have shares of the same issuer or other such financial interests, which may conflict with the interests of clients. A conflict of interest arising from the preparation of investment analyses is prevented in accordance with the information disclosure requirements specified in legislation and the LHV Bank internal regulations. Additionally, LHV Bank has stipulated restrictions for those preparing analyses in the performance of transactions with the securities analysed.

Trading securities

A possible conflict of interest may arise if a broker executes a transaction between clients whose interests diverge or whose coincidental partner is LHV Bank or an LHV Bank staff member. To prevent a conflict of interest related to securities trading and to

protect client interests, stringent requirements and rules on proceeding in the execution of transactions have been prescribed through legislation and LHV Bank internal regulations.

Credit services

A possible conflict of interest may arise if the company to whom credit is provided, is also provided other services (e.g. investment banking, portfolio management or other services). To hedge the risks, the functions which may face a conflict of interest shall be located in different departments, with the functions themselves served by different employees. The employee remuneration principles shall not be based on the preference of certain client groups.

Investment consulting and portfolio management

A possible conflict of interest may arise if the client is given personal recommendations regarding transactions related to financial instruments, or in case of management of a client's portfolio, where the person recommending the transaction or the portfolio manager has personal interests in the financial instruments. The purpose of investment consulting is to give relevant and objective advice, as well as to introduce options suiting the client's situation and risk profile. It is the client's task to pass the final investment decision. A conflict of interest shall be hedged via the principle of separation of the functions, as well as supervision by the investment committee and the internal control department.

Employee remuneration principles

A possible conflict of interest might arise if the employee remuneration principles rested on the preference of the interests of certain client groups. LHV Bank remunerates its employees with a set monthly salary and performance pay, the latter being tied to performance over a longer period.

Fees for services

A possible conflict of interest might arise if fees are received from or paid to third persons in the course of the provision of investment services. To avoid conflicts related to the preference of the payer or payee of a fee, LHV Bank accepts the receipt or payment of a fee only if this improves the quality of the services provided to the client and does not adversely affect the client's interests.

5. Information on the management and protection of the client's funds and securities

5.1. How are the client's assets managed in LHV Bank?

LHV Bank keeps the client's assets entrusted to the bank separately from its own assets and the assets of other clients, unless otherwise agreed between the client and LHV Bank.

The client's securities registered in the Baltic Central Securities Depository are kept either on the client's account opened in the name of the client, or the nominee account opened in the name of LHV Bank. Other securities are kept by the custodians selected by LHV Bank. The custodians keep the client's securities on the securities account (client account, nominee account, etc.) which has been opened in the name of LHV Bank with the purpose of pooling the securities of the clients of LHV Bank. LHV Bank deposits securities and funds with the custodians in accordance with the legislation of the host country of the custodian, good market practice, the custodian's requirements and the contract(s) concluded with the custodian.

The client's securities-related rights arising from the legislation of the host country of the custodian may differ from those provided by the legal acts of the Republic of Estonia. If the legal acts of the custodian's host country do not provide for any means to distinguish between the client's securities from the securities of LHV Bank and other clients, LHV Bank shall deposit the client's securities with the particular custodian only if the nature of the securities or the associated investment services requires that the securities be kept in the custodian's host country, or on the basis of a written permission of a professional client. In this case, the client's securities will be kept on any of the following accounts, as chosen by LHV Bank:

- on the securities account opened in the name of LHV Bank together with the securities of LHV Bank or other clients of LHV Bank;
- on the securities account opened in the name of LHV Bank, separately from the securities of LHV Bank or other clients of LHV Bank; or
- on the securities account opened in the name of the client, if LHV Bank obliges the client to open a separate securities account in the name of the client.

Countries where the laws on safekeeping and administration of securities do not allow to distinguish the client's securities held by the custodian from the securities belonging to the custodian or the bank:

- | | | |
|--------------------------|------------------|-----------|
| • Bosnia and Herzegovina | • Slovakia | • Ukraine |
| • Poland | • Slovenia | • Hungary |
| • Romania | • Czech Republic | • Russia |

LHV Bank chooses the custodians in accordance with its in-house criteria, with professional diligence, so as to ensure the reliability of both LHV Bank and the custodian and the protection of the client's interests. LHV Bank also regularly assesses the chosen custodians and the quality of services provided by them.

The specific terms and conditions, as well as LHV Bank's rights in the administration of the client's securities, are stipulated in the [Terms and Conditions for the Provision of Investment Services](#) of LHV Bank.

5.2. How are the client's assets protected in LHV Bank?

The clients' assets held by LHV Bank are comprehensively protected through three measures:

- the internal control system of LHV Bank, ensuring the highest level of asset management and the associated risk hedging;
- the equity capital of LHV Bank, held at a level higher than required by law in order to secure the claims of clients and partners;
- the state system for protection of investors and depositors, implemented by the state through the Guarantee Fund established for the purpose.

Detailed information on the protection of the client's assets in LHV Bank is available on the [website](#) of LHV Bank.

6. Key information document

A key information document is prepared for certain combined retail and insurance-specific investment products (key information document) and euro funds (key investor information document). The key information document is designed so as to help the client understand the nature of a financial instrument, related risks and costs, potential yields and losses.

Such key information documents for financial instruments that the bank must communicate to the client pursuant to the procedure laid down in law before entry into a transaction are made available to the client via the website of LHV Bank. Where the client performs a transaction via the Internet bank or telephone, LHV Bank may make the key information document available in the Internet bank or by an e-mail if no other method of communication has been agreed upon by the request of the client. LHV Bank may publish the key information document in the language it was made available to LHV Bank (unless otherwise prescribed by law).

If subject to a separate agreement, the client uses a trading platform (LHV Trader and LHV Broker), the key information document may also be published via the service provider of the relevant trading platform.

7. Information on expenses and fees

The client shall pay LHV Bank a fee for the provision of investment services or ancillary investment services (including commission fee, service fee or other fees charged by LHV Bank for the transaction related to the investment service or ancillary investment service) in accordance with the [price list](#) available on the LHV Bank website, unless otherwise agreed between the client and LHV Bank. The LHV Bank price list is changed pursuant to the procedure stipulated in the LHV Bank's General Conditions.

Every time before communicating an order, the client has the opportunity to calculate, using the application on the website of LHV Bank, the pre-transaction statement of expenditure related to the security to be acquired as well as the investment and ancillary investment services involved. Furthermore, once a year LHV Bank gives to the client post-transaction information about costs and fees concerning securities and services. Such information covers only the financial instruments regarding which LHV Bank is required to make key information documents available or for which LHV Bank provides the securities portfolio management services.

LHV Bank shall have the right to charge a service fee upon acceptance of the transaction order for execution, and the right to demand compensation for the expenses incurred in connection with the provision of the service upon occurrence of the expenses. LHV Bank debits the service fee and the compensation from the client's account on the transaction date in accordance with the [Terms and Conditions for the Provision of Investment Services](#) of LHV Bank.

LHV Bank has the right to charge, from third parties (management companies), including LHV Bank group companies, a fee for the intermediation of investment funds provided that such fee allows enhancement of the services provided to the client and does not damage the interests of the client.

8. Reporting

Loss statement

Where the client owns leveraged financial instruments or has transactions with conditional obligations, LHV shall notify the client if the market value of the relevant position declines by 10% compared to the acquisition value (and then after every 10% decline). Such notice shall be made for each instrument separately; each excess of the limit value shall be notified. If subject to a separate agreement, the client uses a trading platform (LHV Trader and LHV Broker), notification about a decline may also be sent via the service provider of the relevant trading platform.

A transaction with a conditional obligation means a transaction (so-called derivative transaction) that contains an actual or potential obligation whose amount may exceed the acquisition cost of the financial instrument. As a general rule, a leveraged financial instrument has a potential to increase the risk of the investor in respect of the underlying assets (e.g., leveraged ETFs).

As regards the portfolio management services, LHV Bank will notify the client if the value of the client's securities portfolio has declined by 10% compared to the value of the portfolio reflected in the statement of the previous month (and then after every 10% decline); LHV communicates notices within the framework of the securities portfolio management over the phone or by e-mail.

Securities report

LHV Bank discloses to the client at least once a quarter and to the extent prescribed by law a report on the securities kept by the bank. Such information shall be disclosed via the Internet bank unless a separate agreement has been made with the client concerning a different communication method as requested by the client.

9. Manufacture and distribution of financial instruments

When manufacturing financial instruments, LHV Bank assesses any potential conflicts of interest, the effects of the financial instrument on the market, the fee structure, and the target group, highlighting the types of customers whose needs, features and goals the financial instrument meets, and the types of customers whose needs, features and goals the financial instrument does not meet.

When marketing the financial instruments, LHV Bank assesses the compatibility of the products and services offered or recommended with the needs, features and goals of the defined target market and the consistency of the planned marketing strategy with the defined target market.

In a situation where LHV Bank provides a service that is not investment advice or portfolio management (such as acceptance, forwarding and fulfilment of orders) and the service is provided upon the initiative of the customer, LHV Bank is not in a position to determine whether the customer is a part of the target market of the relevant investment product. Therefore, the interests of the customer may be subject to greater exposure. It is strongly recommended that one reviews the definitions of the target market for the products offered by LHV Bank [here](#).

10. Annex 1 – List of the places of execution of transaction orders and third-party intermediaries

Places of execution to which LHV Bank has direct access:

Nasdaq Tallinn (equities, interest producing instruments)

Nasdaq Riga (equities, interest producing instruments)

Nasdaq Vilnius (equities, interest producing instruments)

Nasdaq OMX First North Estonia/Latvia/Lithuania
(equities)

Bloomberg Trading Facility Limited – MTF (bonds)

Third-party intermediaries for the communication of orders:

Allfunds Bank International S.A

Broker Credit Service (Cyprus) Limited

Danske Bank A/S

Interactive Brokers LLC

SAXO Bank A/S

AS SEB Pank

Swedbank AS

Under extraordinary circumstances, LHV Bank may use other places of execution or communicate orders received to other brokers if it allows achievement of the best result for the client or if necessary to execute the client's order.