

How are customers' assets protected in LHV Bank?

Any preventive action stems, first of all, from customers' own knowledge. The general rule is: the better the customer's knowledge, the more secure his or her investments. LHV Bank helps to raise customers' awareness through its website and seminars. Information concerning investment-related risks is also provided by the Financial Supervision Authority on its web page at www.minuraha.ee¹ as well as by NASDAQ OMX Tallinn² Stock Exchange on its web page at www.nasdaqomxbaltic.com.

1. LHV Bank acts as a credit institution on the basis of the licence issued by the Financial Supervision Authority

LHV Bank is a credit institution under the licence issued by the Financial Supervision Authority in 2009. The Financial Supervision Authority exercises supervision *inter alia* over the management of LHV Bank's and its customers' assets. LHV Varahaldus, a company belonging in the same group with LHV Bank, acts as a fund management company under the licence issued by the Financial Supervision Authority in 2002. Information concerning the licences is available on the website of the Financial Supervision Authority at www.fi.ee.

Under the supervision of the Financial Supervision Authority, LHV Bank and LHV Varahaldus submit reports on their activities and on the amount of their capital and own funds to the Financial Supervision Authority on a regular basis. Based on those reports, the Financial Supervision Authority assesses our performance results, credibility, capital adequacy and sustainability. The reporting obligation derives from the Estonian Credit Institutions Act and the Estonian Investment Funds Act. The content of the obligation has been specified in various regulations of the Ministry of Finance and the Governor of the Bank of Estonia.

2. Investments and money

For the purposes of provision of investment services, customers' investments (incl. securities) are not deemed to be included in the assets of LHV Bank. Then again, deposits (money) engaged from customers are deemed to be included in the assets of LHV Bank.

3. How are customers' assets managed?

LHV Bank keeps customers' assets separately from its own assets, on separate accounts, and keeps separate accounting of each customer's money and securities.

Shares traded on the Tallinn, Vilnius and Riga Stock Exchanges, other securities registered with the Estonian Central Register of Securities (ECRS) as well as pension fund units are kept on each customer's personal securities account opened with the ECRS. All other securities and money are kept on LHV Bank's nominee accounts opened with other banks and foreign brokers. As a rule, LHV Bank's own and customers' assets are kept separately on the nominee accounts. However, there are countries (e.g. Poland and Russia) where, as a result of the applicable law, rights attaching to customers' money or securities differ from those established in the legislation of the European Union. Where a customer's securities need to be kept in such countries in order to provide investment services to the customer, LHV Bank may keep the customer's securities on a securities account, which has been opened in the name of LHV Bank, together with the securities belonging to LHV Bank and/or other customers of LHV Bank; or on a securities account, which has been opened in the name of LHV Bank, separately from the securities belonging to LHV Bank and other customers of LHV Bank; or on a securities account separately opened in the name of the customer. LHV Bank preserves data and keeps relevant registers and accounting so as to be able, at all times, to differentiate between securities held for a customer from the securities of other customers and of LHV Bank.

¹ or www.fktk.lv or www.lsc.lt

² or NASDAQ OMX Riga or NASDAQ OMX Vilnius

Swedbank is the depositary for the investment and pension funds managed by LHV Varahaldus, i.e. the assets of all funds are held at Swedbank.

LHV Bank keeps a register for assets and securities so as to be able, at all times, to differentiate between securities held for a customer from the assets of other customers and of LHV Bank. Backup copies of databases are made on a regular basis to prevent any loss of information.

4. What could jeopardise the preservation of customers' assets?

Investing entails usual market risks, i.e. risks relating to changes in securities' prices, interest rates and currency exchange rates may affect the value of an investment. In addition, one should reckon with risks relating to issuers as well as to the economic and political stability of the issuers' countries of location. To mitigate those risks, it is advised to examine the issuer in question as well as the economic and political stability of the issuer's country of location and to diversify investments between different issuers and regions. Please read a more detailed description of investment-related risks on the website.

5. How does LHV Bank protect customers' assets?

Customers' assets held by LHV Bank are comprehensively protected through three measures: LHV Bank's internal control system, LHV Bank's equity capital and the state system for protection of investors and depositors.

LHV Bank has years of experience in managing customers' assets and mitigating the related risks. LHV Bank has put in place an efficient internal control system which is subject to regular review by the Compliance Officer and the internal auditor.

To preclude the destruction of IT systems and loss of data, LHV Bank copies existing data on a daily basis; the copies will enable the situation prevailing before the possible interruption of activities to be restored. With a view to protecting customers' interests and preclude frauds, we have put in place an internal control system and working procedures and guide ourselves by good practice and ethical rules. We always prefer customers' interests to those of ours and pursue our activities with integrity and transparency.

Under law, the share capital of a credit institution must amount to at least EUR 5 million, and the share capital of a fund management company must be at least EUR 3 million. To cover possible losses, LHV Bank's equity capital is constantly kept at a level higher than that required by law, just in case. This ensures that LHV Bank will be able to satisfy the claims of its customers and cooperation partners, if necessary. Audited annual reports of LHV Bank are available at our website.

6. How does the state protect customers' assets?

The state system for protection of investors and depositors is an additional safeguard for customers' investments. The system comprises the Guarantee Fund that collects contributions from credit institutions, investment companies, insurers and management companies of mandatory pension funds, and compensates, under the conditions, to the extent and pursuant to the procedure provided by law, the funds placed by depositors, investors and unit-holders.

Within the Guarantee Fund, the Investor Protection Sectoral Fund and the Deposit Guarantee Sectoral Fund have been formed.

Investor Protection Sectoral Fund

The Investor Protection Sectoral Fund has been formed as a state guarantee and as part of the Guarantee Fund. Investments placed through LHV Bank will be compensated out of the fund to the extent of 100% of their value as at the compensation obligation date but not more than in the amount of EUR 20,000 per

investor (for more details please see the Estonian Guarantee Fund Act). For the purposes of compensating investments out of the Investor Protection Sectoral Fund, securities belonging to third persons, which are kept on a notary's or bailiff's securities account, opened for the purposes of their professional acts, shall be regarded as securities belonging to each person separately. The Guarantee Fund will not compensate for the decrease in the market value of securities.

The state will compensate for investments taking into account the following exceptions:

- Investments belonging to a professional investor or the Republic of Estonia or a foreign state, an Estonian or foreign local government or a legal entity, the principal and permanent activity of which is to acquire holdings or conclude one or more of the transactions or acts specified in articles 6(1)(2)-6(1)(12) of the Estonian Credit Institutions Act, will not be guaranteed or compensated out of the Investor Protection Sectoral Fund.
- An investment belonging to a person who has collectable liabilities to LHV Bank will not be compensated out of the Investor Protection Sectoral Fund to the extent of such liabilities, but will be compensated regarding the remaining part of the investment.
- Investments which have been confiscated in accordance with a judgment of conviction in a money laundering or terrorist financing court case will not be compensated out of the Investor Protection Sectoral Fund. In case disposal of an investment has been restricted by a precept of the Financial Intelligence Unit or an investment has been seized in criminal proceedings of a money laundering or terrorist financing court case, compensation for such an investment will be suspended until the precept has been repealed or the court judgment has entered into force.

Deposit Guarantee Sectoral Fund

The Deposit Guarantee Sectoral Fund has been established as a state guarantee and as part of the Guarantee Fund. Deposits placed through LHV Bank will be guaranteed and compensated out of the Deposit Guarantee Sectoral Fund together with interest accumulated by the date on which the deposits become suspended. The deposits and accumulated interests will be compensated to the extent of 100% but not more than in the amount of EUR 100,000 per depositor (for more details please see the Estonian Guarantee Fund Act). For the purposes of compensating deposits out of the Deposit Guarantee Sectoral Fund, monetary assets belonging to third persons, which are kept on a notary's or bailiff's account, opened for the purposes of their professional acts, shall be regarded as deposits belonging to each person separately.

The state will compensate for deposits taking into account the following exceptions:

- Deposits belonging to the Republic of Estonia or a foreign state, an Estonian or foreign local government, insurer, investment fund, investment firm, fund manager, credit institution or a legal entity, the principal and permanent activity of which is to acquire holdings or conclude one or more of the transactions specified in articles 6(1)(2)-6(1)(12) of the Estonian Credit Institutions Act, will not be guaranteed or compensated out of the Deposit Guarantee Sectoral Fund.
- A deposit belonging to a person who has collectable liabilities to LHV Bank will not be compensated out of the Deposit Guarantee Sectoral Fund to the extent of such liabilities, but will be compensated regarding the remaining part of the deposit.
- Deposits which have been confiscated in accordance with a judgment of conviction in a money laundering or terrorist financing court case will not be compensated out of the Deposit Guarantee Sectoral Fund. In case disposal of a deposit has been restricted by a precept of the Financial Intelligence Unit or a deposit has been seized in criminal proceedings of a money laundering or terrorist financing court case, compensation for such a deposit will be suspended until the precept has been repealed or the court judgment has entered into force.

LHV Bank pays regular contributions into the Guarantee Fund. For more information please see the website of the Guarantee Fund at www.tf.ee.

7. How does the Stock Exchange protect customers' assets?

To secure transactions made on NASDAQ OMX Tallinn³ Stock Exchange, the Stock Exchange has formed a guarantee fund which is financed by the monetary contributions of its members. The Stock Exchange may use the resources of the guarantee fund if a member of the Stock Exchange goes bankrupt or if it does not have sufficient securities or money to complete a transaction on the Stock Exchange.

In order to prevent situations where the completion of a transaction is called into question, LHV Bank checks whether all the customers have sufficient resources to complete the transactions, i.e. sufficient amounts of securities in the case of a sales transaction and available funds on the account in the case of a purchase transaction.

More information is available on the website of the Stock Exchange at www.nasdaqomxbaltic.com.

³ or NASDAQ OMX Riga or NASDAQ OMX Vilnius