

## **Corporate Governance Report**

This report is presented in accordance with the requirements of the Estonian Accounting Act and provides an overview of the governance of AS LHV Group (LHV) and compliance of governance with Corporate Governance Recommendations of NASDAQ OMX Tallinn Stock Exchange. LHV adheres to Corporate Governance Recommendations, unless otherwise specified in this report.

### **1. General Meeting**

LHV is a public limited company and its governing bodies are the general meeting of shareholders, the supervisory board and the management board.

The general meeting of shareholders is the highest governing body of LHV where shareholders invoke their rights. The primary duties of the general meeting of shareholders are amendment of the articles of association, increase and decrease of share capital, decisions on issuance of convertible bonds, election and extension of terms of supervisory board members, premature removal of supervisory board members, approval of the annual report and profit allocation, determining the number of auditors, appointment and recall of auditors and other decisions that are within the powers of the general meeting of shareholders pursuant to law.

Each shareholder has the right to participate in the general meeting of shareholders, address the general meeting in subjects presented on the agenda, ask relevant questions and make proposals.

General meetings of shareholders are called by the management board. The annual general meeting of shareholders held for approval of the annual report is held at least once per annum. The management board calls an annual general meeting of shareholders within six months of the end of the financial year. The management board gives at least three week's notice of the holding of an annual or extraordinary meeting of shareholders.

The agenda of the general meeting, proposals of the management and supervisory boards, draft resolutions and other relevant materials shall be made available to the shareholders prior to the general meeting. From 2014, materials shall be made available on the website of LHV. From 2014, shareholders will be given an opportunity to ask questions about subjects on the agenda before the day of the general meeting and publish them together with responses on the website of LHV.

The shareholders with the right to participate in the general meeting of shareholders will be determined based on the share register seven days before the general meeting of shareholders is held.

In 2013, the company called one annual general meeting and no extraordinary general meetings. The annual general meeting of shareholders held on 06.06.2013 approved the annual report of the 2012 financial year, elected an additional supervisory board member and resolved to increase share capital. The general meeting was held in Estonian.

In 2013, the general meeting was chaired by management board member Rain Lõhmus. From 2014, the chair of the general meeting will be appointed from among independent persons who will introduce the procedure for conducting the general meeting and the procedure of asking questions from the Management Board about the company's activities.

In 2013, management board member Rain Lõhmus and chairman of the supervisory board Andres Viisemann attended the general meeting of shareholders. From 2014, members of the supervisory board and at least one auditor will also be invited to attend the general meeting. If any members of the

supervisory board are up for election at the general meeting who have not previously been supervisory board members of LHV and the auditor, the persons up for election shall attend the relevant general meeting. In 2013, an additional member of the supervisory board, Tauno Tats, was elected, who attended the general meeting.

No shareholders have any shares giving them special control rights or voting rights. LHV is not aware of any agreements in place between shareholders that would address the coordinated exercise of shareholder rights.

Shareholders with significant interest are Rain Lõhmus and persons related to him with 34.0% and Andres Viisemann and persons related to him with 12.9%.

## **2. Management Board**

The management board is a governing body of LHV that represents and manages LHV. The management board consists of one to five members. The term of the management board member's powers is five years, unless otherwise decided by the supervisory board. If the management board of LHV has more than two members, the supervisory board shall appoint a chairman of the management board. The chairman of the management board organises the work of the management board. The company may be represented by each management board member in each transaction.

Management board members are Rain Lõhmus and Erkki Raasuke. Erkki Raasuke is a management board member since 23.09.2013. The supervisory board has entered into a service contract with Erkki Raasuke. The supervisory board sets the compensation policy for management board members.

The duties of Rain Lõhmus are to represent the company, participate in the development of LHV's strategy and its implementation by being a supervisory board member of the major subsidiaries of LHV.

The duties of Erkki Raasuke are the day-to-day management of LHV, representation of the company, coordination of the development of LHV's strategy and its implementation by being an active chairman of the supervisory boards of the major subsidiaries of LHV, as well as directing LHV's operations in foreign markets and investor communication.

Management board members submit an annual declaration of economic interests and conflicts of economic interests. In 2013, no business transactions took place between LHV and its management board members, their close relatives or persons related to them.

LHV's management board members are not management board members or chairmen of supervisory boards of other issuers. Rain Lõhmus is a member of the supervisory board of AS Arco Vara.

Management board members have not been granted authority to issue or repurchase shares.

## **3. Supervisory Board**

The Supervisory Board is a governing body that plans the activities of the company, organises the management of the company and supervises the activities of the Management Board. The supervisory board determines and regularly reviews LHV's strategy, general plan of action, risk management policies and the annual budget. The supervisory board consists of five to seven members. Supervisory board members have terms of two years. Members of the supervisory board elect the chairman of the supervisory board from among themselves who organises the supervisory board's activities.

Supervisory board members are Andres Viisemann (chairman), Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Tauno Tats. Tauno Tats is a supervisory board member since 06.06.2013. The general meeting of shareholders has not set the compensation policy of supervisory board members. No compensation was paid to supervisory board members in 2013.

Supervisory board members submit an annual declaration of economic interests and conflicts of economic interests. In 2013, no business transactions took place between LHV and its supervisory board members, their close relatives or persons related to them.

In 2013, there were 10 regular supervisory board meetings and no extraordinary meetings. As part of supervisory board meetings, the supervisory board was regularly briefed on the operating and financial results of LHV's subsidiaries. The supervisory board approved the supervisory board's rules of procedure, the 2012 annual report before it was presented to the annual general meeting of shareholders for approval, issuances of subordinated bonds, acquisitions of ownership interest in subsidiary UAB Mokilizingas (formerly UAB Snoro Lizingas) and associate Sviipe OÜ, conclusion of shareholders agreement for the management of UAB Mokilizingas, policy of potential incentive compensation and stock options to be issued to key employees of LHV subsidiaries and the financial plan of LHV for 2014-2018. Hannes Tamjärv and Heldur Meerits attended less than half of supervisory board meetings.

The supervisory board has formed two committees tasked to advise the supervisory board in issues related to audit and compensation as described below.

### **3.1. Audit Committee**

The audit committee is above all an advisory body to the supervisory board in the fields of accounting, audit, risk management, internal control and internal audit, supervision and budgeting and the legality of the activities. The audit committee must comprise at least two members.

The duties of the audit committee are to monitor and analyse the processing of financial information to the extent necessary for preparing quarterly and annual financial statements, effectiveness of risk management and internal control, the audit process of financial statements or consolidated financial statements and the independence of the auditor and independent auditor who represents it on the basis of law and compliance of its activities with provisions of the Authorised Public Accountants Act.

The audit committee is responsible for making proposals to the supervisory board and provide recommendations for the appointment or removal of the auditor, appointment or removal of the internal auditor, prevention or elimination of problems or ineffectiveness in the organisation and compliance with legislation and good practice of the trade.

Audit committee members are Gerli Kilusk (chair), Marilin Hein (vice chair) and Sulev Luiga. Compensation of the audit committee members is 100 euros per month (net). The audit committee was formed on 01.01.2014. Until that time, the audit committee comprised of the same members acted as the audit committee of AS LHV Pank, a subsidiary of LHV. In 2013, the audit committee gave four regular quarterly briefings to the supervisory board of AS LHV Pank about the results of the audit committee's work.

### **3.2. Compensation Committee**

The duties of the compensation committee are to evaluate the implementation of compensation policy in the companies within the LHV group and the effect of compensation-related decisions on

compliance with requirements related to risk management, internal funds and liquidity. The compensation committee consists of at least three supervisory board members of AS LHV Pank.

The compensation committee supervises the compensation of management board members and employees of companies within the LHV group, evaluates the implementation of compensation policy at least annually and, if necessary, proposes to update the compensation policy and prepares the draft resolutions related to compensation for the supervisory board.

Members of the compensation committee are Erkki Raasuke (chairman), Rain Lõhmus (vice chairman) and Andres Viisemann. No compensation is paid to members of the compensation committee. The compensation committee was formed on 01.01.2014. Until that time, the compensation committee acted as the compensation committee of AS LHV Pank, a subsidiary of LHV. In 2013, the compensation committee held one regular meeting.

#### **4. Cooperation of the Management Board and Supervisory Board**

The management board and supervisory board work in close cooperation for the aim of better defending the interests of LHV. The basis for cooperation is above all the open sharing of opinions both between the management board and supervisory board and within the management board and supervisory board.

The management board and supervisory board jointly develop the issuer's goals and strategy. The management board in the management of the issuer is guided by the strategic instructions given by the supervisory board and regularly discusses strategic management issues with the supervisory board.

#### **5. Disclosure of Information**

LHV treats all shareholders equally and notifies all shareholders of material developments equally.

Until now, LHV did not have an investor relations website. In 2014, LHV launched an investor relations website.

From 2014, LHV publishes on its website a financial calendar containing the publication dates of the annual report and interim reports and the date of the annual general meeting of shareholders.

In 2013, meetings with investors were held as needed and based on investor requests.

#### **6. Financial Reporting and Auditing**

LHV publishes an annual report annually. The annual report is audited and approved by the supervisory board.

The number of auditors is determined and auditors are appointed by the general meeting of shareholders, also establishing the policy for auditor compensation. Auditors are appointed for conducting a one-time audit or for a specific term.

In 2012, the management board with the audit committee organised a tender for the appointment of an auditor. As part of the tender, the company met and requested bids from three major internationally recognised companies. As a result of the tender, AS PricewaterhouseCoopers was chosen and

appointed the company's auditor on the annual general meeting of shareholders held on 14.06.2012 and a three-year contract was concluded with the company for auditing the financial years 2012-2014.

Transactions with related parties are disclosed in the notes to the financial statements.

### **Declaration of Conformity**

LHV is in compliance with the Corporate Governance Recommendations with the exception of the following instructions and recommendations for the specified reasons:

*"1.1.1. Issuers shall enable shareholders to present questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting the Issuer shall include the address or e-mail address to which the shareholders can send questions. Issuers shall guarantee a response to reasoned questions on the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website."*

LHV has not enabled shareholders to present LHV questions on items mentioned in the agenda, including prior to the day of the General Meeting. LHV intends to do so in 2014.

*"1.3.1. The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting."*

A member of the Management Board has been elected as Chair of the General Meeting. LHV intends to elect an independent person as Chair of the General Meeting in 2014.

*"1.3.2. Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting."*

At least one of the auditors did not participate in the General Meeting. LHV intends to do so in 2014.

*"1.3.2. Supervisory Board member candidates who have not formerly been a Supervisory Board member and candidates for auditor shall participate in the General Meeting."*

The candidate for auditor did not participate in the General Meeting. LHV is planning to do so in 2015.

*"1.3.3. Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer."*

Observation of the General Meeting and its participation has not been made possible by means of communication equipment because so far there has been no need.

*"2.2.1. The Management Board shall have more than one (1) member and a Chairman elected by its members."*

*The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for co-operation between members of the board shall also be established."*

*The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions."*

Until 23.09.2013, LHV had one member of the Management Board, Rain Lõhmus. The Management Board has not elected a chairman. The area of responsibility for each member of the Management Board has not been established. A contract of service has not been concluded with Rain Lõhmus. LHV is a holding company without any day-to-day business activities. The major subsidiaries of LHV have Management Boards consisting of several members.

*"2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.*

*The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore."*

LHV discloses the total amount of compensation paid to Management Board members in the notes to the financial statements. LHV does not disclose the compensation of individual members of the Management Board because it constitutes personal information, the disclosure of which is not unavoidably required for the evaluation of the operations and management quality of LHV.

*"3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members."*

Supervisory Board members of LHV are not independent by the definition of the Corporate Governance Recommendations. LHV has been in the stage of active development and growth where it has preferred people of long-term management and banking experience as members of the Supervisory Board who are also the largest shareholders of LHV.

*"6.1.1. Issuers shall publish annually its annual report and within a fiscal year its interim reports.*

*The Management Board shall draw up annual accounts, which shall be audited by the auditor and the Supervisory Board. On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board. Members of the Management Board of the Issuer and other persons belonging to management shall leave the meeting during the auditor reports the most material conclusions of audit.*

*The shareholders shall be presented the annual report signed by members of the Management Board and the Supervisory Board for examination. Together with annual report, the Supervisory Board shall make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code."*

LHV has not prepared interim reports. LHV intends to start preparing interim reports in 2014. The auditor has not participated in the meeting of the Supervisory Board that involves the review of the annual report. LHV is planning to do so in 2014. LHV has not made available to shareholders the written report of the Supervisory Board. LHV is planning to do so in 2014.

*"6.2.6. Upon introducing the findings of the audit to the Supervisory Board, the Auditor shall present inter alia:*

*- An overview of the progress of the audit, co-operation with employees subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;*

*- An overview of the independence of the auditor and the absence of conflict of interests during the audit;*

*- An analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;*

*- Their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;*

*- His or her own opinion regarding financial forecasts made and the quality of the budget.*

*The Auditor shall present an overview, analysis and opinion described above in writing to the Supervisory Board."*

The Auditor has not presented an overview, analysis and opinion in writing to the Supervisory Board. LHV is planning to do so in 2014.