

**To Invalda INVL, AB**  
**Gynėjų str. 14, Vilnius**

**INVALDA INVL, AB AUDIT COMMITTEE ACTIVITY REPORT FOR THE FINANCIAL YEAR 2022**

Vilnius, 28 of April 2023

**GENERAL PART**

The Audit Committee (hereinafter – the Committee) of Invalda INVL, AB (hereinafter – Invalda INVL, AB or the Company) was formed by the decision of the General Meeting of Shareholders on 30<sup>th</sup> of April 2021.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of Invalda INVL, AB also Regulations of the Audit Committee of Invalda INVL, AB (hereinafter – the Regulations), approved by the decision of the General Meeting of Shareholders on 28<sup>th</sup> April 2017.

**COMPOSITION OF THE COMMITTEE**

Invalda INVL, AB (previous company names - Akcinė bendrovė “Invalda” and Akcinė bendrovė “Invalda LT”) was registered in the Centre of Registers of the Republic of Lithuania on 23<sup>rd</sup> of December 1991.

On the 30<sup>th</sup> of April 2021 the General Meeting of Shareholders of Invalda INVL, AB was held; the General meeting adopted the decision to appoint Dangutė Prancėkienė and Tomas Bubinas as the independent members of the Committee of Invalda INVL, AB for a 4 (four) years term.

The members of the Committee meet the qualification and experience requirements set out in the Regulations:

- an independent member of the Committee has a university degree in economics and more than three years work experience in the field of audit;
- an independent member of the Committee has a university degree in economics and more than three years work experience in the field of accounting.

Information and data which prove qualification and experience of the members of the Committee were submitted to the General Meeting of Shareholders held on the 30<sup>th</sup> of April 2021 and have not changed during year 2022.

Independent members of the Committee comply with the main criteria set out in the Regulations which are used to determine whether a member of the Committee may be considered as independent:

1. he/she is not and has not been for the last five years a manager of the Company and/or the associated companies (as they are defined in clause 24 of Description on requirements for audit committee (hereinafter – Description) approved by the board of Bank of Lithuania on 24 January 2017 by Resolution No. 03-14);
2. he/she is not and has not been for the last three years an employee of the Company and/or the associated companies;
3. he/she is not receiving and has not been receiving significant, compared to the revenue received by the member of the Committee, additional remuneration from the Company and/or the associated companies other than remuneration of a member of the Committee and/or member of the supervisory body;
4. he/she is not a controlling shareholder and is not a representative of such shareholder;
5. he/she does not have and has not had any material business relations with the Company or associated company within the past year directly or as a partner, shareholder or a member, managing employee of the subject having such relationships (a subject is considered to have business relations when it is a major supplier or service provider (including financial, legal, advisory and consulting services), major client or organisation receiving significant part of the income from the Company or its group);

6. he/she is not and has not been for the last three years a partner or employee of the current or former external audit company of the Company or the associated companies;
7. he/she has not been in the position of a member of the Committee of the Company for over than 12 years;
8. he/she is not a close relative to the manager of the Company or to any person specified in paragraphs 1 – 7 above (a spouse (partner), children (adopted children), parents (adoptive parents), brothers (stepbrothers) and sisters (stepsisters) are considered to be close relatives).

The Committee member Tomas Bubinas was appointed as an independent member of the Company's collegial management body - the board - for a 4-year term by the decision of the General Meeting of the Company's Shareholders held on 30 April 2022. The wording of the Company's Articles of Association dated 11 May 2022 provides that the Company's board performs the Company's supervisory functions, provided for in Clause 11 of Article 34 of the Law on Companies of the Republic of Lithuania and at least 1/3 of its members must be independent. For this reason, it can be assumed that Committee member Tomas Bubinas, as an independent member of the board, meets the independence requirements for members of the audit committee.

#### **FUNCTIONS AND PROCEDURE OF WORK OF THE COMMITTEE**

The main functions of the Committee:

1. to inform the Managers of the Company about the results of the audit of financial statements and explain how this audit has contributed to the credibility of financial statements and what role has been performed therein by the Committee;
2. to monitor the process of preparation of financial statements and submit recommendations regarding ensuring of the credibility thereof;
3. to monitor the effectiveness of the Company's internal quality control and risk management systems affecting the financial statements of the Company and internal audit, without prejudice to the independence of the internal audit;
4. to monitor the audit of annual financial statements and consolidated financial statements with a particular focus on its performance, taking into account the deficiencies of the audit of financial statements identified during the inspection of the Company and to the conclusions reached;
5. to review and monitor the independence of auditors and audit companies seeking to avoid conflicts of interest;
6. to bear responsibility for the carrying out of the procedure of selection of the auditor or the audit company and the submission of a recommendation for the appointment of the auditor or the audit company;
7. to provide an opinion on the transactions concluded by the Company with related persons in accordance with the provisions of Article 37<sup>2</sup> of the Law on Companies of the Republic of Lithuania;
8. to submit recommendations to the General Meeting of Shareholders of the Company related to selection, appointment, repeated appointment and revocation of external audit company and terms of agreement with external audit company;
9. to monitor and evaluate whether process of the audit of financial statements is effective.

The work of the Committee is organized taking into account the specifics of the activity of the Company external factors, changes in legal environment.

The right of initiative of convoking the meetings of the Committee is held by both members of the Committee. Usually the time of the meetings is combined with discussions of the preparation process of the financial statements (including intermediate financial statements) and audit reports.

During the reporting period the Committee discussed all questions collegially.

The Board members of the Company have worked closely with the members of the Committee, duly presented them with the activity of the Company, provided with detailed information regarding the specific peculiarities of accounting, finance and activity of the Company, informed about methods of settlement for important and unusual transactions when the settlement may be included in accounting in several different ways, provided with other information which is necessary to carry out the functions of the Committee properly.

The Committee has received information regarding all questions of the external audit from the management of the Company on time.

## **THE ACTIVITY OF THE COMMITTEE IN FINANCIAL YEAR 2022**

### **Monitoring of the financial statements' preparation process.**

Without prejudice to the responsibility and rights of the administration, the Board members also the external audit company, the Committee *inter alia* (A) has observed the financial statements' preparation process (including intermediate) of the Company.

The members of the Committee were informed of any possible inconsistency with accounting policies or disclosure issues, a regular two-way dialogue was held between the members of the Committee and persons, responsible for the preparation of financial statements, and information regarding work of independent audit was received.

The Company pays enough attention and resources to ensure timely implementation of all legislative changes governing the preparation of financial statements. The Company's financial statements are prepared and published in accordance with the requirements of mandatory legal acts.

The members of the Committee, after familiarizing with the audited set of annual financial statements for the financial year 2022 and hearing from CFO of the Company about the preparation process of the above mentioned statements and related problems, as well as after discussing the audit process and the issues arisen with the Company's auditors, have recommended to the Board of the Company to submit audited set of annual financial statements for the financial year 2022 and consolidated financial statements to the General Meeting of Shareholders of Invalda INVL, AB, which will be held on 30 April 2023.

### **Monitoring of the efficiency of internal control and risk management systems and assessment of the need of internal audit function.**

Without prejudice to the rights and responsibility of the administration, Board members and external audit company, the Committee *inter alia* (B) has observed the effectiveness of internal control and risk management systems and has assessed the need of internal audit function in the Company.

There is no internal audit function in the Company. As the Company along with its subsidiaries operates in different business segments (asset management, real estate, agriculture), the Committee recommends the Company's administration and the Board to consider the possibility of establishing an internal audit function.

### **Monitoring of the process of external audit.**

Without prejudice to the rights and responsibility of the administration, Board members and external audit company, the Committee *inter alia* (C) has observed the process of external audit.

Management of the Company as well as Audit Company provided the members of the Committee with information about the process of external audit of financial statements of the financial year 2022 of the Company.

The main questions of the audit for the year 2022 discussed with auditors: (i) revenue recognition (IFRS 15 *Revenue from Contracts with Customers*), (ii) Fair value estimation of entities owned by Invalda INVL, AB, and related disclosures thereof in the financial statements according to IFRS 13 *Fair value measurement*, (iii) Application of IFRS 10 *Consolidated Financial Statements* regarding definition of investment entity, (iv) Accounting for bonuses according to IAS 19 *Employee benefits* and IFRS 2 *Share-based Payment*; (v) on the accounting and disclosure of the agreement on the merger of part of the retail businesses with AB Šiaulių Bankas (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*); (vi) preparation of the entire annual financial reports of the Company in XHTML format according to the Commission delegated regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format.

### **Independence and objectivity of external auditor and the audit company.**

Without prejudice to the rights and responsibility of the administration and Board members, the Committee *inter alia* (D) reviews and observes an independence of external auditor and the audit company, primarily in respect of additional services provided to the audited subject.

The Extraordinary General Meeting of Shareholders of the Company held on 22<sup>th</sup> February 2023 decided to conclude an agreement on the audit of the Company's annual financial statements for years 2022-2024 with the audit company "KPMG Baltics", UAB. According to the decision, the Company will separately inform the auditor about the need for an audit service for years 2023-2024. The Committee had submitted a recommendation for this decision, taking into account the auditors' proposals submitted by the Company and the fact that (i) on 22 November 2022 the Main Agreement was signed with AB Šiaulių bankas and UAB SB draudimas regarding the merger with the AB Šiaulių bankas group of the asset management and life insurance businesses of retail clients managed by the Company and the expected completion of the transaction in 2023, (ii) AB Šiaulių bankas has an agreement with "KPMG Baltics", UAB regarding the audit for year 2023.

The Committee once a year considers the independence of the auditor and the audit firm and carries out procedures to ensure their independence and objectivity, according to the requirements of professional ethics and legal acts.

The Committee received "KPMG Baltics", UAB confirmation that auditor and audit company comply with the principles and requirements of independence.

The members of the Committee confirm that:

a) "KPMG Baltics", UAB or its group companies provided non-audit services to the Company or its subsidiaries in year 2022;

b) Auditor Toma Jensen and (or) Audit Company – "KPMG Baltics", UAB are not directly or indirectly related to the Company and there are no grounds which could harm the independence of the auditor and (or) the audit company.

c) Toma Jensen is considered to be independent from the Company since:

- she is not related by family relations with the Company's and/or its significant subsidiaries' participants, managers, chief accountants (accountant) or with any other employees of the Company or its significant subsidiaries, that may have a direct and significant influence on the preparation of financial statements, executives of the Company or its significant subsidiaries;
- she is not related by close relations with the Company's and/or its significant subsidiaries' participants, in accordance with the criteria set out in the audit firm's quality control policies and procedures, having a material impact on the Company or its significant subsidiaries, managers, chief accountants (accountant) or any other employee of the Company or its significant subsidiaries that may have a direct and significant influence on the preparation of financial statements, executives of the Company or its significant subsidiaries;
- she is not an employee of the Company or its significant subsidiaries and during the period covered by the audited financial statements has not been an employee of the Company or its significant subsidiaries that may have a direct and significant influence on the preparation of financial statements;
- she is not a participant of the Company or its significant subsidiaries and during the period covered by the audited financial statements has not been a participant of the Company or its significant subsidiaries;
- she or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of the Company, except for interests indirectly held under diversified collective investment schemes;
- she or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of any entity associated with the Company, which ownership may cause a conflicts of interest or is usually expected to cause it, except for interests indirectly held under diversified collective investment schemes;
- other than grounds specified above does not have and does not receive material and direct benefit of any financial instruments issued, guaranteed or otherwise supported by the Company, except for interests indirectly held under diversified collective investment schemes, including managed funds, and does not participate in any transaction on any financial instrument;
- during the period of carrying out the audit of financial statements of the Company and during the periods covered by the audited financial statements, has not had work, business or other relations which may cause a

conflicts of interest, as described in the Code of Ethics of Professional Accountants, or is usually expected to cause it;

- she is not influenced by other significant conditions that might affect her independence.

d) “KPMG Baltics”, UAB is considered to be independent from the Company and its significant subsidiary companies since:

- neither the Company nor its significant subsidiaries are participants of the audit company;
- the audit company, participants of the audit company and executives, with the exception of executives who do not provide services to the Company or its significant subsidiaries are not participants of the Company or its significant subsidiaries;
- participants of the audit company and executives, with the exception of executives who do not provide services to the Company or its significant subsidiaries, are not related by family relations with the Company’s or its significant subsidiaries’ participants or by close affiliation with the Company’s or its significant subsidiaries’ participants, in accordance with the criteria set out in the audit firm’s quality control policies and procedures, having a material impact on the Company or its significant subsidiaries;
- it or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of the Company, except for interests indirectly held under diversified collective investment schemes;
- it or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of any entity associated with the Company, which ownership may cause a conflicts of interest or is usually expected to cause it, except for interests indirectly held under diversified collective investment schemes;
- other than grounds specified above does not have and does not receive material and direct benefit of any financial instruments issued, guaranteed or otherwise supported by the Company, except for interests indirectly held under diversified collective investment schemes, including managed funds, and does not participate in any transaction on any financial instrument;
- during the period of carrying out the audit of financial statements of the Company and during the periods covered by the audited financial statements, has not had work, business or other relations which may cause a conflict of interest, as described in the Code of Ethics of Professional Accountants, or is usually expected to cause it;
- it is not influenced by other significant conditions that might affect its independence.

e) The payment for the performance of the audit, indicated in the agreement with the audit company, in the opinion of the Committee ensures that the audit will be performed according to the principles of professional ethics and requirements of international standards on auditing. There are no indefinite conditions in the agreement concluded with the audit company, which could influence the amount of payment for the audit services. The payment for other services, rendered by the same audit company, does not influence the payment for the audit services.

**Assessment of compliance with the provisions of Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (hereinafter – the Regulation).**

Without prejudice to the rights and responsibility of the administration, Board members and external audit company, the Committee *inter alia* (E) has monitored and assessed whether the additional services provided by the audit company “KPMG Baltics”, UAB to the Company’s subsidiaries contradict with the Regulation.

Decisions were made (i) regarding the increase of the amount of the annual purchase sum of translation services from “KPMG Baltics”, UAB or their group companies, (ii) the provision of non-prohibited tax services by KPMG Latvia to the Latvian branch of the subsidiary “INVL LIFE”, UADB, (iii) for the provision of non-audit services by “KPMG Baltics”, UAB to the subsidiary company “INVL Asset Management” UAB regarding the approval of the scope of the investment commitments of investors of the fund managed by it.

**The audit committee of the Company's subsidiary.**

The Committee performed the functions of the audit committee of the Company's subsidiary "INVL LIFE", UADB (code 305859887) in 2022 (insurance companies must have an audit committee, but its functions can be performed by the audit committee of the parent company).

The Committee approved that the audit of the financial statements of "INVL LIFE", UADB for the years 2022-2023 would be performed by "KPMG Baltics", UAB. In the Committee's opinion, the audit company has the appropriate experience and competences to provide the necessary services to "INVL LIFE", UADB.

Chairman of the Committee

Tomas Bubinas

Member of the Committee

Dangutė Pranckėnienė