

Corporate Governance report

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

1. General meeting

LHV is a public limited company whose governing bodies are the general meeting, the Supervisory Board and the Management Board.

The general meeting where shareholders 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 the issuance of convertible bonds, election and extension of the powers of Supervisory Board members, early removal of Supervisory Board members, approval of the annual report and allocation of profit, approval of the share option programme, determination of the number of auditors, appointment and removal of the auditor(s) and other decisions within the power of the general meeting under the law and the Articles of Association.

A resolution on the amendment of the Articles of Association is adopted when at least two-thirds of the votes represented at the general meeting are in favour. A resolution on the amendment of the Articles of Association enters 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, the minutes of the general meeting and the new text of the Articles of Association are 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 general meeting is called by the Management Board. The annual general meeting whose agenda includes the approval of the annual report is called 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 extraordinary General Meeting.

The agenda of the General Meeting, proposals of the Management Board and Supervisory Board, draft resolu-

tions and other relevant materials are made available to the shareholders prior to the general meeting. The materials are made available on LHV's website. Shareholders are given an 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 determined based on the share register seven days before the general meeting.

There was one annual general meeting in 2020. At the annual general meeting, which was held on 13 March 2020, the annual report for 2019 was approved, the profits for the 2019 financial year were allocated, and the payment of dividends was decided. In addition, an overview of the financial results, the business environment for the first two months of 2020 and the financial forecast for the next five years was given. An option programme for the years 2020-2024 and the terms of performance pay were approved, the Articles of Association were amended and the terms of office of the members of the Supervisory Board were extended. The general meeting was held in the Estonian language.

The annual general meeting of 2020 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.

The annual general meeting of 2020 was attended by 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 and Tauno Tats as well as Tiina Mõis and Heldur Meerits who were represented on the basis of a power of attorney. The auditor, Eero Kaup (KPMG), was also present.

No shareholders hold shares which would grant them special control or voting rights. LHV is not aware of any agreements between shareholders regarding coordinated exercise of shareholder rights.

The only shareholders with significant influence are Rain Lõhmus and persons related to him that hold 23.38% of share capital in aggregate.

2. Management Board

2.1. Composition and duties of the Management Board

The Management Board is a governing body of LHV which represents and manages 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.

Only a person who has sufficient knowledge and experience to participate in the work of the Management Board and to fulfil the duties of a member of the Management Board and who meets the requirements arising from LHV's Articles of Association, rules of procedure of the Management Board and other internal regulations, and legislation may be appointed as a member of the Management Board. Before appointment, the suitability of the person for the position is assessed in accordance with LHV's procedure for the assessment of the members of the governing bodies and key personnel, taking into account the specific nature of LHV's operations.

According to the Articles of Association of LHV, the Management Board has 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. The extension of the term of office of a member of the Management Board may not be decided earlier than one year before the scheduled expiry of the term of office or for a period exceeding the maximum period permitted by law or the Articles of Association. If the Management Board of LHV has more than two members, the Supervisory Board appoints 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, by informing the Supervisory Board. The rights and obligations arising from a contract entered into with a member of the Management Board expire in accordance with the contract.

LHV's Management Board has currently one member and the member of the Management Board is Madis Toomsalu. The Supervisory Board has entered into a Management Board member contract with Madis Toomsalu. The Supervisory Board decides the remuneration principles of the members of the Management Board and compensation for early termination of the contract of a member of the Management Board. The term of office of the member of the Management Board lasts until 5 December 2021.

The Management Board makes everyday management decisions at its own discretion and in the best interests of LHV and its shareholders, putting aside personal interests. The duties of a member of the Management Board include day-to-day management of LHV, representation of the company, management of LHV's operations in foreign markets and communication with investors, coordination of the development of LHV's strategy and implementation of the strategy by serving as a chairman of the supervisory boards of the major subsidiaries of LHV.

The Management Board ensures that LHV has risk management and internal control appropriate for its operations and business area. LHV's internal control system covers all activities carried out by LHV's Supervisory Board, management and employees in order to ensure efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting, correspondence to reality and unconditional compliance with all laws and regulations. The internal control system covers all business, support and control units.

The objective of risk management within LHV is to identify, correctly quantify and manage risks. The wider objective of risk management is to increase the value of the company by minimising losses and reducing volatility of results.

LHV's risk management is based on a strong risk culture and is based on the principle of three lines of defence. The first line of defence, i.e. business areas, is responsible for risk-taking and daily risk management. The second line of defence, i.e. the risk management area, is responsible for developing risk management methods and risk reporting. The third line of defence, i.e. internal audit, exercises independent supervision over the entire organisation.

2.2. Principles of remuneration of members of the Management Board

The purpose of LHV's remuneration principles is to provide fair, motivating, transparent and lawful remuneration.

The authority to decide the remuneration principles and remuneration of the Management Board is vested in the Supervisory Board. The Remuneration Committee reviews the bases of the remuneration of the Management Board on an annual basis. In assessing the activities of the Management Board, the Remuneration Committee considers, above all, the duties and activities of the member of the Management Board as well as LHV's financial position, the current status and outlook of business operations in comparison with companies operating in the same sector.

The remuneration payable to a member of the Management Board, including the options programme, must motivate the person to act in the best interests of LHV. The basic salary and remuneration principles of members of the Management Board are set forth in the employment contracts or Management Board member contracts concluded with them. The principles of remuneration of the members of the Management Board or employees engaged in internal control and risk management must ensure their independence and objectivity in the performance of their risk management/internal control duties. The remuneration of those persons must not depend on the results of the areas under their supervision.

The goals set must be described at an individual level.

In setting the key quantitative and qualitative performance indicators and risk assessment metrics, LHV is governed by the following principles:

- The performance criteria developed by LHV must not stimulate excessive risk-taking or sale of unsuitable products.
- Performance criteria must not consist of performance efficiency indicators (e.g. profit, revenue, return, costs and volume indicators) or market-based indicators (e.g. share price or bond yield) only but must be adjusted for risk-based indicators (e.g. capital adequacy, liquidity).
- The criteria used for measuring risks and results must be as closely as possible related to the decisions of the staff member whose results are being appraised and they should ensure that the process of the assignment of remuneration has the desired impact on the staff member's behaviour.
- Performance criteria must be developed by ensuring a good balance between quantitative and qualitative as well as absolute and relative criteria.
- Quantitative criteria must cover a period that is sufficiently long to take into account the risks taken by the staff members or business units and they should 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, compliance with internal and external regulations, management skills, teamwork, creativity, motivation and co-operation with other business units and the internal control function.

LHV applies a long-term incentive (LTI) plan, i.e. an option programme. The basic salaries of Management Board members, top management and key personnel included in the option programme (including staff members considered equal to Management Board members) are added annual performance pay the amount and disbursement of which corresponds to the achievement or non-achievement of individual targets and LHV's targets. The lower limit of the performance pay is EUR 0 and the upper limit is 200% of the annual remuneration approved by the shareholders. As a rule, if the financial plan is met, options are granted to the extent of two per cent of the total number of LHV shares. The bases for assigning performance pay through the options programme must be objective and justified and pre-determine the time period for which performance pay is paid. Performance pay instruments consist fully of share options.

Severance compensation payable to members of the Management Board is related to their previous work results.

No severance compensation is paid if this would damage the interests of LHV. The size of the severance compensation must correspond to the results achieved over time and to the remuneration received.

Currently, the Management Board of LHV has one member and the member of the Management Board, Madis Toomsalu, was paid for 2020 under his Management Board member contract monthly remuneration of EUR 12 thousand and annual remuneration of EUR 144 thousand. The member of the Management Board of LHV, Madis Toomsalu, can receive as performance pay for the options granted in 2018, 2019 and 2020 a total of 90,920 shares in AS LHV Group; the member of the LHV's Management Board is not entitled to any additional bonuses or benefits. In 2020, the salaries and other compensation paid to the management of all LHV companies (including LHV Group) totalled EUR 1 768 thousand (2019: EUR 1 453 thousand), including all taxes. The remuneration/salaries and compensation of the members of the management boards of LHV subsidiaries are included in the above total sum. At the end of 2020, the Management Board of AS LHV Pank comprised seven members, the Management Board of AS LHV Finance (a subsidiary of AS LHV Pank) one member, the Management Board of AS LHV Varahaldus two members, the Management Board of AS LHV Kindlustus two members and the Management Board of 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, no corrective measures have been applied.

Transactions between LHV and the Management Board, their close family members or persons related to them and the terms thereof must be previously approved by the Supervisory Board. In 2020, there were no such transactions between the member of the Management Board, his close family members or related persons and LHV, nor are there any valid contracts of that nature from earlier periods.

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

3. Supervisory Board

3.1 Composition and duties of the Supervisory Board

The Supervisory Board is a governing body of LHV which plans the activities of LHV, organises the management of

LHV and conducts supervision over the activities of the Management Board. The Supervisory Board determines and regularly reviews LHV's strategy, the general action plan, 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 from among themselves the Chairman of the Supervisory Board, who organises the activities of the Supervisory Board. The authority to elect and to extend the mandate of the Supervisory Board members is vested in the general meeting.

Only a person who has sufficient knowledge and experience to participate in the work of the Supervisory Board and to fulfil the duties of a member of the Supervisory Board and who meets the requirements arising from the Articles of Association, rules of procedure of the Supervisory Board and other internal regulations, and legislation may be elected as a member of the Supervisory Board. Before appointment, the suitability of the person for the position is in accordance with LHV's procedure for the assessment of the members of the governing bodies and key personnel, taking into account the specific nature of LHV's operations.

The members of the Supervisory Board of LHV are Rain Lõhmus (Chairman), Andres Viisemann, Tiina Möis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi. The term of office of Supervisory Board members lasts until 29 March 2023.

The Supervisory Board had eleven ordinary meetings in 2020 and on four occasions decisions were adopted electronically. In 2020, all members of the Supervisory Board participated in all the meetings.

The Supervisory Board has formed four committees, which are responsible for advising the Supervisory Board in matters related to audit, remuneration, risks and selection of members of management as described in subsections 3.3 - 3.6 of this report.

In the framework of its meetings in 2020, the Supervisory Board received regular overviews of the operating and financial results of LHV and its subsidiaries, and the activities, development and results of related areas. Risk reports and the internal auditor's reports were reviewed on a quarterly basis. At the beginning of the year, the Supervisory Board approved the annual report for 2019, the report on the activities of the supervisory board and a proposal for the distribution of profit and made the proposal to pay dividends in the net amount of 19 cents per share. The financial and capital plan, capital targets as well as the 5-year financial forecast and the financial calendar for 2020 were approved. The general meeting was also made a proposal to amend the Articles of Association and to extend the term of office of

the members of the Supervisory Board. In April, the financial plan for 2020 was updated, taking into account the potential impacts of the outbreak of COVID-19 and the state of emergency on the economy. In October, the financial plan for 2020 was updated again because the impacts of the coronavirus crisis had proven less severe than projected and LHV's financial results were ahead of the forecast. The August meeting focused primarily on the discussion of the strategy of LHV and its subsidiaries. During the year, several procedures, policies and internal regulations of LHV and its subsidiaries were reviewed, updated and approved, and various capital transactions were carried out. The pricing of options and the grant of share options for the results of 2019, and the exercise 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 Supervisory Board decided to establish the insurance company LHV Kindlustus, and LHV Pank in the UK. LHV's activities in relation to Estonia's climate goals were reviewed and the ESG policy was approved.

3.2. Principles of remuneration of the Supervisory Board and conflicts of interest **principles of the Supervisory Board and conflicts of interest**

The size of the remuneration of the members of the Supervisory Board and its payment procedure are decided by the general meeting, which takes into account, among other things, the duties of the Supervisory Board and their scope, as well as participation in Supervisory Board meetings and the activities of the Supervisory Board as a governing body. A member of the Supervisory Board may be assigned additional remuneration for participation in the activities of the Audit Committee or another body of the Supervisory Board.

The general meeting has resolved to provide members of the Supervisory Board with gross remuneration of EUR 1,500 per each meeting of the Supervisory Board in which the member participates. 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 2020, the total amount of remuneration paid to LHV's Supervisory Board was EUR 115,500, including all taxes, out of which all members of the Supervisory Board received EUR 16,500.

For reasons of clarity, LHV considers it important to note that in the case of the Supervisory Board member Andres Viisemann, LHV applies the LTI plan, i.e. an option programme, based on his activity as the head of pension funds at

LHV's subsidiary AS LHV Varahaldus. The LTI instrument comprises 100% share options. Andres Viisemann is entitled to a total of 18,021 shares in AS LHV Group for the options granted in 2018 and 2019.

Once a year, the members of the Supervisory Board submit a declaration of economic interests and conflicts of economic interests. LHV did not conduct any significant transactions with its Supervisory Board members, their close family members or related parties in 2020, nor are there any valid contracts of that nature from earlier periods. There have been no conflicts of interest; accordingly, no corrective measures have been applied.

3.3 Audit committee

The Audit Committee is an advisory body formed by the Supervisory Board for exercising oversight over the effectiveness of accounting and reporting (including the budgeting process), audit, risk and capital management, the internal control system and internal audit as well as legal and regulatory compliance. 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 responsibilities of the Audit Committee is to monitor and analyse the processes which must ensure accurate and efficient preparation of monthly reports and annual accounts, the efficiency of the audit of group companies' annual accounts, and the independence of the audit firm and the auditor representing the audit firm on the basis of the 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 the appointment or removal of the audit firm, the appointment or removal of the internal auditor, prevention or elimination of problems and inefficiencies within the organisation, and ensuring compliance with laws and regulations and best practice.

The Audit Committee has at least three members. Members of the Audit Committee are appointed by the Supervisory Board for a term of three years in a manner that should ensure diversity of competences and independence of committee members. The persons selected for the Audit Committee must be sufficiently independent of LHV in order to fulfil their role effectively and at least two of them must be experts in accounting, finance or law. LHV's employee, member of the Management Board, internal auditor, authorised signatory or audit service provider may not be a member of the Audit Committee. For the appointment of 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 term of office the Audit Committee lasts until 31 March 2023. Further information on the members of the Audit Committee is presented in the annual report, in the section Corporate Governance of LHV Group. LHV's Audit Committee members are paid monthly gross remuneration of EUR 500.

According to its rules of procedure, the Audit Committee meets at least quarterly; however, in 2020 the Audit Committee had eight meetings. In addition, on three occasions discussions were held and decisions were made electronically. At seven meetings, representatives of the Risk Management Department provided the members of the Audit Committee with an overview of various risk management topics, bank and group risk exposures, and the indicators and measures used to monitor and manage them, including matters related to credit risk management, anti-money laundering, management of IT risks, compliance control, and liquidity and market risk management (including covered bonds). At two meetings (in April and October), the Risk Management Department gave an overview of the impacts of the COVID-19 crisis and the measures taken were discussed.

In most meetings, the topics discussed included issues raised by the internal audit, particularly those related to audit reports. The internal auditor gave an overview of concluded audits. The Audit Committee has reviewed all internal audit reports, discussed the observations presented and formed an opinion on the observations raised. At the first meeting of the year, the internal audit work plan for 2020 was approved and at the meeting held in November instructions for the internal audit work plan for 2021 were discussed. The plan was approved in January 2021.

Four meetings were attended by the external auditor (PwC or KPMG). In February, the external auditor (PwC) gave an overview of the 2019 annual report audit process and findings. In April, the new auditor KPMG provided an overview of the audit takeover process and the review carried out in Q1. In October, KPMG provided an overview of the risk assessment, plan, team and schedule of the financial audit of 2020. At the last meeting of the year held in December, the external auditor presented the findings raised during the interim audit.

During the year, the Audit Committee confirmed and approved specific additional services to be provided by the external auditor.

3.4 Remuneration Committee

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

The Remuneration Committee exercises oversight over the remuneration of the Management Board members and employees of AS LHV Pank, evaluates implementation of the remuneration policy at least on an annual basis and, where necessary, makes proposals for updating the remuneration principles and prepares related draft resolutions for the Supervisory Board.

The Remuneration Committee has at least three members who are elected from among the members of the Supervisory Board of AS LHV Pank. The members of the Remuneration Committee are appointed and removed by the Supervisory Board of LHV. A member of the Remuneration Committee is appointed for a term of three years. Members of the Remuneration Committee can be re-elected and their mandate extended unlimited times. A person elected to the Remuneration Committee must have sufficient relevant knowledge, expertise and 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 of LHV.

Members of LHV's Remuneration Committee are Madis Toomsalu (Chairman), Rain Lõhmus and Andres Viisemann whose term of office lasts until 11 April 2021. Further information on the members of the Remuneration Committee is presented in the annual report, in the section Corporate Governance of LHV Group. Members of the Remuneration Committee are not remunerated.

The Remuneration Committee met once in 2020, in January when the remuneration policy and strategic remuneration principles, benchmarking, and critical and planned positions for 2020 were reviewed. The committee discussed and made a proposal to the Supervisory Board with regard to the recipients and amounts of share options to be granted for the results for 2019, as well as the pricing of share options and the share options of staff members that had left. In addition, the committee introduced the share options to be exercised in 2020 and the share options granted in 2017 for the results of 2016. The remuneration system, including the goals and remuneration of the members of the Management Board of LHV and its subsidiaries, and

the principles of remunerating the members of the Management Board and persons considered equal to the members of the Management Board were reviewed. The committee familiarised itself with LHV's option programme for the years 2020-2024 and decided to submit it for approval to the Supervisory Board and the general meeting. AS LHV Varahaldus's performance pay programme for the years 2020-2024 was approved.

3.5 Risk and capital committee

The Risk and Capital Committee, which has been formed at the level of AS LHV Pank, is a functional body responsible for advising the Supervisory Board and Management Board of LHV in matters related to risk management principles and risk tolerance, assessing the risks taken by LHV and monitoring implementation of the risk policy at LHV Group companies. The Risk and Capital Committee also exercises oversight over 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 has at least three members who are elected from among the members of the Supervisory Board of LHV. The committee members must include the Chairman of the Supervisory Board of LHV. The persons elected to the Risk and Capital Committee must have sufficient knowledge, skills and experience to understand and continuously monitor the risk management principles and risk tolerance at LHV Group companies. The powers, rights, operating principles and remuneration of the members of the Risk and Capital Committee are determined by the Supervisory Board of LHV.

Rain Lõhmus (Chairman), Andres Viisemann, Madis Toomsalu and Tiina Möis serve as members of the Risk and Capital Committee. Their term of office lasts until 18 December 2022. Further information on the members of the Risk and Capital Committee is presented in the annual report, in the section Corporate Governance of LHV Group. Members of the Risk and Capital Committee are not remunerated.

Four regular meetings of the Risk and Capital Committee were held in 2020, during which regular risk reports and high-risk loans were reviewed. During the meetings, overviews were given of matters related to anti-money laundering and terrorist financing, LHV's liquidity and capitalisation. During the year the committee focused on the impact of the pandemic on LHV's loan portfolios. Conclusions were made of the IRB project and amendments to MREL.

3.6 Nominating Committee

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 matters related to the selection process and eligibility requirements. The responsibilities of the Nominating Committee include presenting Management Board member candidates and their duties and term of office to the Supervisory Board; assessing the composition, structure and activities of the Management Board at least once a year and making amendment proposals where necessary; continuously monitoring the decision-making process of the Management Board; regularly reviewing the content, format and frequency of risk information received and adopting related decisions; and involving, where appropriate the managers of the risk management, compliance, internal audit and other departments in the resolution of matters related to relevant areas.

The Nominating Committee has at least three members who are elected from among the members of the Supervisory Board of AS LHV Pank. The persons elected to the Nominating Committee must have individually and collectively sufficient and relevant knowledge, expertise and experience in the area of the selection process and eligibility requirements, including knowledge of the requirements provided in the EBA and ESMA guidelines for assessing the suitability of members of management bodies and key function holders. The responsibilities, rights and operating principles of the committee and the remuneration of committee members are decided by the Supervisory Board of AS LHV Pank.

Madis Toomsalu (Chairman), Rain Lõhmus and Andres Viisemann are the members of the Nominating Committee and their term of office lasts until 18 December 2022. Further information on the members of the Nominating Committee is presented in the annual report, in the section Corporate Governance of LHV Group. Members of the Nominating Committee are not remunerated.

Three regular meetings of the Nominating Committee were held in 2020 during which the eligibility of the members of the Management Board and the Supervisory Board was individually and collectively assessed, criteria for selecting the new Chairman of the Management Board of AS LHV Pank were determined and potential candidates for the position of a new Chairman of the Management Board were assessed. The Nominating Committee carried out the individual and collective assessment of the eligibility of the new Chairman of the Management Board and made a proposal to the Supervisory Board to appoint Kadri Kiisel as the new Chairman of the Management Board of AS LHV Pank. Criteria for appointing the Chairman of the Management Board of the new company and future bank to be established in the UK were developed. The committee made a

proposal to the Supervisory Board to appoint Erki Kilu for this position.

4. Cooperation of Management Board and Supervisory Board

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

The Management Board and the Supervisory Board collaborate in developing the goals and strategy of LHV. In managing LHV, the Management Board observes the strategic instructions of the Supervisory Board. The Management Board discusses strategic management issues with the Supervisory Board regularly, honestly and openly. The Management Board is invited to participate in the monthly meetings of the Supervisory Board.

The Management Board regularly informs the Supervisory Board of all significant circumstances related to LHV's business planning, operations and performance, risk exposures and risk management.

There were no conflicts of interest in the financial year 2020; accordingly, no corrective measures have been applied.

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of significant circumstances equitably, ensuring quick and equal access to relevant information. Information is disclosed in accordance with the rules established 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, where it makes all documents and information available to shareholders in accordance with the CGR and legal requirements. LHV is the biggest and the only member of the Baltic market that publishes monthly financial results as well as next-year and five-year financial forecasts. Relevant information has also been disclosed for 2020 and in 2020. The website of LHV includes the financial calendar of the current and the next year, which outlines the publication dates of the annual report and interim reports and the date of the annual general meeting. The disclosed information is available on the website in Estonian, English and Russian. LHV also discloses its annual plans and monthly results in its stock exchange announcements.

LHV organises quarterly investor meetings and webinars, the summaries of which can be reviewed on the website of

LHV. Additional meetings with analysts and presentations and press conferences for analysts, investors or institutional investors are arranged according to need and the wishes of stakeholder groups. On its website, LHV explains its goals, directions and opinions of possible trends and changes in the regulatory and business environment. LHV strives to be approachable, transparent and accountable to investors. In 2019, LHV was named the winner of the Nasdaq Baltic Awards, which recognises the best Baltic listed companies in the area of transparency, sound corporate governance and investor relations, in the main category Investor Relations of the Year.

LHV's dividend policy, which is available on LHV's website, sets out the dividend distribution principles, according to which the key precondition for dividend distribution is sustainable compliance with both external and internal regulatory capital requirements. LHV may decide not to pay a dividend if this is required by its growth and/or investment plans. Provided the preconditions are met, LHV will distribute at least 25% of profit before tax attributable to LHV shareholders as dividends together with related income tax.

6. Financial reporting and auditing

LHV publishes its annual report on an annual basis. The annual report is audited, approved by the Supervisory Board and ultimately approved by the general meeting.

The number of auditors is determined and auditors are appointed by the general meeting that also determines the auditors' remuneration procedure. The key criteria that the Audit Committee considers in making a proposal to the general meeting for the appointment of an auditor include the auditor's prior experience in the financial services sector and auditing public interest entities, teamwork skills, expertise and ability to involve experts and, in the case of significant differences, the audit fee. Auditors are appointed for a single audit or for a specified term.

In 2020, the auditor provided LHV group companies with contractual services, including audits of the annual accounts of group companies and reviews of the profits reported in quarterly financial statements, translation services, tax advisory services, advisory services related to the planned amendments to the Investment Funds Act and other assurance services, which are required the Credit Institutions Act, the Securities Market Act and the Investment Funds Act.

Transactions with related parties are disclosed in Note 24 to the financial statements.

In February of 2019, the Management Board and the Audit Committee organised a competition for selecting an auditor for the audit of the annual reports for the years 2020 – 2022. In the framework of the competition, the four biggest inter-

nationally recognised audit firms were asked to submit their offer and meetings with their representatives were held. In selecting the auditor, the candidates' previous professional experience, competence, expertise, reliability, transparency of communication and terms offered compared to market terms as well as LHV's business-specific criteria were assessed. In the framework of the competition, an invitation was sent to the three largest audit firms and from the two firms that submitted an offer KPMG Baltics OÜ was selected and appointed as the auditor of group companies for the financial years 2020 – 2022 at the annual general meeting held on 13 March 2019. In 2020, the fees paid or payable for the services provided by the auditor amounted to EUR 145 thousand of which EUR 15 thousand was for audits and EUR 130 thousand was for other services.

Declaration of conformity

LHV complies with 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 in it has not been made possible by means of communication equipment because there has not been a suitable solution for this. Nonetheless, LHV is prepared to ensure shareholders' participation in the general meeting via secure electronic means (without being physically present at the general meeting) and has added the corresponding option to the Articles of Association.

"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 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."

The Supervisory Board of LHV has no independent members. LHV is in the stage of active development and growth, where it has preferred people with long-term management and banking experience as members of the Supervisory Board. These people are also the largest shareholders of LHV. LHV believes that in their capacity as members of the Supervisory Board the largest shareholders are best motivated to contribute to the management and long-term development of LHV. Based on objective and verifiable data, only one of the seven members of the Supervisory Board has a significant ownership interest (Rain Lõhmus and related persons hold 23.68% of share capital) and no member of the Supervisory Board has the power to appoint, by any means, the majority of the members of the Management Board or Supervisory Board of LHV or to control LHV in some other manner, they are not connected with LHV through a material business interest, they are not related to a shareholder of LHV that exercises control over LHV, they are not employees or business partners of LHV or members of the key personnel of a business partner; accordingly, LHV does not consider it necessary to apply any corrective measures and considers the Supervisory Board of LHV in its present composition to be collectively suitable, including in terms of independence.

"Pursuant to subsection 24² (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 because in recruiting staff and selecting management members, LHV is guided by the best interests of the company and, therefore, selects people in a gender neutral and non-discriminating manner based on their education, skills, previous experience and, where necessary, legal and regulatory requirements.

Tiina Möis is a member of the Supervisory Board of LHV and a member of the Risk and Capital Committee and Kristel Aarna is a member of the Audit Committee. LHV's subsidiaries employ a total of 94 middle-level managers of whom 39 are women; in addition there are eleven Management Board Members one of whom is a woman.