

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 EFSA and Nasdaq Tallinn Stock Exchange. LHV complies with the 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 amending the Articles of Association, increasing and decreasing share capital, taking decisions on the issuance of convertible bonds, electing and extending the mandate of Supervisory Board members, removing Supervisory Board members before the expiry of their term of office, approving the annual report and allocation of profit, approving share option programmes, determining the number of auditors, appointing and removing the auditor(s) and taking 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 at the time when the corresponding entry is made 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 regarding 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 Annual or Extraordinary General Meetings.

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. 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 and to vote electronically on the draft resolutions on the agendas of the General Meeting. The shareholders not wishing to participate in the meeting in person are granted the opportunity to watch the meeting via video broadcast. The option to participate in the General Meeting and exercise the rights using electronic means without physically attending the General Meeting via secure electronic means is provided in the Articles of Association.

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

In 2022, the Annual General Meeting was held on 30 March 2022. The agenda included the approval of the annual report for 2021, the profit allocation for the 2021 financial year, and the payment of dividends; the approval of the remuneration principles and the remuneration report of the Management Board for 2021; the approval of the transaction to acquire a 100% share in AS EveryPay and related increase of share capital of LHV; the amendments to the Articles of Association (in two different successive versions, including a reduction of the nominal value of the shares); and the appointment of the auditor for the 2023 financial year and 2024–2028 financial years. In addition, an overview was given of the financial results, the business environment for the first two months of 2022 and the financial forecast for the next five years. No extraordinary General Meetings were held in 2022.

The Annual General Meeting in 2022 was held in Estonian and chaired by Daniel Haab, Head of Legal Department of LHV Pank, who introduced the procedure for conducting the General Meetings and the procedure for asking the Management Board questions regarding the company's activities.

The Annual General Meeting was attended by Madis Toomsalu, the chairman of the Management Board, and Rain Lõhmus, the chairman of the Supervisory Board. The other members of the Supervisory Board, i.e., Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Sten Tamkivi and Tauno Tats cast their votes electronically. The auditor, Eero Kaup (KPMG), was also present.

No shareholders of LHV 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 shareholders with significant influence are Rain Lõhmus and persons related to him, who hold 22.68% of share capital in aggregate and Andres Viisemann and persons related to him, who hold 11.34% of share capital in aggregate.

2. Management Board

2.1 Composition and duties of Management Board

The Management Board is the governing body representing and managing LHV. The members of the Management Board are elected and removed by the Supervisory Board. 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 rules for the assessment of the suitability of members of the governing bodies and key function holders, 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 with a member of the Management Board expire in accordance with the contract.

Until 31 October 2022 LHV's Management Board had one member: Madis Toomsalu. From 1 November 2022 the Management Board has four members: Madis Toomsalu (the chairman of the Management Board, CEO), Meelis Paakspuu (responsible for financial management function), Martti Singi (responsible for risk management function) and Jüri Heero (responsible for IT operations, IT development and information security functions).

The Supervisory Board has signed Management Board member contracts with the Management Board members. The Supervisory Board determines the remuneration principles of the members of the Management Board and compensation for early termination of the contract. The term of office of Madis Toomsalu expires on 30 March 2026 and the terms of office of the newly elected members of the Management Board, i.e., Meelis Paakspuu, Martti Singi and Jüri Heero, expire on 30 March 2027. The aim of the changes in the

Management Board of LHV as of 1 November 2022, was to reorganise the organisational structure and governance of LHV as a financial holding company taking into account the fact that LHV does not have an independent business and operates as a separate holding company, also the fact that the additional members of the Management Board of LHV are responsible for the relevant function at the level of the Management Board of LHV's subsidiary LHV Pank.

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, representing the company, managing LHV's operations in foreign markets and communicating with investors, coordinating the development of LHV's strategy and implementing the strategy by serving as a chairman of the Supervisory Boards of LHV's major subsidiaries. The right of representation specification of the members of the Management Board resulting from the Articles of Association of LHV has also been entered in the Commercial Register: the chairman of the Management Board alone or two members of the Management Board jointly may represent LHV in transactions.

The Management Board ensures that LHV has risk management and internal control systems 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 to ensure efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting and unconditional compliance with all laws and regulations. The internal control system covers all business, support, and control units.

The objectives of risk management within LHV are 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 follows the principle of three lines of defence. The first line of defence, i.e., represented mainly by the business lines, alongside other support functions, is responsible for risk-taking and daily risk management. The second line of defence, i.e., the risk management function and the compliance function, including the AML compliance function, is responsible for ownership, continuous review, and implementation of a risk management framework. The third line of defence, i.e., the independent internal audit function, exercises supervision over the entire organisation, i.e., reviews, through conducting internal audits, the internal governance arrangements, processes, and mechanisms to ascertain that they are sound, effective, implemented and consistently applied.

2.2 Principles of remuneration of the Management Board

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

The authority to determine 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 members of the Management Board as well as LHV's financial position, the current status and outlook of business operations in comparison with other 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 and to avoid a situation of conflict of interest by refraining from acting in the personal or other interests. The basic salary and remuneration principles of the members of the Management Board are set forth in the Management Board member contracts concluded with them. The principles of remuneration of the members of the Management Board 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 inappropriate products.
- The performance criteria must not consist only of performance efficiency indicators (e.g., profit, revenue, return, costs, and volume indicators) or market-based indicators (e.g., share price or bond yield) 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 member of the Management Board whose results are being appraised, and they should ensure that remuneration is determined in a way that has the desired impact on the Management Board member's behaviour.
- The performance criteria must be developed by ensuring a good balance between quantitative and qualitative as well as absolute and relative criteria.
- The quantitative criteria must cover a period that is sufficiently long to take into account the risks taken by the member of the Management Board or units they are

responsible for, and they should be risk-adjusted and contain economic efficiency indicators.

- The 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 cooperation with other business units and the internal control function.

LHV applies a long-term incentive plan (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 to the annual performance pay the amount and disbursement of which depend on the achievement of individual targets and LHV's targets. The lower limit of the performance pay, approved by the shareholders, is EUR 0 and the upper limit is 200% of the annual remuneration. As a rule, if the financial plan is met, options will be granted to the extent of 2% 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 period for which performance pay is paid. The performance pay instruments consist fully of share options.

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

Until 31 October 2022 LHV's Management Board had one member: Madis Toomsalu. From 1 November 2022 the Management Board has four members: Madis Toomsalu (the chairman), Meelis Paakspuu, Martti Singi and Jüri Heero. Madis Toomsalu was paid in January 2022 a remuneration of EUR 13 thousand and for rest of 2022 a monthly remuneration of EUR 16 thousand, i.e. an annual remuneration of EUR 189 thousand under his Management Board member contract concluded with LHV. The chairman of the Management Board of LHV, Madis Toomsalu, is entitled to receive, as performance pay, a total of 860,310 shares of LHV for the options granted in 2020, 2021 and 2022. Meelis Paakspuu, Martti Singi and Jüri Heero were paid in January 2022 a remuneration of EUR 10 thousand and for the rest of 2022 a monthly remuneration of EUR 13 thousand, i.e. an annual remuneration of EUR 153 thousand under their Management Board member contracts concluded with LHV. Under their Management Board member contracts concluded with LHV, Meelis Paakspuu, Martti Singi and Jüri Heero do not receive any additional remuneration for the performance of duties of the Management Board members of LHV. The member of the Management Board of LHV, Meelis Paakspuu, is entitled to receive, as performance pay, a total of 527,700 shares of LHV for the options granted in 2020, 2021 and 2022. The members of the Management

Board of LHV, Martti Singi and Jüri Heero, are each entitled to, as performance pay, a total of 506,410 shares of LHV for the options granted in 2020, 2021 and 2022. The Management Board members are not entitled to any additional bonuses or benefits for performing the duties of the Management Board members of LHV.

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 of these transactions must be approved by the Supervisory Board prior to the transaction taking place. In 2022, there were no such transactions between the members of the Management Board, their close family members, or related persons and LHV, nor are there any valid contracts of that nature from earlier periods. The Management Board members have no shareholdings above 5% in other companies who are LHV's business partners, suppliers, clients or other related companies.

None of the Management Board members of LHV are Management Board members or Supervisory Board members at any other issuer. The Management Board members have not been granted the authority to issue or buy back shares.

3. Supervisory Board

3.1 Composition and duties of 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 applicable legislation, may be elected as a member of the Supervisory Board. Before appointment, the suitability of the person for the

position is assessed in accordance with LHV's rules for the assessment of the suitability of members of the governing bodies and key function holders, taking into account the specific nature of LHV's operations.

The members of the Supervisory Board of LHV are Rain Lõhmus (the chairman of the Supervisory Board), 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.

In 2022 the Supervisory Board had eleven ordinary meetings, three extraordinary meetings and on eight occasions decisions were adopted electronically. During the year, three members of the Supervisory Board (Tiina Möis, Heldur Meerits and Raivo Hein) participated in all Supervisory Board meetings, three members of the Supervisory Board (Rain Lõhmus, Andres Viisemann and Tauno Tats) were absent from one Supervisory Board meeting and one member of the Supervisory Board (Sten Tamkivi) was absent from two Supervisory Board meetings. All the members of the Supervisory Board cast their vote electronically on all of the eight occasions the Supervisory Board adopted their decisions electronically in 2022.

Three committees have been formed at the Supervisory Board level of LHV, which are responsible for advising the Supervisory Board in matters related to audit, remuneration, and the appointment of members of the Management Board as described in subsections 3.3–3.5 of 'Corporate governance report'.

In the framework of its meetings in 2022, the Supervisory Board received regular overviews of the operating and financial results of LHV and its subsidiaries, and the activities, development, and results of the related areas. Risk reports and the internal auditor's and Audit Committee reports, compliance reports were reviewed on a quarterly basis. In Q1 2022, the Supervisory Board approved the annual report for 2021 and the report on the activities of the Supervisory Board. The Supervisory Board submitted the documents to the General Meeting for approval and made other various proposals for approval to the General Meeting (described in section 1 of 'Corporate governance report'). The proposals of the Nominating Committee for the regular assessment of the individual suitability of the Management Board member, the Supervisory Board members and the collective suitability of the Supervisory Board were approved in January 2022. The pricing of share options and the grant of share options for the results of 2021 (the LTI plan), and the exercise of share options for the 2018 results were approved, in addition the decision to provide a one-off grant to the NGO Estonian Refugee Aid to assist refugees in the context of the humanitarian crisis in Ukraine was adopted in February 2022. In March 2022 the Supervisory Board's decision to make an investment in the Estonian financial technology company Modular Technologies OÜ (trademark 'Tuum') was carried out. The decision to increase the share capital of LHV in connection with exercise of the share options programme (LTI plan) was adopted in April 2022 and the

decision to increase the share capital of LHV by issuing new ordinary shares in the form of a public offering was adopted in May 2022. In both, July and December 2022, the Supervisory Board's consent was given to increase the share capital of LHV UK. At the regular meeting of the Supervisory Board in August 2022, the primary focus was on the discussion of the strategy of LHV and its subsidiaries. In the same month the write-down of a financial investment in the UK financial undertaking Bank North Ltd was decided (an additional write-down was decided also in September 2022) and the consent to acquire the small and medium-sized enterprises lending business of the same company was given to LHV UK, the latter transaction was finalised in October 2022. In September the 2023 financial calendar was approved, and consent was given to increase the share capital of LHV Pank. In October 2022, to reorganise the organisational structure and governance of LHV as a financial holding company the proposals of the Nominating Committee for the assessment of the individual suitability of the new Management Board members and the collective suitability of the Management Board with a new composition, were approved, following which the new Management Board members were elected, and the chairman of the Management Board was appointed. The issue of EUR 100 million of senior unsecured, unsubordinated bonds to meet regulatory requirements (the so-called MREL ratio) was also decided at the October 2022 meeting. In November 2022 the Supervisory Board decided to organise a private offering of additional Tier 1 temporary write-down notes to financial institutions and proficient investors with a larger investment portfolio. In December the term of office of the Nominating Committee members was extended and the new capital targets were confirmed. At the last two meetings of the year, the Supervisory Board discussed the assumptions for next year's operational and financial plans and the 5-year financial forecast of LHV and its subsidiaries. During the year, overviews of the AML trends, results of the employee survey questionnaire Q12 of LHV and its subsidiaries were presented and training days for the Supervisory Board members were organised as part of the training programme put in place at the beginning of 2022 as part of the suitability assessment procedure to keep the Supervisory Board members' knowledge up to date. In addition, several procedures, policies, and internal regulations of LHV and its subsidiaries were reviewed, updated, and approved, the main aim of which on the LHV level was to reorganise the organisational structure and governance of LHV as a financial holding company.

3.2 Principles of remuneration of the Supervisory Board and conflicts of interest

The size of the remuneration of the members of the Supervisory Board and remuneration 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 the members' participation in the 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 a gross remuneration of EUR 1,500 per each ordinary meeting of the Supervisory Board in which the member participates. The remuneration is paid out on the next working day following the Supervisory Board meeting at the latest. No separate additional or performance payments, bonuses or benefits have been established.

In 2022, the total amount of remuneration paid to LHV's Supervisory Board was EUR 108 thousand, including all taxes, out of which three members (Tiina Möis, Heldur Meerits and Raivo Hein) received EUR 16.5 thousand each (participated in all 11 ordinary meetings), three members (Rain Lõhmus, Andres Viisemann and Tauno Tats) received EUR 15 thousand each (participated in 10 ordinary meetings) and one member (Sten Tamkivi) received EUR 13.5 thousand (participated in 9 ordinary meetings).

For reasons of clarity, LHV considers it important to note that for 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 LHV Varahaldus. The LTI instrument comprises fully of share options. Andres Viisemann is entitled to subscribe a total of 96,850 shares of LHV for the options issued in 2021 and 2022.

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 2022, nor are there any valid contracts of that nature from earlier periods. There have been no conflicts of interest and accordingly, no corrective measures have been applied. The Supervisory Board members have no shareholdings above 5% in other companies who are LHV's business partners, suppliers, clients or other related companies.

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 the accurate and efficient preparation of monthly reports and annual accounts, the efficiency of the audit of the group companies' annual accounts, 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 with 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 (the Chairman). The term of office of the Audit Committee lasts until 31 March 2023. Further information on the members of the Audit Committee is presented in the Governance of the Group section of this annual report. LHV's Audit Committee members are paid a monthly gross remuneration of EUR 500.

According to its rules of procedure, the Audit Committee meets at least quarterly, however, in 2022 the Audit Committee had ten meetings. 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, and compliance control. At one meeting (in May), the Head of Credit Risk gave an overview of the updated status of impacts of the war in Ukraine related crisis and the measures taken and the impact to LHV 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 the concluded audits. The Audit Committee has reviewed all internal audit reports, discussed the observations raised and formed an opinion on them. At the first meeting of the year, the internal audit work plan for 2022 was approved and at the last meeting held in December instructions for the internal audit work plan for 2023 were discussed. The plan was approved in January 2023.

Four meetings were attended by the external auditor

(KPMG). In January and February, the external auditor gave an overview of the 2021 annual report audit process and findings. In October, KPMG provided an overview of the risk assessment, plan, team, and schedule of the financial audit of 2022. At the December meeting, the external auditor presented the findings raised during the interim audit.

As the assignment of KPMG as the external auditor was to expire in 2022, a new tender was organised by the Audit Committee in 2021, the results of which were presented to the General Meeting in March 2022. As a result, the term of appointment of KPMG as the external auditor was prolonged for 2023 by the General Meeting. Thereafter, starting from service provision for the Annual Financial Statements for 2024, the General Meeting appointed PwC as the external auditor.

During the year, the Audit Committee confirmed and approved specific additional services to be provided by the external auditor. No conflicts of interest were identified.

3.4 Remuneration Committee

The Remuneration Committee is a body established by the Supervisory Boards of LHV, LHV Pank, LHV Finance and LHV Kindlustus for the development, implementation, and supervision of a remuneration strategy for the employees and members of the Management Board of the 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 LHV, LHV Pank, LHV Finance and LHV Kindlustus, evaluates the implementation of the remuneration policy at least annually and, where necessary, makes proposals for updating the remuneration principles and prepares the 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 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 (the chairman), Rain Lõhmus and Andres Viisemann, whose term of office lasts until 11 April 2024. Further information on the members of the Remuneration

Committee is presented in the Governance of the Group section of this annual report. The members of the Remuneration Committee are not remunerated.

In 2022, the Remuneration Committee met once, in January, when the remuneration policy and strategic remuneration principles, the remuneration principles of the Management Board of LHV and the remuneration report for the Management Board of LHV, also benchmarking, and critical and planned positions for 2022 were reviewed. The committee also 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 2021 (LTI plan, i.e., the option programme), as well as the pricing of the share options. In addition, the committee approved the exercise of the options granted in 2019 for the results of 2018 and not to cancel of the options of the employees who left in 2021. The remuneration system, including the goals and remuneration of the members of the Management Board of LHV and its Estonian 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 and submitted for approval to the Supervisory Board.

3.4.1 Remuneration policy

The remuneration principles for LHV and its affiliated companies (Group companies) are described in the internal remuneration policy.

There are no regional differences in the remuneration principles of the Group companies. The most significant differences between the Group companies are that LHV Varahaldus has no remuneration committee and applies specific disclosure requirements and LHV UK applies rules arising from its country of operations.

The purpose of establishing remuneration principles within the Group companies is to ensure the organisation of fair, motivating and transparent remuneration in accordance with the law. A broader goal of the remuneration policy is the recruitment of employees with the capabilities, skills, and experience necessary to implement the strategy, to reconcile the interests of employees and shareholders, to motivate employees and to ensure effective risk management for growing business activities. The remuneration system consists of basic remuneration, compensations, and employee benefits. The Group companies do not provide employees with services at a lower than the market price, do not make payments to a III pillar pension fund at the expense of the employer and do not provide benefits such as a company car, a mobile phone or a laptop for personal use.

The general remuneration strategy is to ensure a motivating pay to achieve long-term goals, creating a strong link between remuneration and the financial results of the Group companies. When measuring the key quantitative and qualitative results and assessing the risk, the Group companies are governed by the following principles:

- The performance criteria are in line with sound and effective risk management principles. The performance criteria established must keep in mind the long-term interests of the Group companies and not stimulate excessive risk-taking or the 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 must be as closely as possible related to the decisions of the staff member whose results are being appraised and should ensure that the process of determining the remuneration would have an appropriate impact on the staff member's professional behaviour. In the interest of long-term goals, the assessment and control of risk behaviour will take place at an individual employee level.
- A good balance of both quantitative and qualitative as well as absolute and relative criteria must be used for specifying the performance criteria.
- Quantitative criteria must cover a sufficient period to allow consideration of the risks taken by the staff members or business units. The criteria must 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, creativity, motivation and cooperation with other business units and the internal control function.

The recruitment strategy is to find, engage and keep the best people in the labour market. In determining remuneration, the Group companies are willing to make exceptions rather than restrict its choices with strict remuneration intervals for a specific position. To keep its employees, the Group companies will develop their benefits and compensations in cooperation with their employees. In determining remuneration, the following is taken into account:

- Commitment and results of the employee
- Workload
- Responsibility
- The required level of education
- Management level
- Intensity of work
- The necessary knowledge and experience for the position
- The existence of additional benefits
- The situation in the labour market
- The pay level of the geographical location
- The level of criticality of the position.

The determination of the amount of remuneration must be objective. The remuneration is paid according to the work done and its value, not according to the personality, gender, age, origin, etc. of the employee.

The Group companies apply a general principle that employees should not use personal hedging strategies or remuneration and liability insurance, which would undermine the effectiveness of the hedging of risks integrated into the remuneration policy. In the decisions concerning the remuneration policy, the financial situation and sustainability of the capital base of the Group companies are taken into account.

The Group companies carry out regular self-assessment, the purpose of which is to identify all employees whose professional activities affect or may significantly affect the risk profile of the Group companies. These specified groups of employees are listed in the table below together with ratios between basic and variable remuneration paid in 2022:

Basic and variable remuneration ratio of group of employees who affect Group's risk profile, as at 31 Dec 2022

Senior management	1.14
Staff performing control functions	0.37
Employees with significant impact on the credit risk position (the nominal value of transactions made by the employee is at least 0.5% of LHV Tier 1 own funds and amounts to at least EUR 5 million)	0.77

Self-assessment is carried out once a year at the beginning of the financial year. The assessment covers the past period (including financial results, risk analysis) and takes into account the forthcoming financial year. The specified group of employees that are determined in the course of the self-assessment are required, within one calendar year after exercising the options, to keep the underlying LHV shares in their own possession and to not sell them or to encumber them in any form (including pledge). The specified group of employees are forbidden to transfer the risk of the decline of the share price to other parties, for example, through insurance or certain types of financial instrument. The self-assessment takes account of the degree of job complexity, performance indicators and structure of the Group companies. The analysis is conducted by the Management Board of the Group company in the form of a discussion at a board meeting. The self-assessment is initiated by the Human Resources Department, the compliance of the process and results are assessed by the Compliance Control Department, whose representative is also present at the self-assessment. The Remuneration Committee reviews annu-

ally the qualitative and quantitative criteria related to the employee and the self-assessment process, which are used for decision-making. The results of the self-assessment are independently reviewed by the internal audit. The results are summarised and presented to the Supervisory Boards of the Group companies.

Share options

LHV shareholders have approved two share option programmes (LTI plans) that were relevant in 2022. The share option programme for the Management Board members and key employees that was approved in 2014 was implemented until 2019, hence the share options that were exercised in 2022 were granted in 2019 for the results of 2018 based on that option programme. In 2020 a new result-based share option programme for Management Boards and equivalent staff as well as key employees of LHV and the group companies was adopted to be implemented from 2020 until 2024. In 2022 the recipients and amounts of share options to be granted for the results for 2021 were determined based on the new programme.

The aim of issuing share options is to create conditions where the long-term objectives and interests of the management and equivalent staff as well as key employees of LHV and the group companies would be harmonised with the long-term interests of the shareholders of LHV. Another objective is to offer a system of compensation on the labour market that is equal to competitors.

As part of the programme, there is an annual performance pay added to basic salary, the amount or issue of which depends on the fulfilment of individual and LHV objectives. The objectives of the programme are:

- ensuring a competitive remuneration, to be attractive in the labour market;
- keeping and motivating key personnel through creating a relationship of ownership;
- reconciling the interests of shareholders and employees;
- increasing company value through performance management.

The instruments of performance pay under the option programme are 100% equity options. The term of share options is 3 years from the moment the options were granted. An additional criterion has been applied to options issued from 2018 onwards for Management Boards' members – they are not allowed to sell these shares for another year after executing the rights under option. The three-year vesting period before issuance of shares gives the opportunity to evaluate the results in the long run. It is not possible to receive the specified amount in cash in lieu of share options. Share options are issued annually in the

amount of up to 2% of the total number of LHV shares. LHV has the right to refuse to exercise and issue equity options to the entitled person, in whole or in part, if:

- LHV General Meeting or the Supervisory Board under instructions from the General Meeting does not adopt the decision on the increase of LHV share capital and issuance of shares;
- the Management Board member agreement or the employment relationship of the person entitled to receive options has ceased at the initiative of the person entitled to receive options or pursuant to § 88 of the Employment Contracts Act or, if the Employment Contracts Act is amended, on an analogous basis. However, based on the decision of the Supervisory Board it is possible to make exceptions to the applicability of this paragraph;
- the financial results of LHV or its relevant subsidiary have substantially deteriorated compared to the previous period;
- the person entitled to receive options no longer meets the performance criteria or does not meet the requirements imposed by law on the management or employees of a credit institution or a fund management company;
- LHV or its relevant subsidiary no longer meets the prudential regulations or the company's business risks are not adequately covered by own funds;
- the issuance of options has been determined based on information which has proven to be materially misstated or incorrect.

The share options have been issued annually from 2015 to 2022. In 2022, the options issued in 2019 were fully exercised. The next share options issue could be in 2023 based on the Supervisory Board's decision.

The granting and size of share options were dependent upon the successful achievement of operational targets of the overall company and the targets of individual Management Board members and employees. In 2022, share options were granted to 167 people in the amount of EUR 7,727 thousand. In 2021, share options were granted to 138 people in the amount of EUR 3,684 thousand. In 2020, share options were granted to 106 people in the amount of EUR 2,443 thousand. The company entered into share option agreements with the members of the Management Boards and employees for a three-year term for the granting of share options.

The share options issued in 2020 can be exercised between the period from 1 April 2023 to 30 April 2023 and shares with the nominal value of EUR 0.1 can be acquired for EUR

0.596 per share. The share options issued in 2021 can be exercised between the period from 1 April 2024 to 30 April 2024 and shares with the nominal value of EUR 0.1 can be acquired for EUR 0.923 per share. The share options issued in 2022 can be exercised between the period from 1 April 2025 to 30 April 2025 and shares with the nominal value of EUR 0.1 can be acquired for EUR 2.182 per share.

3.5 Nominating Committee

The purpose of the Nominating Committee is to support the Supervisory Boards of LHV, LHV Pank and LHV Finance in matters related to the selection process and eligibility requirements for the members of the Management Boards, Supervisory Boards and the key function holders (if applicable) of the mentioned companies. The responsibilities of the Nominating Committee include individual assessment of the suitability of candidates for members of governing bodies and key function holders, collective suitability assessment of governing bodies, assessment of the composition, structure and activities of the governing bodies, continuous monitoring of the decision-making process by the governing bodies, periodical review and decision-making on the content, format and frequency of the risk information received, ensuring the involvement of Risk Management, Compliance Testing, Internal Audit and other department managers where appropriate in relevant matters. Inter alia, the Nominating Committee is guided by the diversity policy in its activities, which relies on overarching principles stated with ECB guide to fit and proper assessments and EU directive on gender balance on corporate boards. As a result it has been concluded that Tiina Möis is a member of the Supervisory Board of LHV, Kristel Aarna is a member of the Audit Committee and Relika Mell is a key function holder as the Head of Internal Audit in LHV, in addition LHV's Estonian subsidiaries employ a total of 153 middle-level managers of whom 74 are women; and there are 12 Management Board members including two women.

The Nominating Committee is comprised of at least three members, who are selected from among the members of LHV's Supervisory Board who are also members of LHV Pank's Supervisory Board. 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 LHV.

Madis Toomsalu (the chairman), Rain Lõhmus and Andres Viisemann are the members of the Nominating Committee,

and their term of office lasts until 18 December 2023. Further information on the members of the Nominating Committee is presented in the Governance of the Group section of this annual report. Members of the Nominating Committee are not remunerated.

Three meetings of the Nominating Committee were held in 2022 during which the regular assessment of the individual and collective suitability of the members of the Management Board and the Supervisory Board and the management bodies, and if necessary, of key function holders, of LHV, LHV Pank and LHV Finance was carried out; the assessment of the individual suitability of the members of the Management Board and two of the Supervisory Board members and the collective suitability the management bodies of LHV Pank in connection with the proposed extension of the term of office of the mentioned members was carried out; the assessment of the individual suitability of the proposed additional members of the Management Board of LHV and the collective suitability of the Management Board of LHV was carried out.

4. Cooperation of Management Board and Supervisory Board

The Management Board and Supervisory Board work in close cooperation to best protect the interests of LHV. The cooperation 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 2022 and 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 publishes monthly financial results as well as next-year and five-year financial forecasts. This information has also been disclosed for 2022 and in 2023. The website of LHV includes the financial calendar for 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 are available on LHV's website. Additional meetings with analysts and presentations and press conferences for analysts, investors or institutional investors are arranged when needed and if requested by stakeholder groups. On its website, LHV explains its goals, directions and opinions about possible trends and changes in the regulatory and business environment. LHV strives to be approachable, transparent, and accountable to investors. In 2019, 2020 and 2023 LHV was named the winner of the Nasdaq Baltic Award – an award which recognises Nasdaq Baltic-listed companies in the area of transparency, sound corporate governance and investor relations – in the main category Investor Relations of the Year. In 2021 and 2023, AS LHV Pank was named the Stock Exchange Member of the Year, for the eight time, for most actively contributing to capital market development initiatives.

LHV's dividend policy, 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. Depending on its growth and/or investment plans, LHV may decide not to pay a dividend. Provided the preconditions are met, LHV will distribute at least 25% of profit before tax attributable to LHV shareholders as dividends together with the related income tax.

6. Financial reporting and auditing

LHV publishes an annual report, which is audited, approved by the Supervisory Board and ultimately approved by the General Meeting.

The number of auditors is determined and the auditors are appointed by the General Meeting, which 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 2022, the auditor provided the 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 by 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 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. The four biggest internationally recognised audit firms were asked to submit their offers 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. An invitation to participate 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 of 2019. In 2022 Annual General Meeting agreed to prolong the agreement by 1 year.

In 2022, the fees paid or payable for the services provided by the auditor amounted to EUR 295 thousand of which EUR 119 thousand was for audits and EUR 176 thousand was for other services.

7. Declaration of conformity

LHV complies with the CGR, with the exception of the following instructions and recommendations for the reasons stated below:

'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 subject to the features set out in the "Requirements of independence" annex to the CGR. LHV is still 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, two of the seven members of the Supervisory Board have significant ownership interests (Rain Lõhmus and related persons hold 21.76% of share capital and Andres Viisemann and related persons hold 11.34% of share capital). 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 suitable, including in terms of independence. Furthermore, when assessing the independence of the members of the Supervisory Board, it has been concluded that their behavioural skills include courage, conviction, and strength to effectively assess and challenge the proposed decisions of other members of the Supervisory Board and being able to resist group-thinking.