

# AS LHV Group Remuneration Principles and Their Application

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## 1. Introduction

These remuneration principles have been prepared in accordance with the Estonian Securities Market Act and provide an overview of the remuneration principles for the director of AS LHV Group (LHV Group) and their implementation. The director of LHV Group for the purposes of the Estonian Securities Market Act is member of the management board Madis Toomsalu. The remuneration principles of the LHV Group are also described in the LHV Group's internal procedure rule Remuneration Policy and in the "Corporate Governance Report" section of the annual report.

## 2. Remuneration Principles of Management Board

### 2.1. Objective

**The objective of the LHV Group remuneration principles is to organize fair, motivational, transparent and compliant remuneration.**

The supervisory board of the LHV Group has the right to decide on the remuneration principles and fees of the management board of the LHV Group. The remuneration committee of the LHV Group annually reviews, among other things, the bases for the remuneration of the management board of the LHV Group and, if necessary, proposes to the supervisory board to update the remuneration principles. In evaluating the activities of the members of the management board, the remuneration committee primarily takes into account the duties of each member of the management board, their activities, the activities of the entire LHV Group, as well as LHV's financial situation, current business situation and future trends in comparison with the same indicators for companies in the same economic sector.

The remuneration of a member of the management board, including the performance bonus, must be such as to motivate the person to act in the best interests of the LHV Group and to avoid a situation of conflict of interest by refraining from acting in the personal or other interests. The general principle of the LHV Group is that employees, including members of the management board, must not use personal hedging strategies or salary protection and liability insurance that would undermine the risk mitigation effect integrated into the current remuneration policy. The basic salary of management board members and other relevant remuneration principles are set forth in the management board member's contract.

The implementation of the remuneration principles is monitored by the Remuneration Committee of the LHV Group, whose members have sufficient knowledge and experience in the field of risk management and remuneration. LHV Group Internal Audit and Compliance perform supervision of compliance of the remuneration policy established by internal procedure rule with legal acts governing remuneration and other internal procedure rules of LHV Group.

## 2.2. Metrics

LHV Group is guided by the following principles when it comes to setting the main quantitative and qualitative and risk assessment metrics used to measure performance:

- The performance criteria developed by LHV Group may not stimulate excessive risk-taking or the sale of inappropriate products.
- performance criteria must not include solely indicators that measure efficiency (e.g., profit, revenue, return, costs and volume indicators) or market-specific indicators (e.g., share price or bond yield); rather they must be adjusted by risk-based indicators (e.g., capital adequacy, liquidity).
- criteria used to measure risks and performance must be linked as closely as possible to the decisions made by the specific employee whose performance is measured and should ensure that the process of determining remuneration has an appropriate influence on the behaviour of the employees.
- performance criteria shall be developed using both quantitative and qualitative criteria, as well as an appropriate balance between absolute and relative criteria.
- quantitative criteria shall cover a period of time long enough to take into account risks assumed by specific employees or business units and should be risk-adjusted and include economic efficiency indicators.
- examples of qualitative criteria include fulfilment of strategic objectives, customer satisfaction, compliance with risk management policy, compliance with internal and external rules, management skills, teamwork, creativity, motivation, and cooperation with other business units and implementers of the internal control function.

## 2.3. Basic Salary

The amount of remuneration paid to a member of the management board of the LHV Group and the procedure for payment are determined by a resolution of the supervisory board. When determining the procedure for remuneration and the amount of remuneration and other benefits and concluding a contract with a member of the management board, the supervisory board shall ensure that the total amount of payments to the management board is in reasonable correspondence with the duties of the member and the financial situation of the LHV Group.

The basic salary is a category of the management board's basic remuneration that is a fixed monthly remuneration for a member of the management board for performance of duties. The basic salary is determined based on the commitment and performance of the management board member, the volume of duties, responsibility; required educational level, management level, intensity, necessary knowledge and experience for the position; situation on the labour market, the salary level of the geographical location and the criticality of the position. The basic salary must form a sufficiently large part of the total remuneration to enable, if necessary, the performance bonus not to be allocated or paid.

The severance pay of a member of the management board, i.e. the remuneration related to the early termination of contract of a member of the management board, is related to their previous job performance. The amount of severance pay must reflect the results achieved over time and be commensurate with the total amount of payments made to the member of the management board. The supervisory board decides on the compensation of a member of the management board in the event of premature termination of the contract of a member of the management board. Severance pay is not paid to management board member if doing so harms the interests of LHV Group.

## 2.4. Performance Bonus

LHV Group pays members of the management board an additional variable remuneration, which is not a basic salary and the amount of which is based on previous job performance, but also depends on the conditions of future job performance and which is paid according to the procedure for paying the performance bonus.

LHV Group implements a long-term performance bonus program, i.e., an options program, which is approved by the general meeting of shareholders. The basic salary of members of the management board is supplemented by an annual performance bonus, the amount or issuance of which is aligned with the fulfilment or non-fulfilment of individual or LHV objectives. The minimum performance fee is 0 euros. The maximum ratio between the variable and core components is 200% on the basis of approval given by the general meeting of shareholders. Members of the management board of LHV Group do not receive any additional bonuses or benefits in connection with the performance of their duties.

According to the options programme approved by the shareholders of the LHV Group on 13 March 2020, options will be issued up to a maximum of two percent of the total number of LHV Group shares each year. Two per cent of the total number of shares per year may be exceeded, provided that the excess is not more than the unused portion of 2 per cent of the total number of shares in previous years during the term of the options programme. The bases for determining the options programme performance bonus must be objective and justified and specify the time period for which the performance bonus is paid. The performance bonus instrument is 100% stock options.

Pursuant to the options programme, the term of the options is at least three years from the date the options are granted. For one calendar year starting from the realization of options, LHV Group management board members are obliged to keep the LHV shares underlying the options in their ownership and not to transfer or encumber them in any form (including by pledging them).

## 3. Amendment, Approval and Implementation of Principles

The general meeting of the LHV Group votes on the remuneration principles at least once every four years. Significant changes in the remuneration policy are submitted to the general meeting for voting each time.

The decision of the general meeting to approve the remuneration principles is of an advisory nature for supervisory board. The remuneration principles shall be deemed approved if more than one-half of the votes represented at the general meeting are in favour of them.

The shareholders of the LHV Group may submit proposals in writing to amend the remuneration principles pursuant to the procedure set out in the notice convening the general meeting of shareholders.

These remuneration principles were put to the vote at the General Meeting of LHV Group's shareholders to be held on 30 March 2022 and will be applied starting in 2022.

The shareholders shall be provided with an overview of the remuneration paid in accordance with the remuneration principles in the remuneration report, which shall be submitted to the general meeting for voting as an appendix to the annual report. The shareholders have the right to demand a vote at the general meeting on whether actual remuneration is in compliance with the remuneration principles.

*These remuneration principles have been approved on 30 March 2022 at the Annual General Meeting of shareholders of AS LHV Group with the following voting results:*

<i>in favour:</i>	<i>19,823,081</i>	<i>votes</i>	<i>i.e.,</i>	<i>98.89%</i>	<i>votes represented at the meeting</i>
<i>opposed:</i>	<i>96,197</i>	<i>votes</i>	<i>i.e.,</i>	<i>0.48%</i>	<i>votes represented at the meeting</i>
<i>neutral:</i>	<i>123,977</i>	<i>votes</i>	<i>i.e.,</i>	<i>0.62%</i>	<i>votes represented at the meeting</i>
<i>withhold:</i>	<i>2,713</i>	<i>votes</i>	<i>i.e.,</i>	<i>0.01%</i>	<i>votes represented at the meeting</i>