

# Corporate governance report 2021

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AS DelfinGroup

Riga  
2022

## INTRODUCTION

AS DelfinGroup (hereinafter DelfinGroup) Corporate Governance Report of the year 2021 (hereinafter – the Report) is prepared on the basis of the requirements of the second paragraph of section 56.<sup>2</sup> of the Financial Instruments Market Act and Code of Corporate Governance issued by the Corporate Governance Advisory Board of the Ministry of Justice of the Republic of Latvia, developed in 2020. The Report is made by DelfinGroup Management Board.

DelfinGroup has complied with most of the principles of good corporate governance contained in the Corporate Governance Code. The principles that DelfinGroup has not complied with, including partially, are included in the report, explaining the reasons for DelfinGroup actions for incomplete or non-compliance.

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Didzis Ādmīdiņš  
Chairman of the Board

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Aldis Umblejs  
Member of the Board

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Sanita Zitmane  
Member of the Board

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## PRINCIPLES OF GOOD CORPORATE GOVERNANCE

### COMPANY STRATEGY

Company strategy is an essential tool for setting company objectives and progress towards long term value creation.

#### Principle No 1

**The company has an up-to-date strategy that sets out the company's objectives and progress towards long-term value creation.**

- The company has an up-to-date strategy, the draft of which is developed by the management board.

*DelfinGroup complies with this criterion.*

- The supervisory board is involved in the strategy development process and approves the strategy at the supervisory board meeting.

*DelfinGroup complies with this criterion.*

- The supervisory board monitors the implementation of the strategy.

*DelfinGroup complies with this criterion. According to DelfinGroup Corporate Governance Policy, once in six months the Supervisory Board review implementation of the strategy and makes corrections if necessary.*

- The company management board implements the strategy and reports to the supervisory board on its implementation on a regular basis.

*DelfinGroup complies with this criterion. The Management Board of DelfinGroup draws up action plan to achieve strategic goals and reports to the Supervisory Board on the progress of the strategy at least every six months or upon request.*

### INTERNAL CULTURE AND ETHICAL BEHAVIOUR

The basic principles of the company's internal culture and ethical behaviour and the values on which they are based are a precondition for the successful long-term development of the company.

#### Principle No 2

**The company develops an internal culture and ethics code which serves as a standard of conduct for the company's management and employees.**

- The supervisory board defines the company's core values.

*DelfinGroup complies with this criterion. Core values of DelfinGroup are defined by the Management Board and approved by the Supervisory Board.*

- The management board prepares and the supervisory board approves the code of internal culture and ethics.

*DelfinGroup partially complies with this criterion. Code of Ethics of DelfinGroup has been prepared by the Management Board and approved by the Supervisory Board in March 2022.*

- The management board ensures compliance with the company's internal culture and ethics

code on a daily basis and reacts if there is a breach of the code.

*DelfinGroup partially complies with this criterion. Although the Code of Ethics was approved in March 2022, the company's internal culture and ethical standards were followed during the reporting period in accordance with the Code of Ethics under development and the DelfinGroup Working regulations.*

## **INTERNAL CONTROL SYSTEM, RISK MANAGEMENT AND INTERNAL AUDIT**

The purpose of the internal control system is to ensure the efficient, sustainable and successful operation of the company, the veracity of the information provided and compliance with the relevant regulatory enactments and operating principles.

The purpose of risk management is to identify, assess, manage and control potential events or situations to provide assurance regarding the achievement of the company's strategic objectives.

Internal audit helps the company accomplish its objectives by bringing systematic processes to evaluate and improve the effectiveness of risk management, internal control and governance processes.

### **Principle No 3**

**The company has an internal control system, the effectiveness of which is monitored by the supervisory board.**

- The company has a documented internal control system, the establishment of which is the responsibility of the management board.

*DelfinGroup complies with this criterion. The implementation of the internal control system is ensured by the Management Board and the internal auditor, while it is supervised by the Supervisory Board.*

- The internal audit evaluates the effectiveness of the internal control system at least once a year taking into account pre-defined criteria and reporting the results of the evaluation to the supervisory board.

*DelfinGroup complies with this criterion. Once a year, the internal auditor prepares a report on the performed internal audits and summarizes recommendations for the improvement of DelfinGroup operations. The report shall also include an overall opinion on the effectiveness of the internal control and risk management systems.*

- The supervisory board, at least once a year, evaluates the provided evaluation of the effectiveness of the internal control system.

*DelfinGroup complies with this criterion. In accordance with the Corporate Governance policy of DelfinGroup, one of the tasks of the Supervisory Board is to monitor the internal control and risk management systems, review their adequacy and effectiveness.*

### **Principle No 4**

**The company identifies, assesses and monitors the risks associated with its operations.**

- The management board develops and the supervisory board approves the company's risk management policy.

*DelfinGroup complies with this criterion.*

- Based on the identified risk assessment, the management board implements risk

management measures.

*DelfinGroup complies with this criterion.*

- At least once a year, the supervisory board reviews the management board's reports on risk management measures and the implementation of the risk management policy.

*DelfinGroup complies with this criterion. In accordance with the Risk Management policy, the Management Board prepares an annual report to the Supervisory Board on the risks, the risk management measures implemented and the implementation of the risk management policy.*

## Principle No 5

**An internal audit has been established in the company, it evaluates the company's operations independently and objectively.**

- The company has an internal auditor who is functionally independent of the management board and reports to the supervisory board.

*DelfinGroup complies with this criterion. DelfinGroup has an independent and objective internal audit function performed by an internal auditor. Internal auditor is functionally subordinated to the Supervisory Board. Internal auditor reports to the Supervisory Board and the Risk and Audit Committee.*

- The supervisory board approves the internal auditor.

*DelfinGroup complies with this criterion. The Supervisory Board, upon the recommendation of the Risk and Audit Committee, approves the internal auditor and decides on the termination of the employment relationship with the internal auditor.*

- The internal auditor develops a risk-based internal audit plan, which is approved by the supervisory board.

*DelfinGroup complies with this criterion. The strategic and annual plan for internal audit is reviewed by the Management Board, the Risk and Audit Committee and approved by the Supervisory Board.*

- The internal auditor informs the management board and supervisory board on the implementation of the internal audit plan, audit results and recommended actions to address deficiencies, if any.

*DelfinGroup complies with this criterion. The internal auditor shall report to the Management Board, Risk and Audit Committee and the Supervisory Board at least quarterly on the progress, conclusions and recommendations of the annual internal audit plan.*

## EXTERNAL AUDITOR

The external auditor provides the management board and the supervisory board, all shareholders and investors, creditors and other stakeholders with an independent report on the company's financial standing, reliability of financial statements and compliance with the requirements of regulatory enactments.

## Principle No 6

**The company has an independent external auditor.**

- The supervisory board and the audit Committee, (if established), determine the selection criteria for the external auditor.

*DelfinGroup complies with this criterion. The selection process of the external auditor is ensured by the Risk and Audit Committee of the Supervisory Board in accordance with its rules of procedure.*

- The company has an independent external auditor with appropriate qualifications.

*DelfinGroup complies with this criterion.*

- The term of office of one external auditor does not exceed 5 years.

*DelfinGroup complies with this criterion.*

## **ELECTION OF SUPERVISORY BOARD MEMBERS**

A competent and experienced supervisory board is a prerequisite for the efficient operation of the company and decision-making, which contributes to the long-term growth of the company's value. The supervisory board is working in the interests of all shareholders and the company.

### **Principle No 7**

**The company ensures transparent procedures for the election and removal of supervisory board members.**

- The company has approved the procedure for selection and removal of supervisory board members.

*DelfinGroup complies with this criterion. Independent candidates the Supervisory Board positions shall be selected in an open process based on criteria of professionalism and competence. Selection of candidates for independent Supervisory Board members is done by Nomination committee that consults with a professional recruitment consultant, defining the scope and tasks of its involvement. The members of the Supervisory Board are appointed and removed by the shareholders' meeting.*

- The company provides timely and sufficient information to the company's shareholders on the supervisory board members who are nominated for election or re-election.

*DelfinGroup complies with this criterion. Prior to the approval of the members of the Supervisory Board at the shareholders' meeting, DelfinGroup comprehensively and in a timely manner informs the shareholders about the suitability of the candidates for the position of the members of the Supervisory Board.*

- The size of the supervisory board corresponds to the specifics of the company's operations.

*DelfinGroup complies with this criterion. The Supervisory Board of DelfinGroup consists of five members.*

- A supervisory board member is elected for a term not exceeding 5 years.

*DelfinGroup complies with this criterion. According to DelfinGroup Articles of Association, the Supervisory Board is elected for five years.*

### **Principle No 8**

**Supervisory board members combined have relevant experience and competence.**

- The supervisory board as a whole has a set of skills, experience and knowledge, including on the sector concerned, to be able to perform their duties fully.

*DelfinGroup complies with this criterion. An independent recruitment company was*

*involved in the selection of the members of the Supervisory Board, which organized a public and international competition. As a result, the most suitable members of the Supervisory Board were selected.*

- The principles of diversity are observed when forming the supervisory board.

*DelfinGroup complies with this criterion. The selection process follows the principle of diversity, as evidenced by the experience of the Supervisory Board members in various industries.*

- Both sexes are represented in the supervisory board.

*DelfinGroup does not comply with this criterion. Board members are selected by an independent recruitment company that offers the most suitable candidates based on their competencies and experience.*

The management board develops an induction training programme and provides new supervisory board members with induction training.

*DelfinGroup complies with this criterion. Each member of the Supervisory Board begins his / her duties with an introductory training organized by the Management Board, during which the activities and processes of DelfinGroup are comprehensively introduced.*

#### **Principle No 9**

**The company's supervisory board has independent supervisory board members.**

- The company evaluates and the shareholders determine the proportion of independent supervisory board members.

*DelfinGroup complies with this criterion. DelfinGroup Corporate Governance policy determines that at least half of the members of the Supervisory Board are independent.*

- At least half of the members of the board are independent.

*DelfinGroup complies with this criterion. 3 out of 5 Supervisory Board members are independent.*

- Independent candidates for supervisory board membership make a declaration that they meet the independence criteria.

*DelfinGroup complies with this criterion.*

- Prior to the election of the supervisory board, the company evaluates the independence of supervisory board members in accordance with the available information.

*DelfinGroup complies with this criterion.*

#### **PRINCIPLES OF DETERMINING THE REMUNERATION FOR THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD**

Clearly defined remuneration principles for management board and supervisory board members facilitate transparency of the use of funds and effective risk management.

#### **Principle No 10**

**The company has introduced a remuneration policy.**

- The company has introduced a remuneration policy, which has been developed by the

management board, reviewed by the supervisory board and approved by the shareholders' meeting.

*DelfinGroup complies with this criterion.*

- Once a year, the supervisory board determines the financial and non-financial goals to be achieved by the management board, their impact on the variable part of remuneration and controls their fulfilment.

*DelfinGroup complies with this criterion. The variable part of the remuneration of the Management Board is affected only by the financial targets to be achieved.*

- No variable part of remuneration is determined for supervisory board members, and no compensation is paid in case of removal or resignation from office.

*DelfinGroup complies with this criterion. In accordance with the Remuneration policy of DelfinGroup and the decision of the shareholders' meeting, one member of the Supervisory Board is entitled to compensation in the amount of six monthly salaries in the event of early termination of employment.*

- Once a year, the management board prepares a report on the remuneration granted to each current and former management board and supervisory board member.

*DelfinGroup complies with this criterion. Given that DelfinGroup started trading shares on the regulated market in October 2021, in accordance with Section 59.4 (8) of Chapter III1 of the Financial Instruments Market Law, first remuneration report of DelfinGroup must be submitted for the reporting period of 2022.*

## ORGANISATION OF THE SUPERVISORY BOARD'S WORK AND DECISION-MAKING

A clear and understandable organization of the work of the supervisory board and the availability of timely, high-quality and relevant information facilitates the effective performance of the supervisory board's tasks and full involvement of supervisory board members in decision-making.

### Principle No 11

**The company's supervisory board work organization is clear and understandable.**

- The supervisory board organizes its work in accordance with regulations of the supervisory board and the work calendar.

*DelfinGroup complies with this criterion.*

- The supervisory board holds at least one separate supervisory board meeting per year to discuss the company's strategy and its implementation.

*DelfinGroup complies with this criterion. The Supervisory Board of DelfinGroup approves the strategy once a year and organizes a separate meeting to evaluate the implementation of the strategy.*

- The company's budget provides the financing necessary to ensure the operation of the supervisory board.

*DelfinGroup complies with this criterion.*

- Once a year the supervisory board conducts a self-assessment of the work of the supervisory board and reviews its results at the supervisory board meeting.

*DelfinGroup complies with this criterion.*

- The supervisory board has evaluated the need to set up committees (if a committee has been set up, see principle No 12.1.).



*DelfinGroup complies with this criterion. The following committees have been established: Risk and Audit Committee, Remuneration and Nomination Committee, Business Development Committee. The Supervisory Board shall approve the regulations of the committees.*

## **Principle No 12**

### **The supervisory board takes informed and well-balanced decisions.**

- The supervisory board has access to information prepared by the management board necessary for decision-making in a timely manner and in sufficient amount.

*DelfinGroup complies with this criterion.*

- The supervisory board determines the procedure for the circulation of information, including the right of the supervisory board to request from the management board information, which the supervisory board needs to make decisions.

*DelfinGroup complies with this criterion.*

- A supervisory board member analyses the information and prepares proposals for decisions to be adopted by the supervisory board.

*DelfinGroup complies with this criterion.*

- When making decisions, the supervisory board assesses the risks, short-term and long-term impact on the company's value, sustainability and responsible development.

*DelfinGroup complies with this criterion.*

## **Principle No 12.1**

### **A committee prepares proposals for supervisory board decision making.**

- The supervisory board determines the tasks and the procedures for organization of work of the committee.

*DelfinGroup complies with this criterion.*

- The supervisory board establishes a committee of at least 3 supervisory board members with appropriate experience and expertise in the field of work of the committee (remuneration, nomination, audit or other field).

*DelfinGroup complies with this criterion. The Supervisory Board has established three committees: the Risk and Audit Committee, the Remuneration and Nomination Committee, and the Business Development Committee. All committees consist of 3 members with relevant experience and knowledge in the defined field of the committee.*

- The committee analyses the information and makes proposals for decisions by the supervisory board, as well as informs the supervisory board of the work of the committee.

*DelfinGroup complies with this criterion.*

## **PREVENTION OF THE CONFLICT OF INTERESTS**

Identification and management of potential conflict of interest situations reduces a company's financial and reputational risks.

## **Principle No 13**

**Management board and supervisory board members are clearly aware of the manifestations of conflicts of interest and are informed of the action to be taken in the event of a conflict of interest.**

- The supervisory board defines the indications of a conflict of interest and identifies the conflict-of-interest prevention and management procedures.

*DelfinGroup partially complies with this criterion. Procedures for the prevention of conflicts of interest are defined in the Company's Code of Ethics, approved in March 2022. Prior to the approval of the Code of Ethics, DelfinGroup complied with the conflict-of-interest management procedures under development.*

- Supervisory board or management board members do not participate in decision-making on matters in which the company's interests conflict with the interests of the supervisory board, management board members or persons related to them.

*DelfinGroup complies with this criterion.*

- Persons subject to the conflict-of-interest obligation participate in training on dealing with conflicts of interest on a regular basis.

*DelfinGroup complies with this criterion.*

## SHAREHOLDERS' MEETING

Effective involvement of shareholders in decision-making helps to achieve the company's financial and non-financial goals, as well as ensures the company's sustainable operation.

### Principle No 14

**The company provides shareholders with timely information on conduction of shareholders' meetings providing all the information necessary for decision-making.**

- The company informs shareholders in a timely manner about the agenda, course and voting procedures of the shareholders' meeting, as well as about any related changes.

*DelfinGroup complies with this criterion.*

- Simultaneously with the announcement of the meeting, the company provides an opportunity for the shareholders to get acquainted with the draft decisions, which are initially planned to be voted on at the meeting. The company informs the shareholders immediately of any additional draft decisions submitted.

*DelfinGroup complies with this criterion. Simultaneously with the announcement of the shareholders' meeting, DelfinGroup informs the shareholders about the issues included in the agenda of the meeting. The draft resolutions are published at least 14 days before the set date of the shareholders' meeting.*

- The company provides shareholders with an opportunity to submit questions on the matters included in the agenda and draft decisions before the shareholders' meeting.

*DelfinGroup complies with this criterion.*

- The draft decisions and the documents attached to them provide detailed, clear and complete information on the matter under consideration.

*DelfinGroup complies with this criterion.*

### Principle No 15

**The company promotes effective shareholder involvement in decision-making and a participation in shareholders' meetings.**

- The shareholders' meeting is convened and held at a place and time easily accessible to the shareholders.

***DelfinGroup complies with this criterion. Shareholders can participate in DelfinGroup shareholders' meetings both in person and remotely.***

- The company provides shareholders with the opportunity to participate in the shareholders' meeting remotely.

***DelfinGroup complies with this criterion.***

- The company determines the appropriate duration of the shareholders' meeting and provides the shareholders with the opportunity to express their opinions during the meeting and obtain the information necessary for decision-making.

***DelfinGroup complies with this criterion.***

- The company announces a new shareholders' meeting if the matters included on the agenda of the meeting cannot be considered at the expected time.

***DelfinGroup complies with this criterion.***

- The company invites management board and supervisory board members, candidates for supervisory board members, auditors and internal auditors, as well as other persons to participate in the shareholders' meeting in accordance with the matters to be considered at the meeting.

***DelfinGroup complies with this criterion.***

- The shareholders' meeting makes decisions in accordance with the previously announced draft decision.

***DelfinGroup complies with this criterion.***

**Principle No 16**

**The company develops and discusses dividend policy with shareholders.**

- The company has developed and published an up-to-date dividend policy.

***DelfinGroup complies with this criterion. Dividend policy is available on the DelfinGroup website [www.delfingroup.lv](http://www.delfingroup.lv).***

- The dividend policy has been discussed with the shareholders during the shareholders' meeting.

***DelfinGroup complies with this criterion. The dividend policy has been approved by the DelfinGroup shareholders' meeting.***

**TRANSPARENCY OF COMPANY OPERATIONS**

Transparency of company operations is the basis for effective investor relations and successful communication with shareholders and other stakeholders.

**Principle No 17**

**The company informs shareholders and other stakeholders on a regular basis and in a timely manner of business operations, financial results, management and other relevant issues of the company.**

- The company discloses complete, accurate, objective, up-to-date and true information in a timely manner.

***DelfinGroup complies with this criterion.***

- The company discloses information to all shareholders at the same time and to the same extent.

***DelfinGroup complies with this criterion.***

- The company discloses information about the company's management, strategy or lines of business on the website and publishes financial statements as well as other information in accordance with Annex No. 1.

***DelfinGroup partially complies with this criterion.***

***Issues regarding prevention of conflicts of interest and implementation of fair competition are included in the DelfinGroup Code of Ethics.***

***Disclosure, circulation and confidentiality issues are covered in Market Abuse Policy of DelfinGroup.***

***Sanction risk management issues are included in the Group's NILLTPFN Individual Policy, which contains internal company information. A separate Sanctions Risk Management Policy is under development and will be published on DelfinGroup website.***

***Business Partner Due Diligence Policy is under development at the time of publication of this report. Customer and investor research issues are covered in Group's NILLTPFN Individual Policy and the Group's Accounting Outsourcing, Attracted and Returned Funding NILLTPFN Policy, which are internal documents of DelfinGroup.***

- The company provides information both in Latvian and in at least one other language that is understandable to most of the company's foreign shareholders and other stakeholders.

***DelfinGroup complies with this criterion.***

## **INFORMATION TO BE PUBLISHED ON THE COMPANY WEBSITE**

### **Company:**

- Information about the company – history of its establishment and operation, registration data, address, description of the industry, main types of business, place of the company in the group structure (if applicable).
- Information about the company's strategic objectives.
- Articles of association of the company.
- Information on the corporate governance structure of the company (interaction between shareholders' meeting, supervisory board, its committees, management board, auditors, internal auditors, audit committee, etc.).
- Company Code of Internal Culture and Ethics
- Key company policies (Information Disclosure, Circulation and Privacy Policy, Conflict of Interest Prevention Policy, Risk Management Policy, etc.) in accordance with Annex No. 2.

### **Shareholders and beneficial owners:**

- Information on the company's shareholders holding at least 5% of the company's share capital (indicating the date on which this information was prepared).
- Information on the beneficial owners of the company (indicating the date when this information was prepared).
- Number of company's issued, paid-up and voting shares, bonds or other financial instruments.

### **Supervisory board and management board:**

- Regulations of the management board and the supervisory board or another similar document.
- Information on each supervisory board and management board member:
  - term of office;
  - position and area of responsibility (if applicable/assigned);
  - professional work experience and education;
  - up-to-date information on positions in other companies;
  - up-to-date information on the company's shares;
  - statistics on attendance of supervisory board meetings.<sup>8</sup>
- Information on independent supervisory board members:
  - which supervisory board members are considered independent;
  - according to what criteria the independence of a supervisory board member is determined;
  - annual evaluation of dependence of supervisory board members.
- Remuneration policy of the management board and the supervisory board and remuneration report.
- Information on the selection (nomination) process of the management board and the supervisory board.
- Information on supervisory board committees and the audit committee:
  - committee regulations;
  - information on committee members.

### **Financial and non-financial reports and information:**

- Company's financial statements and reports for at least 3 last financial years:
  - annual reports (including consolidated reports, if any) and auditor's reports (if any);
  - interim reports and quarterly reports.
- The company's non-financial reports (on the company's environmental impact, social and employee aspects, respect for human rights and anti-corruption measures, including the sustainability report) for at least 3 last financial years.
- Corporate governance reports.

- Company's financial calendar or other calendar of significant and planned communication events.

**Information for shareholders and investors:**

- Information on the planned shareholders' meetings:
  - notices on convention of shareholders' meetings;
  - draft decisions.
- Information on held shareholders' meetings:
  - information on the decisions adopted at the shareholders' meetings.
- Company's dividend policy and information on dividends paid (on at least 10 last years of the company's operations).
- Information on transactions of related parties.
- Announcements published by the company and relevant information for investors, including presentations for investors, videos of events for investors, forecasts, if any, etc.
- Contacts of the investor relations person (if any).

## KEY COMPANY POLICIES

### Key policies included in corporate governance principles or criteria:

- **Risk Management Policy.** For identification, assessment, management and control of potentially negative events or situations to provide assurance regarding the achievement of the company's strategic objectives.
- **Remuneration Policy.** For the purpose of determining remuneration in accordance with professional performance, as well as proportionality and compliance with the existing economic situation, market practices, the amount of remuneration in the industry, as well as the amount of remuneration of the company's employees.
- **Dividend Policy.** For determining the strategy of dealing with the company's profits, taking into account the company's short-term and long-term objectives, financial and market situation, industry, as well as investment plans.

### Other key policies mentioned in the corporate governance code:

- **Internal Audit Policy.** For evaluation and improvement of the effectiveness of internal control, risk management and company governance processes.
- **Conflict of Interest Prevention Policy.** For identification, management and prevention of situations where personal and professional interests or two opposing professional interests collide.
- **Information Disclosure, Circulation and Privacy Policy.** For categorization of information and management of its circulation to ensure transparency of company's operations.
- **Whistleblowing Policy.** For timely identification and prevention of risks before the company's reputation and shareholders have been harmed by creating an environment in which employees can safely report detected violations.
- **Fair Competition Implementation Policy.** For ensuring free and fair competition in company's operation and preventing violations of regulatory enactments on competition.
- **Diversity Policy.** For promoting an inclusive work environment, equal treatment and diversity in the company.
- **Sustainability Policy.** For ensuring the company's value and long-term growth through the implementation of financial, environmental and social responsibility.

### Essential compliance policies:

- **Business Partner Due Diligence Policy.** For prevention of risks to company's reputation and security risks when establishing and continuing relationships with business partners by analyzing information and drawing conclusions based on a risk-based approach.
- **Sanctions Risk Management Policy.** For prevention of violations and circumvention of sanctions imposed by the United Nations, the European Union, the Republic of Latvia and, when appropriate, also Member States of the North Atlantic Treaty Organization and other relevant countries, as well as for prevention of attempts to circumvent those sanctions.
- **Personal Data Processing Policy.** For compliance with personal data protection requirements when establishing data processing procedures, including data collection, organization, storing, viewing, use, disclose, erasure, transmission, distribution or making the available otherwise.