

Approval of the conditions of performance pay

The Supervisory Board of AS LHV Group (hereinafter the Group) proposes to the shareholders to prospectively increase the proportion of performance pay payable to the management and staff members of LHV Group to 200% of the basic remuneration for all those currently subjected to the 100% limit (above all, managers of LHV Bank) in accordance with the justification presented to the general meeting. The justification for the proposal has been provided below.

Background information

On 29 May 2015, the general meeting of the shareholders of the Group approved the 5-year share options programme for management and key employees (hereinafter the **Programme**). Persons entitled to participate in the Programme include managers of AS LHV Pank (members of the Management Board and persons performing management functions).

As a credit institution, the remuneration principles within AS LHV Pank are governed by the restrictions established in the Credit Institutions Act.

Pursuant to clause 57²(2) 1) of the Credit Institutions Act, the proportion of the basic remuneration and performance pay shall be in reasonable correspondence to the duties of the management board member or staff member and the performance pay may not exceed the basic remuneration. Pursuant to clause 57²(2) 2¹) of the Credit Institutions Act, by the resolution of the general meeting of the credit institution, the proportion of the performance pay of a member of the management board or staff member may make up to 200% of the basic remuneration, provided that the conditions provided by law have been fulfilled. The conditions include, inter alia, the addition of a justification to the draft resolution of the general meeting explaining the necessity and extent of increasing the proportion of the performance pay, including the number of persons to whom the increase of the proportion of the performance pay shall be applied, the duties of the persons and the expected impact of the resolution to increase the proportion of the performance pay on the performance of the requirement for maintaining the level of own funds.

Justification

The need for increasing the proportion of performance pay

The persons entitled to participate in the Programme include 11 managers of AS LHV Pank, with a total of 89 persons currently entitled to participate in the Programme. The restrictions established by the Credit Institutions only apply to the managers of AS LHV Pank-. The need to increase the proportion of the performance pay can thus be attributed, above all, to the need to apply uniform conditions to the management members and key employees of the Group and to adhere to the resolution of the general meeting of the shareholders of the Group dated 29 May 2015.

The Programme as a whole serves the purpose of motivating the management and key employees of the Group. In view of the Group's rapid growth and dynamic development, motivation plays a critical role in creating value for the shareholders. Separate mention must be made of the fact that the Programme has been prepared in such a manner as to ensure alignment of the interests of the Group's management members and key employees with the interests of the shareholders (the Programme focuses on shares).

The scope of the increase in the proportion of performance pay

According to the proposal made to the shareholders by the Supervisory Board of the Group, the proportion of performance pay will be increased to 200% for all managers of AS LHV Pank for a period of 3 years.

The inclusion of all managers in the increase of the proportion of performance pay is conditioned by the need to ensure flexibility of the existing motivation package (including the Programme), allowing to reward persons of key importance to the Group as a whole.

The three-year term is conditioned by the term of the Programme (the Programme is scheduled to expire in 2020).

The exact list of persons entitled to participate in the Programme is determined based on the proposal of the Group's Remuneration Committee, and approved by a competent body - the Group's Management Board, Supervisory Board or general meeting of the shareholders, depending on the inclusion of the particular individual within the management body. Thus, the decision-making process used for determining the persons entitled to participate in the Programme has a minimum of two levels, ensuring justification, transparency and objectiveness of the resolutions. The assessment of the duties and responsibilities of the person, along with comparison with other persons entitled to participate in the Programme, forms a material part of the decision-making process. As a result of the assessment and comparison, the number of share options will be determined for each particular person, considering the person's duties and responsibilities as well as attainment of personal objectives and general profitability of the work.

The estimated impact of the increase in the proportion of performance pay on adherence to the requirement concerning preservation of the level of own funds of AS LHV Pank

The increase in the proportion of performance pay has no estimated impact on adherence to the requirement concerning preservation of the level of own funds of AS LHV Pank. Furthermore, the decision will not affect the Group's economic results or risk position.