

# Corporate Governance report

This report is presented in accordance with the Accounting Act of the Republic of Estonia and provides an overview of the governance of AS LHV Group (hereinafter: LHV) and compliance of governance with the advisory guidelines Corporate Governance Recommendations of the Financial Supervision Authority and Nasdaq Tallinn Stock Exchange. LHV adheres to the Corporate Governance Recommendations, unless specified otherwise in this report.

## 1. General meeting

LHV is a public limited company, with its governing bodies being the General Meeting of Shareholders, the Supervisory Board and the Management Board.

The General Meeting, where shareholders can exercise their rights, is the highest governing body of LHV. The primary duties of the General Meeting include amendment of the Articles of Association, increase and decrease of share capital, decisions on issuance of convertible bonds, election of and extension of the powers of Supervisory Board members, premature removal of Supervisory Board members, approval of the annual report and profit allocation, approval of the share option programme and establishment of terms and conditions for the realisation of options, determination of the number of auditors, appointment and recall of auditors and other decisions within the competence of the General Meeting, as provided by law and the Articles of Association.

A resolution on amendment of the Articles of Association shall be adopted if at least two-thirds of the votes who participate in the meeting are in favour. A resolution on amendment of the Articles of Association shall enter into force as of the making of a corresponding entry in the commercial register. The resolution of the General Meeting on the amendment of the Articles of Association, minutes of the General Meeting and the new text of the Articles of Association shall be attached to the application filed with the commercial register.

A shareholder has the right to participate in the General Meeting, address the General Meeting with regard to items on the agenda, ask relevant questions and make proposals.

The Management Board calls the General Meeting. The annual General Meeting, with the approval of the annual report on the agenda, is held at least once a year. The Management Board calls the annual General Meeting within six months after the end of the financial year at the latest. The Management Board gives at least three weeks' notice of the annual or special General Meeting.

The agenda of the General Meeting, proposals of the Management Board and Supervisory Board, draft resolutions and other relevant materials are made available to the shareholders prior to the General Meeting. Materials are made available on LHV's website. Shareholders are given the opportunity to ask questions about items on the agenda before the General Meeting.

The list of shareholders entitled to participate in the General Meeting is established based on the share register seven days before the General Meeting.

One Annual General Meeting and one Special General Meeting of Shareholders were held in 2019. The Annual General Meeting of shareholders was held on 13 March 2019, where the Annual Report for 2018 was approved and profits for the 2018 financial year were distributed, with a decision also reached on the payment of dividends. In addition, an overview of the financial results and the business environment for the first two months of 2019 was given, along with a financial forecast for the next five years, and an auditor was appointed for the financial years 2020 – 2022. Also, a decision was reached regarding remuneration for Members of the Supervisory Board. At the Special General Meeting, held on 21 August 2019, the decision was made to increase share capital and an overview of the economic results for the first seven months, along with an adjusted long-term financial forecast, was provided. The General Meetings were held in the Estonian language.

The Annual General Meeting for 2019 was chaired by Daniel Haab, Head of Legal Department of AS LHV Pank, who introduced the procedure for conducting the General Meeting and the procedure for asking the Management Board questions regarding the company's activities.

Member of the Management Board Madis Toomsalu, Chairman of the Supervisory Board Rain Lõhmus, members of the Supervisory Board Andres Viisemann, Raivo Hein, Sten Tamkivi Tauno Tats, Tiina Mõis and Heldur Meerits, who were represented by a power of attorney, participated in the 2019 Annual General Meeting. Also, the auditor for financial years 2018 and 2019, Ago Vilu (PwC), and the auditor's candidate for the financial year 2020, Eero Kaup (KPMG), attended the Annual General Meeting. In the Special General Meeting for 2019, Member of the Management Board Madis Toomsalu, Chairman of the Supervisory Board Rain Lõhmus, members of the Supervisory Board Raivo Hein and Tauno Tats were present; Andres Viisemann, Tiina Mõis, Heldur Meerits and Sten Tamkivi were represented by a power of attorney.

None of the shareholders hold any shares, which would grant 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.

The only shareholders with significant influence is Rain Lõhmus and the persons related to him, holding 23.68% of the share capital.

## **2. Management board**

### **2.1. Membership and duties of the Management Board**

The Management Board is a governing body of LHV, representing and managing LHV. The members of the Management Board are elected and removed by the Supervisory Board. In order to elect a member of the Management Board, the candidate's written consent is required. Persons with knowledge and experience sufficient for participating in the work of the Management Board and for fulfilling the duties of a member of the Management Board and who correspond to the requirements, arising from the LHV's Articles of Association, rules of procedure of the Management Board and other internal rules of procedure and legislation, shall be appointed members of the Management Board. Before the appointment, the suitability of the person for the position is assessed pursuant to the LHV's procedure on the assessment of the members of the management body and key personnel, considering the specific nature of LHV's operations.

Pursuant to the Articles of Association of LHV, the Management Board consists of one to five members. A member of the Management Board is appointed for a term of five years, unless otherwise decided by the Supervisory Board. An extension of the term of office of a member of the Management Board may not be decided before one year before the scheduled end of the term of office and for a longer period than the maximum period prescribed in the law or the Articles of Association. If the Management Board of LHV has more than two members, the Supervisory Board must appoint the Chairman of the Management Board. The Chairman of the Management Board organises the work of the Management Board. The Supervisory Board may remove a member of the Management Board regardless of the reason. A member of the Management Board may resign from the board, regardless of the reason, informing the Supervisory Board thereof. The rights and obligations arising from a contract concluded with a member of the Management Board shall expire in accordance with the contract.

The LHV Management Board currently consists of a single member and Madis Toomsalu serves as the member of the

Management Board. The Supervisory Board has entered into a management board member contract with Madis Toomsalu. The Supervisory Board establishes the remuneration principles for Management Board members and sets the severance compensation policy for premature termination of the management board member contract. The authority of the member of the Management Board shall continue until December 5, 2021.

The Management Board makes everyday management decisions at its own discretion, governed by the best interests of LHV and its shareholders, and not their personal interests. The duties of the Management Board member include day-to-day management of LHV, representation of the company, management of LHV's operations in foreign markets and investor communication, coordination of the development of LHV's strategy and its implementation by serving as an active chairman of the supervisory boards of the major subsidiaries of LHV.

The Management Board shall ensure the functioning of adequate risk management and internal control within LHV, depending on the business area pursued by LHV. LHV's internal control system covers all activities carried out by the Supervisory Board, management and staff members of LHV with the aim of ensuring efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting, correspondence to reality and unconditional compliance with all legal acts. The internal control system covers all business, support and control units.

The objective of risk management within LHV is to recognise, correctly measure and manage the risks. On a wider horizon, the objective of risk management is to enhance corporate value by minimising loss and reducing volatility of results.

Risk management is based on a strong risk culture and is built on the principle of three lines of defence, with the first line of defence, i.e. business areas, being responsible for risk-taking and day-to-day management of risks. The second line of defence, i.e. the risk management area, is responsible for developing risk management methods and reporting on risks. The third line of defence, i.e. internal audit, exercises independent supervision over the entire organisation.

### **2.2. Remuneration principles of the members of the Management Board**

The purpose of establishing remuneration principles within LHV is the organisation of fair, motivating and transparent remuneration in accordance with the law.

Competence for the establishment of remuneration princi-

ples and remunerations for the Management Board shall lie with the Supervisory Board. The Remuneration Committee shall review the basis for the remuneration of the Management Board on an annual basis. In assessing the activities of the Management Board, the Remuneration Committee shall, above all, consider the professional duties of the Management Board member, his activities, as well as LHV's financial position, the current status of and outlook for business operations in comparison with companies operating in the same sector of economy.

The remuneration payable to a member of the Management Board, including the options programme, must motivate the individual to operate within the best interests of LHV. The basic salary and remuneration principles of members of the Management Board shall be set forth in the employment contract or Management Board member contract concluded with the respective persons. The principles of remuneration of the Management Board or staff members engaged in internal control and risk management shall ensure their independence and objectivity in the performance of their risk management/internal control duties. The remuneration of this staff shall not depend on the results posted by the units supervised. The objectives shall be described on the level of individual staff members.

When measuring the key quantitative and qualitative results and assessing the risk, LHV shall be governed by the following principles:

The performance criteria established by LHV must not stimulate excessive risk-taking or sale of unsuitable products. The performance criteria must not merely contain performance efficiency indicators (e.g. profit, revenue, profitability, expenditure and volume indicators) or market-based indicators (e.g. stock price or bond yield) but must also be adjusted with risk-based indicators (e.g. capital adequacy, liquidity).

The criteria used for measuring risks and results shall be as closely related to the decisions of the staff member, whose results are being appraised, as possible, and should ensure that the process of the establishment of the remuneration would have an appropriate impact on the staff member's professional behaviour.

A good balance of both quantitative and qualitative as well as absolute and relative criteria shall be used in the specification of the performance criteria.

Quantitative criteria shall cover a sufficient period of time, so as to consider the risks taken by the staff members or business units. The criteria shall be risk-adjusted and contain economic efficiency indicators.

Examples of qualitative criteria include achievement of strategic objectives, customer satisfaction, adherence to the

risk management policy, adherence to internal or external rules of procedure, management skills, team-work, creativity, motivation and co-operation with other business units and the internal control function.

LHV applies the long-term incentive (LTI) plan, i.e. the options programme. An annual performance pay shall be added to the basic salaries of Management Board members, top managers and key personnel included in the options programme (including staff members equivalent to the Management Board members), the amount and disbursement of which corresponds to the achievement or non-achievement of individual targets or LHV's targets. The lower limit of the performance pay is 0 euros and the upper limit is 200% of the annual remuneration approved by the shareholders. As a rule, options will be issued in the amount of two per cent of the total number of LHV shares. The basis for establishment of performance pay in the options programme shall be objective and justifiable, with the time period for which performance pay shall be paid previously determined. The performance pay instruments consist fully of stock options.

Severance compensation payable to a member of the Management Board shall correspond to their previous work results. No severance compensation shall be paid, if this damages the interests of LHV. The size of the severance compensation shall correspond to the results achieved over time, and to the remuneration received.

Currently, the Management Board of LHV contains one member and the monthly remuneration paid to the member of the Management Board, Madis Toomsalu, under the contract of the member of the Management Board for 2019 was EUR 12 thousand, yearly remuneration totalled EUR 144 thousand. The member of the Management Board of LHV, Madis Toomsalu, can receive as performance pay for the options issued in 2017, 2018 and 2019, 72,429 shares of AS LHV Group; there are no additional bonuses and benefits applicable to the member of the LHV's Management Board. In 2019, salaries and other compensations paid to the management of LHV and its subsidiaries (including LHV Group) totalled EUR 1 453 thousand (2018: EUR 1,471 thousand), including all taxes. The remuneration/salaries and compensations of the members of the Management Board of LHV subsidiaries are included in the above total sum, whereas as at the end of 2019, the Management Board of AS LHV Pank included seven members, AS LHV Finance (subsidiary of AS LHV Pank) one member, AS LHV Varahaldus two members and OÜ Cuber Technology one member.

### 2.3. Conflicts of interests

The Management Board submits a declaration of economic interests and conflicts of economic interests once a year. There have been no conflicts of interest; accordingly, the respective improvement measures have not been applied.

Transactions between LHV and the Management Board, their close relatives or related persons and the terms and conditions thereof must be previously approved by the Supervisory Board. In 2019, no such transactions were concluded between the member of the Management Board, his close relatives or related persons and LHV; also, there are no such valid contracts from earlier periods.

Madis Toomsalu, the Management Board member of LHV, is not a management board member or supervisory board member in any other issuer. He has not been granted authority to issue or buy back shares.

## 3. Supervisory Board

### 3.1 Membership and duties of the Supervisory Board

The Supervisory Board is a governing body of LHV, planning the activities of LHV, organising the management of LHV and conducting supervision over the activities of the Management Board. The Supervisory Board determines and regularly reviews LHV's strategy, the general plan of action, risk management principles and the annual budget. The Supervisory Board has five to seven members. The members of the Supervisory Board are appointed for a term of three years. The members of the Supervisory Board elect amongst themselves the Chairman of the Supervisory Board, who organises the activities of the Supervisory Board. Election and extension of the mandate of the Supervisory Board members is within the competence of the General Meeting of Shareholders.

Persons with knowledge and experience sufficient for participating in the work of the Supervisory Board and fulfilling the duties of a member of the Supervisory Board and who correspond to the requirements, arising from the Articles of Association, rules of procedure of the Supervisory Board and other internal rules of procedure and legislation, shall be appointed members of the Supervisory Board. Before the appointment, the suitability of the person for the position is assessed pursuant to the LHV's procedure on the assessment of the members of the management body and key personnel, considering the specific nature of LHV's operations.

The members of the Supervisory Board of LHV are Rain Lõhmus (Chairman), Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi. The term

of office of Supervisory Board members is set to expire on 29 March 2020.

A total of eleven ordinary meetings of the Supervisory Board were held in 2019 and the decisions were adopted electronically six times. Rain Lõhmus, Tauno Tats and Raivo Hein participated in all meetings of the Supervisory Board in 2019. Andres Viisemann was absent from one, Heldur Meerits was absent from two, Sten Tamkivi was absent from three and Tiina Mõis absent from four meetings. All members of the Supervisory Board participated in more than half of the meetings of the Supervisory Board.

The Supervisory Board has formed three committees, charged with the task of advising the Supervisory Board in issues related to audit, remuneration and risk, as described in clauses 3.3 - 3.5 of this report.

In 2019, within the framework of Supervisory Board meetings, the Supervisory Board received regular overviews of the operating and financial results of LHV and its subsidiaries, along with the activities, developments and results of related areas. Risk reports and internal auditor's reports were reviewed on a quarterly basis. At the beginning of the year, the Supervisory Board approved the Annual Report for 2018, the Management Report and a proposal for the distribution of profit, made the proposal to pay dividends in the net sum of 21 cents per share, and to assign an auditor for the financial years 2020-2022. The financial and capital plan, capital targets, as well as the 5-year financial forecast and the financial calendar were approved for the year 2019. The August meeting focussed primarily on a discussion of the strategy employed by LHV and its subsidiaries. Over the course of the year, several of the procedures, policies and internal rules of LHV and its subsidiaries were reviewed, updated and approved. The pricing of options and issuing of share options for the results of 2018, and the realisation of options, were approved. Consent was given to increase the share capital of AS LHV Pank in connection with the realisation of the options programme.

The decision was made to carry out the second issuing of subordinated bonds, as planned under LHV's share programme and approved by the 20 June 2018 decision of the Supervisory Board, and to issue the shares in LHV's additional core capital. The respective results, volume and distribution of the issue were approved. In connection with the approval of the acquisition of the private loan portfolio of the Danske Bank A/S Eesti filiaal and the completion of the transaction, the financial forecast for 2019 – 2023 was updated in the second half of the year. The Supervisory Board also proposed an increase in the share capital of LHV to shareholders and that a Special General Meeting of shareholders be called, and later approved the subscription results of new shares, the volume and distribution of

the issue. In December, the decision was made to terminate the activities of the Risk and Capital Committee at the LHV level, due to amendments to the Credit Institutions Act; the committee was established at AS LHV Pank level. Over the course of the year, an approval was given to increase LHV's share capital twice, and on three occasions the subordinated Tier 1 bonds and on two occasions the subordinated bonds issued by AS LHV Pank were subscribed.

### 3.2. Remuneration principles of the Supervisory Board and conflicts of interest

The size of remuneration and its procedure of payment to the members of the Supervisory Board is decided by the General Meeting, considering inter alia the duties of the Supervisory Board and their extent, as well as the participation at the Supervisory Board meetings and the activity of the Supervisory Board as a governing body. Additional remuneration may be determined to a member of the Supervisory Board in connection with their participation in the activity of the Audit Committee or any other body of the Supervisory Board.

The General Meeting of Shareholders has resolved to change the gross remuneration of 500 euros for Supervisory Board members per each meeting of the Supervisory Board, where the member participates, to 1500 euros. The remuneration payable to the Supervisory Board Member is paid out on the next working day following the Supervisory Board meeting, at the latest. No separate additional or performance payments or additional bonuses or benefits have been established.

In 2019 the total sum of remuneration paid to the LHV's Supervisory Board was 88,500 euros, inclusive of all taxes, out of which, 14,500 euros to the Chairman of the Supervisory Board Rain Lõhmus, 14,500 euros to the members of the Supervisory Board Raivo Hein and Tauno Tats, 13,000 euros to Andres Viisemann, 12,500 euros to Heldur Meerits, 10,000 euros to Sten Tamkivi and 9,500 euros to Tiina Möis.

For reasons of clarity, LHV considers it important to note that in case of the Supervisory Board member Andres Viisemann, LHV applies the LTI plan, i.e. the option programme based on his activity as the head of pension funds in LHV's subsidiary AS LHV Varahaldus. The LTI instrument includes 100% share options. Andres Viisemann is entitled to a total of 34,269 shares of AS LHV Group for the options issued in 2017, 2018 and 2019.

Once a year, the members of the Supervisory Board submit a declaration of economic interests and conflicts of economic interests. No significant transactions were concluded between LHV and its Supervisory Board members, their close relatives or related parties in 2019. Also, there are no

such valid contracts from earlier periods. There has been no conflict of interest; accordingly, no respective improvement measures were applied.

### 3.3 Audit committee

The Audit Committee is formed by Supervisory Board as an advisory body for monitoring the effectiveness of accounting and reporting (including budgeting process), audit, risk and capital management, internal control system and internal audit, also compliance with regulations. The Audit Committee is governed, in its activities, primarily by the Auditors Activities Act and the rules of procedure established by the Supervisory Board of LHV.

One of the objects of the Audit Committee is to monitor and analyse the processes, which must ensure accurate and efficient preparation of monthly reports and the annual accounts, the efficiency of an internal audit as a process in examining the LHV Group companies' annual accounts and independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and the compliance of their activities with the requirements of the Auditors Activities Act.

The Audit Committee is responsible for making proposals to the Supervisory Board and providing recommendations for appointment or removal of the audit company, appointment or removal of the internal auditor, prevention or elimination of problems or inefficiencies within the organisation, and compliance with legal acts and good practice.

The Audit Committee consists of a minimum of three members. Members of the Audit Committee are appointed by the Supervisory Board for a term of three years, with the aim of ensuring diversity of competences and independence of committee members. The persons elected to the Audit Committee shall be those, who are sufficiently independent of LHV in order to fulfil their role in an efficient way and at least two of whom shall be experts in accounting, finance or law. LHV's employee, member of the Management Board, an internal auditor, a procurator or a person providing the audit auditing service shall not be a member of the Audit Committee. In order to elect a member of the Audit Committee, the candidate's written consent is required. The size of remuneration paid to the members of the Audit Committee is decided by the Supervisory Board of LHV.

The members of the Audit Committee are Kristel Aarna, Tauno Tats and Urmas Peiker (Chairman). The mandate of the Audit Committee is valid until March 31, 2020. More detailed information on the members of the Audit Committee is presented in the Annual Report, section "Corporate Governance of LHV Group". LHV's Audit Committee members are paid a monthly gross remuneration of 500 euros.



Pursuant to the rules of procedure, the Audit Committee gathers for meetings on at least a quarterly basis; however, in 2019 the Audit Committee gathered for meetings on nine occasions. At six meetings, representatives of the Risk Management Department provided the members of the Audit Committee with an overview of the various risk management topics, bank and group risk exposures, and the indicators and measures used to monitor and manage them – as well as credit risk management, anti-money laundering, management of IT risks and liquidity and market risk management.

In most of the meetings, the issues raised by the internal audit, above all in connection with various audit reports, were discussed, along with other topics. The internal auditor gave an overview of the concluded audits. The Audit Committee has reviewed all the reports prepared by the internal audit and discussed the observations made, and the Audit Committee has formulated its views on the observations. At the first meeting of the year, the internal audit work plan for 2019 was approved and at the last meeting of the year, directions for the internal auditing work plan for 2020 were discussed.

There were two meetings in February, the first of which was dedicated to the selection of a new external auditor. After which the current external auditor (PwC) was present at three meetings. In February, the external auditor gave an overview of the 2018 annual report audit process and the findings; in October, the 2019 financial audit plan and during the first meeting in December, of the findings made during the interim audit. In December, representatives of the auditor KPMG, who will audit the report on 2020, participated in the Audit Committee meeting and provided an overview of their risk assessment of LHV's audit and their auditing plan for 2020.

Over the course of the year, the Audit Committee also confirmed and approved specific additional services to be provided by the external auditor.

### 3.4 Remuneration Committee

The Remuneration Committee is a body formed jointly by the Supervisory Bodies of LHV and AS LHV Pank for the development, implementation and supervision of the remuneration strategy of the employees and members of the Management Board of the mentioned companies. One of the tasks of the Remuneration Committee is to evaluate the impact of any remuneration-related decision on adherence to the requirements established for the management of risks, own funds and liquidity.

The Remuneration Committee conducts supervision over the remuneration of Management Board members and staff

members of LHV, evaluates implementation of the remuneration policy at least on an annual basis and, where necessary, proposes to update the remuneration principles and prepares the related draft resolutions for the Supervisory Board.

The Remuneration Committee consists of a minimum of three members, who shall be elected from among the members of the Supervisory Board. The members of the Remuneration Committee are appointed and removed by the Group's Supervisory Board. A member of the Remuneration Committee shall be appointed for a term of three years. A member of the Remuneration Committee can be re-elected and their mandate extended unlimited times. The persons elected to the Remuneration Committee shall be those, who have sufficient and relevant knowledge, proficiency and work experience in the area of remuneration policy and practices, risk management and control. The size of remuneration payable to the members of the Remuneration Committee is decided by the Supervisory Board.

Members of LHV's Remuneration Committee are Madis Toomsalu (Chairman), Rain Lõhmus and Andres Viisemann whose mandate is valid until April 11, 2021. More detailed information on the members of the Remuneration Committee is presented in the Annual Report, section "Corporate Governance of LHV Group. No remuneration is paid to the members of the Remuneration Committee.

The Remuneration Committee met once in February 2019, when the Chairman of the Committee was elected, remuneration policy and strategic principles for remuneration, market comparison, critical positions and planned positions for 2019, also results of employee satisfaction survey were reviewed. The committee discussed and made a proposal to the Supervisory Board with regard to the recipients of share options and the related amounts for the results posted in 2018, as well as with regard to the pricing of share options and the share options of resigning staff members. The remuneration system, the goals and salaries of the members of the Management Board, incl. of LHV and its subsidiaries, and the principles for remuneration of the members of the Management Board and persons who were equal to the members of the Management Board were reviewed.

### 3.5 Risk and capital committee

The Risk and Capital Committee is a functional body of LHV, the task of which is advising the Supervisory Board and Management Board of LHV with regard to risk management principles and risk tolerance, assessing the risks taken by LHV and monitoring implementation of the risk policy within LHV Group companies. The Risk and Capital Committee also carries out supervision of the implementation of risk

management principles by the Management Board in accordance with the instructions given by the Supervisory Board, checks that the probability and timing of risk, capital, liquidity and revenue is taken into account in remuneration principles, and that the business model and risk management principles are taken into account in the fees established for customers.

The Risk and Capital Committee shall consist of a minimum of three members, who shall be elected from among the members of LHV Supervisory Board, whereas the committee members shall include the Chairman of LHV Supervisory Board. The persons elected to the Risk and Capital Committee shall be those, who have sufficient knowledge, skills and experience, in order to understand and monitor on a continuous basis the risk management principles and risk tolerance in LHV Group companies. The competence, rights, operating principles and remuneration payable to the members of the Risk and Capital Committee shall be determined by the Supervisory Board of LHV.

Rain Lõhmus (Chairman), Andres Viisemann and Tiina Möis serve as members of the Risk and Capital Committee, whose mandate is indefinite. More detailed information on the members of the Risk and Capital Committee is presented in the Annual Report, section "Corporate Governance of LHV Group". No remuneration is paid to members of the Risk and Capital Committee.

Four regular meetings of the Risk and Capital Committee were held in 2019, during which regular risk reports and loans with high risks (incl. introducing conclusions and changes that were entered into the corporate banking financing conditions in relation to long-term problematic clients) were reviewed. During the meetings, overviews were given regarding the field of anti-money laundering and terrorist financing, as well as the organisation of information security within LHV and the phishing wave that took place in the second half of the year, and the new pledge instrument legislation was introduced together with LHV's action plan.

In December 2019, the Supervisory Board of LHV decided to terminate the activities of the Risk and Capital Committee at the LHV level due to amendments to the Credit Institutions Act. The Risk and Capital Committee was established at the level of AS LHV Pank, a subsidiary of LHV. Rain Lõhmus (Chairman), Andres Viisemann, Tiina Möis and Madis Toomsalu were appointed as members of the committee with a 3-year mandate

### 3.6 Nominating Committee

In December 2019, the Supervisory Board of LHV decided to establish the Nominating Committee at due to amendments to the Credit Institutions Act. The purpose of the

Nominating Committee, which has been formed at the level of AS LHV Pank, is to support the Supervisory Board of AS LHV Pank in questions related to the selection process and eligibility requirements. The competence of the Nominating Committee includes, among other things the presentation of the candidates, a description of the duties, and the length of the term of office of the Management Board, the assessment the composition, structure and activities of the Management Board at least once a year and, if necessary, the proposal of amendments, the continuous monitoring of the decision-making process by the Management Board, periodically the reviewal and decision-making on the content, format and frequency of the risk information received and where appropriate, assurance of the involvement of risk management, compliance testing, internal audit and other department managers in relevant matters.

The Nominating Committee shall consist of a minimum of three members, who shall be elected from among the members of LHV Supervisory Board. The committee members shall have individual and collective knowledge, experience and expertise in the selection process and the eligibility requirements, including knowledge of the requirements set out in the EBA and ESMA guidelines for assessing the suitability of members of the management board and key personnel. The competence, rights, operating principles and remuneration payable to the members of the Nominating Committee shall be determined by the Supervisory Board of LHV.

Madis Toomsalu (Chairman), Rain Lõhmus and Andres Viisemann are the members of the Nominating Committee and their mandate is valid until April 18, 2022. More detailed information on the members of the Nominating Committee is presented in the Annual Report, section "Corporate Governance of LHV Group". No remuneration is paid to the members of the Nominating Committee.

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

The Management Board and Supervisory Board work in close co-operation to best protect the interests of LHV. The co-operation is, above all, based on an open exchange of views between as well as within the Management Board and the Supervisory Board.

The Management Board and the Supervisory Board joint their efforts to lay out the objectives and strategy of LHV. In the management of LHV, the Management Board is governed by the strategic instructions given by the Supervisory Board. The Management Board regularly discusses strategic management issues with the Supervisory Board within the framework of an open dialogue. The Board is invited to participate in monthly meetings of the Supervisory Board.

The Management Board regularly informs the Supervisory Board of the key circumstances regarding the activity plans and business activities of LHV, the risks involved and management of such risks.

No conflicts of interests occurred in the financial year 2019; accordingly, no respective improvement measures were applied.

## 5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of relevant essential circumstances accordingly, ensuring equal and quick access to the respective information. Information is disclosed in accordance with the rules set forth for publicly traded companies.

LHV contributes actively to the development of good relations with the investor community and to raising the awareness of investors. LHV has set up an investor relations website, making all documents and information available to the shareholders in accordance with the Corporate Governance Recommendations and statutory requirements. LHV is the biggest and the only member of the Baltic market, who publishes monthly financial results, as well as the following year and the five-year financial forecast on its website. This information is disclosed also for 2019 and in 2019. The website of LHV shows also the financial calendar of the current and following year, containing the publication dates of the annual report and interim reports and the date of the Annual General Meeting of Shareholders. The disclosed information is available on the website in the Estonian, English and Russian languages. LHV also discloses its annual plans and monthly results via the stock exchange announcements.

LHV organises quarterly investor meetings and web-seminars, the summaries of which can be reviewed via the website of LHV. Additional meetings with analysts and presentations and press conferences aimed at analysts, investors or institutional investors are made in accordance with the need and wishes of interest groups. On its website, LHV explains its goals, directions and opinions in terms of possible trends, regulatory or business environment changes. LHV aims at being open to questions, transparent and report of its activities to investors. In 2019, LHV was named as the winner of the Nasdaq Baltic Awards, which recognizes the best Baltic listed companies in the areas of transparency, sound corporate governance and investor relations, in the main category Investor Relations of the Year.

LHV's dividend policy is available on LHV's website, stipulating the dividend payment principles, according to which the key precondition for payment of dividends includes external and internal regulatory capital standards, which

have to be met in a sustainable manner. LHV may decide to waive dividend payment under the corresponding growth and/or investment plans. Where the preconditions are met, LHV shall pay a minimum of 25% of the shareholders' profit before taxes in dividends, income tax included.

## 6. Financial reporting and auditing

LHV publishes its annual report on an annual basis. The annual report is audited, and approved by the Supervisory Board and confirmed by the General Meeting.

The number of auditors is determined and the auditors appointed by the General Meeting of shareholders. The General Meeting also establishes the procedure for remuneration of auditors. The auditor's prior experience in financial services and auditing public-interest entities, team collaboration, expertise and ability to engage experts and, in case of significant differences the cost of the service, are key criteria for the auditor's appointment to the general meeting. Auditors are appointed for a single audit or for a specified term.

At the end of 2017, the Management Board, in cooperation with the Audit Committee organised a tender for selecting the auditor. Within the tender, LHV met with and requested bids from four major internationally recognised companies. When selecting the auditor, the practical work experience, skills and knowledge, trustworthiness, clear communication and offered terms and conditions of cooperation compared to market conditions and criteria, arising from the specific nature of LHV's business operations were assessed. As a result of the tender, AS PricewaterhouseCoopers was chosen and appointed the company's auditor at the Annual General Meeting of Shareholders held on April, 11, 2018. A two-year contract was entered into with AS PricewaterhouseCoopers for the audit of the financial years 2018 – 2019. The total sum paid or payable for the services provided by the auditor in 2019 is 254 thousand euros, which includes auditing and quarterly reviews in the amount of EUR 207 thousand and other services in the amount of EUR 47 thousand.

During 2019, the auditor has rendered contractual services to LHV consolidation group companies, including audits of the annual accounts of group companies and reviews of the profits disclosed in quarterly financial statements, translation services, tax advisory services, advisory services, report on the pro forma section included in the LHV Group rights issue prospectus other assurance services, which are required to be performed by auditors according to Credit Institutions Act.

Transactions with related parties are disclosed in Note 24 to the annual accounts.



In February of 2019, the Management Board, along with the Audit Committee, organised a competition for selecting an auditor to audit the annual reports for 2020 – 2022. Within the competition, an invitation was sent to the three largest auditing firms and among the two firms that submitted an offer, the decision was made to select KPMG Baltics OÜ, who was appointed to be the auditor of the Group's companies for the 2020 – 2022 period at the 13 March 2019 annual general meeting of shareholders.

### Declaration of conformity

LHV adheres to the Corporate Governance Recommendations, with the exception of the following instructions and recommendations for the reasons stated below:

*"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 participation thereof has not been made possible by means of communication equipment. There has been no need, no corresponding requests and no suitable solution for such a facility. Nonetheless, LHV stands ready to ensure participation of shareholders at the General Meeting via secure electronic means (without being physically present at the general meeting), with the corresponding option added to the Articles of Association of LHV.

*"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."*

The Management Board of LHV has one member. LHV is a holding company without any day-to-day operational business activities. Thus, a single member of the Management Board ensures sufficient and comprehensive management of LHV. The major subsidiaries of LHV have management boards consisting of several members.

*"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."*

Within the meaning of the Corporate Governance Recommendations, only Sten Tamkivi is an independent member of the Supervisory Board of LHV, for he has not been a member of the Supervisory Board for more than ten years. LHV is in the stage of active development and growth, where it has preferred people of long-term management skills and banking experience as members of the Supervisory Board. These people are also the largest shareholders of LHV. LHV believes that, as members of the Supervisory Board, the largest shareholders are best motivated to contribute to the management of LHV and its development over the long-term horizon. Based on objective and certified data, it still has been confirmed that only one of the seven members of the Supervisory Board has a qualifying holding (Rain Lõhmus and related persons holding 23.68% of the share capital) and no member of the Supervisory Board has no right in any way to determine the majority of the LHV Management or Supervisory Board members and do not exercise control over LHV in any other way, they are not bound with LHV by material business interest, they are not related to a shareholder of LHV who exercises control over LHV, they are staff members of LHV or partners or key personnel of the partner; accordingly, LHV does not consider it necessary to apply any corrective measures and assesses the Supervisory Board of LHV as collectively suitable, including in terms of independence, in the existing membership.

*"Pursuant to subsection 24<sup>2</sup> (4) of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's Management Board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report."*

LHV has not deemed it necessary to implement a diversity policy, as LHV is governed in the recruitment of staff and management members by the best interests of LHV – the education, skills and previous experience of the person on a gender neutral on non-discriminatory basis and upon need, compliance to statutory requirements.

Tiina Möis serves as a member of the Supervisory Board of LHV and as a member of the Risk and Capital Committee, and Kristel Aarna as a member of the Audit Committee. LHV's subsidiaries employ a total of 74 middle-level managers, of whom 21 are women; in addition there are nine Management Board Members, one of whom is a woman.