

**IMPORTANT:** You must read the following before continuing. The following applies to the Base Prospectus (the "Base Prospectus") following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

**THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.**

**Confirmation of your Representation:** In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities described in the Base Prospectus, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing the Base Prospectus, you shall be deemed to represent that you are not, and that any customer represented by you is not, a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of the Base Prospectus by electronic transmission.

**You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.**

**Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.**

**Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.**

**The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently no responsibility whatsoever will be accepted in respect of any difference between the Base Prospectus distributed to you in electronic format and a hard copy version that may be made available to you.**

## BASE PROSPECTUS

# AS LHV PANK

*(incorporated with limited liability in the Republic of Estonia)*

**EUR 1,000,000,000**

## Covered Bond Programme

Under this EUR 1,000,000,000 Covered Bond Programme (the "**Programme**"), AS LHV Pank ("**LHV**" or the "**Issuer**" or the "**Bank**") may from time to time issue covered bonds (as defined in the Estonian Covered Bond Act; the "**ECBA**") (the "**Covered Bonds**"). Covered Bonds may be issued in bearer and/or registered form (respectively "**Bearer Covered Bonds**" and "**Registered Covered Bonds**") each denominated in any currency agreed between the Issuer and the Dealers (as defined below).

This Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank of Ireland**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank of Ireland has only approved this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Such approval relates only to Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**") and/or which are to be offered to the public in any Member State of the European Economic Area.

This Base Prospectus is valid for a period of twelve months from the date of approval. The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds. The obligation to prepare a supplement to this Base Prospectus in the event of any significant new factor, material mistake or material inaccuracy does not apply when the Base Prospectus is no longer valid. Application will be made to the Irish Stock Exchange plc, trading Euronext Dublin ("**Euronext Dublin**") for Covered Bonds issued under the Programme within twelve months after the date hereof to be admitted to the official list (the "**Official List**") of Euronext Dublin and to trading on the regulated market (the "**Regulated Market**") of Euronext Dublin. The Regulated Market is a regulated market for the purposes of MiFID II.

The Programme also permits Covered Bonds to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with AS LHV Pank.

The Covered Bonds to be issued under the Programme may be rated by Moody's Deutschland GmbH ("**Moody's**"). Moody's is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**"). Moody's is not established in the United Kingdom but ratings issued by Moody's will be endorsed by Moody's Investors Service Limited in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**"). As such, ratings issued by Moody's may be used for regulatory purposes in the United Kingdom in accordance with the UK CRA Regulation.

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain benchmarks. Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") are set out in the section entitled "**EU Benchmarks Regulation**" on page 175 of this Base Prospectus.

***Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Covered Bonds are discussed under "Risk Factors" below.***

*Arranger and Dealer*

**Nordea**

*Dealers*

**Barclays  
Landesbank Baden-Württemberg**

**Citigroup  
Swedbank**

**UniCredit**

**26 June 2023**

## IMPORTANT NOTICES

### Responsibility for this Base Prospectus

The Issuer accepts responsibility for the information contained in this Base Prospectus and any Final Terms and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import.

### Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Covered Bonds will be issued on the terms set out herein under "*Terms and Conditions of the Covered Bonds*" (the "**Conditions**") as completed by a document specific to each such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "*Final Terms and Drawdown Prospectuses*" below. In relation to Covered Bonds to be listed on Euronext Dublin, such Final Terms and Drawdown Prospectuses will be published on the website of Euronext Dublin (<https://live.euronext.com/>).

### Other relevant information

This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Covered Bonds which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Covered Bonds) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Covered Bonds) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### Unauthorised information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for the acts or omissions of the Issuer or any other person (other than the relevant Dealer) in connection with the issue and offering of the Covered Bonds nor do the Dealers or any of their respective directors, affiliates, advisers or agents take any responsibility for the acts or omissions of the Issuer or any other person (other than the relevant Dealer) in connection with the issue and offering of the Covered Bonds. No fiduciary duty between the relevant Dealer and any investors has been created in respect of any issue and offering of the Covered Bonds. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Covered Bond shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial position or performance of

the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

### **Restrictions on distribution**

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Covered Bonds, see "*Subscription and Sale*". In particular, Covered Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and Bearer Covered Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Covered Bonds and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Covered Bonds. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer. The Dealers have not provided any financial or taxation advice in connection with the Programme or Covered Bonds issued thereunder.

**IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**IMPORTANT – UK RETAIL INVESTORS** – If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

### **MiFID II PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Covered Bonds may include a legend entitled "**MiFID II Product Governance**" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market

assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

## **UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Covered Bonds may include a legend entitled "**UK MiFIR Product Governance**" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the UK MiFIR product governance rules set out in the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

**IMPORTANT - NOTICE TO INVESTORS IN BELGIUM:** If the 'Prohibition of Sales to Belgian Consumers' is specified as applicable in the applicable 'Final Terms', the Covered Bonds are not intended to be offered, sold or resold, transferred or delivered or otherwise made available to and should not be offered sold or resold, transferred or delivered or otherwise made available to any individual in Belgium qualifying as a consumer (*consument/consommateur*) within the meaning of Article I.1 of the Belgian Code of Economic Law (*Wetboek van economisch recht / Code de droit économique*), as amended from time to time.

## **Programme limit**

The maximum aggregate principal amount of Covered Bonds outstanding at any one time under the Programme will not exceed EUR 1,000,000,000 (and for this purpose, any Covered Bonds denominated in another currency shall be translated into Euro at the date of the agreement to issue such Covered Bonds (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Covered Bonds which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

## **Certain definitions**

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area.

References to "**U.S.\$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**EUR**", "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended and references to "**NOK**" are to Norwegian kroner.

References to the "**LHV Group**" or the "**Group**" are to AS LHV Group and its subsidiaries.

In this Base Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted

## Language

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## Ratings

Tranches of Covered Bonds issued under the Programme will be rated or unrated. Where a Tranche of Covered Bonds is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Covered Bonds already issued. Where a Tranche of Covered Bonds is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Covered Bonds will be (1) issued or endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or by a credit rating agency which is certified under the EU CRA Regulation and/or (2) issued or endorsed by a credit rating agency established in the UK and registered under the EU CRA Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**") or by a credit rating agency which is certified under the UK CRA Regulation will be disclosed in the Final Terms. In general, EEA regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the EU CRA Regulation. In general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the UK and registered under the UK CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) the rating is provided by a credit rating agency not established in the UK which is certified under the UK CRA Regulation.

## Stabilisation

**In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### PRESENTATION OF FINANCIAL INFORMATION

#### Historical financial statements

The financial statements relating to the Bank and incorporated by reference in this Base Prospectus are:

- the unaudited condensed consolidated interim financial statements as at and for the three months ended 31 March 2023 (the "**Interim Financial Statements**");
- the audited consolidated financial statements as at and for the year ended 31 December 2022 (the "**2022 Financial Statements**"); and
- the audited consolidated financial statements as at and for the year ended 31 December 2021 (the "**2021 Financial Statements**" and, together with the 2022 Financial Statements, the "**Annual Financial Statements**").

The Annual Financial Statements and the Interim Financial Statements are together referred to as the "**Financial Statements**". The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union (the "**EU**"). The Interim Financial Statements have been prepared in accordance with the international financial reporting standard IAS 34 "*Interim Financial Reporting*", as adopted in the EU and in accordance with IFRS as adopted by the EU. The Financial Statements consolidate the Bank's 65 per cent. owned subsidiary, AS LHV Finance. For convenience and unless the context does not permit, the term "**Bank**" when used in this Base Prospectus should be read as including AS LHV Finance.

This Base Prospectus also includes financial information of the Bank for the financial year ended 31 December 2020. Such financial information is extracted from the comparative financial information included in the 2021 Financial Statements and is unaudited.

The Bank's financial year ends on 31 December and references in this Base Prospectus to "**2022**", "**2021**" and "**2020**" are to the 12 month period ending on 31 December in each such year.

### **Auditors and unaudited information**

The 2021 Financial Statements and the 2022 Financial Statements have been audited by KPMG Baltics OÜ, independent auditors, in each case in accordance with International Standards on Auditing, who have issued unqualified reports on the Annual Financial Statements. The Interim Financial Statements have not been subject to any audit or review by independent auditors.

Certain financial information in this Base Prospectus identified as such is unaudited financial information which has been extracted without material adjustment from the accounting records of the Bank which form the underlying basis of the Financial Statements.

### **Certain non-IFRS financial information**

This Base Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Bank believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. Certain of these ratios also constitute Alternative Performance Measures ("**APMs**"), as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. See "*Selected financial information—Selected consolidated ratios and APMs*". None of this financial information is subject to any audit or review by independent auditors.

The ratios referred to above should not be used instead of, or considered as alternatives to, the Bank's consolidated historical financial results based on IFRS. The non-IFRS measures relate to the reporting periods and are not meant to be predictive of future results. They are not defined under, or presented in accordance with, IFRS. Management of the Bank uses APMs because the Bank believes that these measures are commonly used by lenders, investors and analysts. The Bank's use of the APMs and its method of calculating APMs may vary from other companies' use and calculation of such terms. These measures are presented for purposes of providing investors with a better understanding of the Bank's financial performance, cash flows or financial position as they are used by the Issuer when managing its business.

## **PRESENTATION OF OTHER INFORMATION**

### **Currencies**

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in euro. The Bank's functional currency is euro and the Bank prepares its financial statements in euro.

### **Third party and market share data**

This Base Prospectus contains information regarding the Bank's business and the industry in which it operates and competes, which the Bank has obtained from third party sources. Where third party information has been used in this Base Prospectus, the source of such information has been identified.

Statistical information relating to Estonia included in this Base Prospectus has been derived from official public sources, including the statistical releases of the Bank of Estonia, the Estonian Statistical Office and the Estonian Financial Supervision Authority. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Bank to investors who have purchased the Covered Bonds.

In some cases, independently determined industry data is not available. In these cases, any Bank market share data included in this Base Prospectus is referred to as having been estimated. All such estimates have been made by the Bank using its own information and other market information which is publicly available. The Bank believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Bank operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Bank's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Where information has not been independently sourced, it is the Bank's own information.

#### **No incorporation of website information**

The Bank is wholly owned by LHV Group AS and its website is that the same as that of its parent: [www.lhv.ee](http://www.lhv.ee). Unless specifically incorporated by reference into this Base Prospectus, information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites (including, but not limited to, [investor.lhv.ee](http://investor.lhv.ee) and [fp.lhv.ee](http://fp.lhv.ee)) has not been verified, is not incorporated by reference into, and does not form part of, this Base Prospectus, and investors should not rely on it.

#### **Rounding**

Certain data in this Base Prospectus has been rounded. As a result of such rounding, the totals of data presented in tables in this Base Prospectus may vary slightly from the arithmetic totals of such data. Where used in tables, the figure "0" means that the data for the relevant item has been rounded to zero and the symbol "—" means that there is no data in respect of the relevant item.



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## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Covered Bonds should be based on a consideration of the Base Prospectus as a whole and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.

<b>Issuer:</b>	AS LHV Pank
<b>Programme Amount:</b>	Up to EUR 1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Covered Bonds outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
<b>Arranger:</b>	Nordea Bank Abp (the " <b>Arranger</b> ")
<b>Description:</b>	Covered Bond Programme
<b>Dealers:</b>	Barclays Bank Ireland PLC Citigroup Global Markets Europe AG Citigroup Global Markets Limited Landesbank Baden-Württemberg Nordea Bank Abp Swedbank AB (publ) UniCredit Bank AG  (together with the Arranger, the " <b>Dealers</b> ")
<b>Fiscal Agent:</b>	Citibank, N.A., London Branch (the " <b>Fiscal Agent</b> ")
<b>Registrar:</b>	Citibank Europe Plc (the " <b>Registrar</b> ")
<b>Currencies:</b>	Covered Bonds may be denominated in Euros or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
<b>Method of Issue:</b>	Covered Bonds will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Covered Bonds of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Covered Bonds of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Covered Bonds of different denominations.
<b>Denominations:</b>	The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) (subject to compliance with all applicable legal and/or regulatory and/or central bank requirements), save that the minimum denomination of each Covered Bond will be EUR 100,000 (or the equivalent in any other currency).
<b>Maturities:</b>	Any maturity, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
<b>Listing and Trading:</b>	Application has been made to Euronext Dublin for the Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List and to trading on its regulated market.

**Status of the Covered Bonds:**

The Covered Bonds will be issued as covered bonds under the ECBA and will constitute direct and unsubordinated obligations of the Issuer. The Covered Bonds will be covered by a cover pool comprising the claims of the Issuer arising from Mortgage Loans (as defined in the Conditions) and certain other types of assets which qualify as substitute cover assets under the ECBA and are registered in the cover register maintained by the Issuer in accordance with the ECBA ("**Cover Pool**"). The Covered Bonds will rank *pari passu* among themselves and with Derivative Instruments (as defined in the Conditions) registered in the cover register in accordance with the ECBA. On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bonds together with the Cover Pool and the Derivative Instruments ("**Covered Bond Portfolio**") will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio. Pursuant to the ECBA, the separation of the Covered Bonds Portfolio will not affect the liability of the Issuer for the claims arising from the Covered Bonds. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The statutory cover conferred on holders of the Covered Bonds by the ECBA extends to Mortgage Loans owned by the Issuer and other certain other types of assets which qualify as substitute cover assets under the ECBA (together "**Eligible Assets**") included in the Cover Pool. The composition of the portfolio of such Mortgage Loans and other Eligible Assets may change from time to time due to, for example, the inclusion and removal of Mortgage Loans and other Eligible Assets to and from the Cover Pool from time to time by the Issuer, subject to the fulfilment of the requirements of the ECBA. Claims of the Covered Bondholders will not be backed by assets of the Issuer which do not qualify for this purpose or which are not included in the Cover Pool, nor will any security be taken over the Issuer's rights under any agreements entered into by the Issuer in relation to the Programme or Covered Bonds issued thereunder.

The rights of the Covered Bondholders shall be subject to any present or future Estonian laws or regulations relating to the insolvency, recovery and resolution of credit institutions and investment firms in Estonia which are or will be applicable to the Covered Bonds only as a result of the operation of such laws or regulations.

**Final Terms or Drawdown Prospectus:**

Covered Bonds issued under the Programme may be issued either: (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds will be the Conditions as completed by the relevant Final Terms or, as the case may be, as supplemented, amended and/or replaced by the relevant Drawdown Prospectus.

<b>Issue Price:</b>	Covered Bonds may be issued at any price. The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
<b>Interest:</b>	Covered Bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and may vary during the lifetime of the relevant series.
<b>Forms of Covered Bonds:</b>	<p>Covered Bonds may be issued in bearer form ("<b>Bearer Covered Bonds</b>") or in registered form ("<b>Registered Covered Bonds</b>"). Bearer Covered Bonds will not be exchangeable for Registered Covered Bonds and Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds. No single Series or Tranche may comprise both Bearer Covered Bonds and Registered Covered Bonds.</p> <p>Each Tranche of Bearer Covered Bonds will initially be in the form of either a temporary global covered bond (the "<b>Temporary Global Covered Bond</b>") or a permanent global covered bond (the "<b>Permanent Global Covered Bond</b>"), in each case as specified in the relevant Final Terms (each a "<b>Global Covered Bond</b>"). Each Global Covered Bond which is not intended to be issued in new global note form ("<b>NGN</b>"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Covered Bond which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Covered Bond will be exchangeable for a Permanent Global Covered Bond or, if so specified in the relevant Final Terms, for Definitive Covered Bonds. Certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Covered Bond or receipt of any payment of interest in respect of a Temporary Global Covered Bond.</p> <p>Each Permanent Global Covered Bond will be exchangeable for Definitive Covered Bonds in accordance with its terms. Definitive Covered Bonds will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.</p> <p>Each Tranche of Registered Covered Bonds will be represented by either Individual Covered Bond Certificates or a Global Registered Covered Bond, in each case as specified in the relevant Final Terms. Each Global Registered Covered Bond which is not intended to be held under the new safekeeping structure ("<b>New Safekeeping Structure</b>" or "<b>NSS</b>"), as specified in the relevant Final Terms, will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common depositary. Each Global Registered Covered Bond intended to be held under the New Safekeeping Structure, as specified in the relevant Final Terms, will be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.</p>

<b>Redemption:</b>	Unless previously redeemed, or purchased and cancelled in accordance with the Conditions, Covered Bonds will be redeemed at their Final Redemption Amount (as specified in the relevant Final Terms) on the Maturity Date.
<b>Optional Redemption:</b>	Subject to certain Conditions, Covered Bonds may be redeemed before the Maturity Date at the option of the Issuer (as described in Condition 9(c) ( <i>Redemption and Purchase – Redemption at the option of the Issuer</i> )). No redemption at the option of the Covered Bondholders is permitted.
<b>Early Redemption:</b>	Except as described in " <i>Optional Redemption</i> " above (and subject to certain conditions), early redemption will only be permitted for tax reasons, as described in Condition 9(b) ( <i>Redemption and Purchase – Redemption for tax reasons</i> ).
<b>Extended Maturity Date:</b>	The relevant Final Terms or Drawdown Prospectus, as the case may be, may provide that an Extended Maturity Date applies to the Covered Bonds.

If:

- (a) an Extended Maturity Date is specified in the relevant Final Terms;
- (b) an insolvency, winding-up or similar event (as more fully described in Condition 9(i)(i)(B)) has occurred in respect of the Issuer; and
- (c) as a result of such an event, the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter,

the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of the Terms and Conditions will be automatically extended to the Extended Maturity Date, subject as otherwise specified in the relevant Final Terms. In that event, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. In addition, all or any part of the principal amount outstanding of the Covered Bonds may be redeemed on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date or as otherwise specified in the relevant Final Terms. In each of the above scenarios, the Issuer shall give notice to the Covered Bondholders and to the Paying Agents in accordance with Condition 9(i)(i)(C).

If an Extended Maturity Date is specified in the relevant Final Terms and, as a result of any of the events specified in Condition 9(i) (*Extension of maturity to Extended Maturity Date*) the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, the Covered Bonds will bear interest on the principal amount outstanding of such Covered Bonds from (and including) the Maturity Date to (but excluding) the date on which the Covered Bonds are redeemed and will be payable in arrear or as otherwise provided for in the relevant Final Terms on each Interest Payment Date after the Maturity Date at the rate specified in the relevant Final Terms.

In the case of Covered Bonds with an Extended Maturity Date, those Covered Bonds may be issued as fixed rate, floating rate, or zero coupon in respect of the period from (and including) the Issue Date to (but excluding) the Maturity Date and issued as fixed rate or floating rate in respect of the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date as set out in the relevant Final Terms.

In the case of Covered Bonds which are non-interest bearing to the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the applicable Covered Bonds on the Maturity Date.

**Asset Monitor:** Ernst & Young Baltic AS has been appointed pursuant to an asset monitor agreement dated 21 December 2022 (the "**Asset Monitor Agreement**") as an independent monitor to perform the tasks of a cover pool monitor which are provided in the ECBA (including carry out the required tests in respect of the Covered Bond Portfolio). Until 31 December 2022, PwC acted as the asset monitor.

**Taxation:** All payments of principal and/or interest in respect of the Covered Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders and the Coupon holders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 12 (*Taxation*).

**Events of Default and Cross Acceleration:** The Covered Bonds will not provide for events of default entitling Covered Bondholders to demand immediate redemption and will not provide for a cross-default or cross-acceleration provision.

**Clearing Systems:** Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**" and together with Euroclear, the "**ICSDs**") and/or, in relation to any Tranche of Covered Bonds, any other clearing system as may be specified in the relevant Final Terms.

**Risk Factors:** Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its respective obligations under the Covered Bonds are discussed under "**Risk Factors**" below.

**Use of Proceeds:** The net proceeds of the issue of each Series of Covered Bonds will be used for the general banking and other corporate purposes of the Issuer. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

**Governing Law:** The Covered Bonds shall be governed by English law, except for:

- (i) Condition 4 (*Status of the Covered Bonds*);

- (ii) the provisions relating to coverage of the Covered Bonds and the Coupons pursuant to the ECBA; and
- (iii) other provisions relating to the Covered Bonds, where provisions of Estonian laws mandatorily apply to covered bonds issued by an issuer incorporated in Estonia,

which shall be governed by Estonian law.

**Ratings:**

As at the date of this Base Prospectus, the Covered Bonds issued under the Programme may be rated by Moody's.

**Selling Restrictions:**

For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan, the Republic of Estonia and the Republic of Italy, see "*Subscription and Sale*" below.

## RISK FACTORS

*Any investment in the Covered Bonds is subject to a number of risks and uncertainties. Before making any investment decision, prospective investors should consider carefully the risks and uncertainties associated with an investment in the Covered Bonds, the Bank's business and the countries and markets in which it operates, together with all of the other information that is included in this Base Prospectus. Prospective investors should also consult their own financial and legal advisers about the risks associated with an investment in the Covered Bonds and the suitability of investing in the Covered Bonds in light of their particular circumstances, without relying on the Bank. Should one or more of the events or circumstances described as risks below occur at the same time or separately, this could have a material adverse effect on the Bank. As used in this section, "material adverse effect" and related expressions when used in relation to the Bank mean that the Bank's financial condition, results of operations, liquidity, business, prospects and/or reputation could be materially adversely affected and/or the value of the Covered Bonds could decline and these factors could result in an investor losing part or all of its investment.*

*There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due. Whilst the Bank believes that the following factors may affect its ability to fulfil its obligations under the Covered Bonds the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside of the Issuer's control. Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Covered Bonds are also described below.*

*The Bank believes that the factors described below represent the principal risks inherent in investing in the Covered Bonds, but the Bank may be unable to pay amounts due in connection with the Covered Bonds for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### RISKS RELATING TO THE BANK

#### **The Bank's operations and assets are principally located in Estonia and, accordingly, the Bank is exposed to general economic conditions in Estonia**

The Bank is an Estonian bank and the vast majority of its assets and business are located in Estonia. Reflecting this fact, the Bank is affected by general economic and geopolitical conditions in Estonia, changes in which are outside the Bank's control. The Estonian economy is a small open economy that is closely linked to the global economy and especially to macro-economic conditions in European countries.

For a discussion of economic trends impacting the Bank in Estonia, see "*Market Environment – Estonian macroeconomic environment*".

The main driver of growth in Estonia's economy has been domestic demand, led by private consumption and investments. Estonia's economy recovered well after the slowdown due to the infectious disease COVID-19 caused by the severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) (the "**Coronavirus**") pandemic. In particular, GDP in Estonia contracted by 2.9 per cent. in 2020 according to the Estonian Statistical Office. Following the lifting of COVID-19 related restrictions in 2021, Estonia's economy recovered and grew by 8 per cent. in 2021. The economy cooled down in 2022, with a GDP decrease of 1.3 per cent.. Estonian consumer price inflation has been among the highest in Europe, which may have an impact on the ability of the Bank's customers to service their debts. Rising interest rates and tightening financing conditions are also adversely impacting the economy and could impact the creditworthiness of the Bank's borrowers. Any further deterioration in the Estonian economy could have a direct negative impact on the financial position and profitability of the Bank.

#### **The Bank may be materially adversely affected by the Russian Invasion of Ukraine**

On 24 February 2022, Russia began a military invasion of Ukraine, in a major escalation of the conflict that had begun in 2014. It is the largest military conflict in Europe since the Yugoslav Wars and the invasion has also caused a large refugee crisis. To combat the Russian invasion of Ukraine, western countries have imposed sanctions on Russia and Belarus which are designed to hurt the Russian and Belarussian



economies. The sanctions imposed on these countries have had a negative effect on the European and Estonian economies as well.

Russia has been a key exporter of energy, timber and different metals and the Estonian industrial sector has used significant quantities of these commodities as an imported input in their production. Since the beginning of the war, Estonian linkages to the Russian and Belarusian economies have decreased. The negative effects stemming from the trade embargo have had a moderate effect on individual companies but have not been large on Estonia's economic activities or sectors as a whole. The resilience of the banks operating in Estonia to a break in trade with Russia and Belarus has been effective.

As at 31 March 2023, less than 0.1 per cent. of the deposits raised by LHV were from Russian and Belarusian residents. As at 31 March 2023, 1.7 per cent. of the loans issued by LHV have been to businesses that are directly involved in transactions with Russian counterparties.

Pursuant to EU sanctions, it is prohibited to accept deposits exceeding €100,000 from Russian nationals or residents, though deposits below the €100,000 threshold are permitted (unless the relevant customer is subject to sanctions). The Bank has put restrictions and monitoring in place for Russian and Belarusian customers whose deposits exceed the €100,000 limit and who cannot therefore receive additional funds to their accounts. In addition, the Bank also carries out regular screening and monitoring of deposits below the threshold. In any event, the Bank only accepts payments from Russian or Belarusian banks in exceptional cases and most payments to and from those countries are prohibited.

As at the date of this Base Prospectus, the effect of the conflict is unclear, and the Bank continues to monitor the impact of the conflict on the operations of the Bank, the Bank's customers, including private individuals and corporate customers, the markets in which it operates and more broadly on the macroeconomic outlook as the conflict develops. The ongoing conflict in Ukraine, the associated economic impacts discussed above, resulting political tensions in the Baltic region and any spread of the conflict may have an adverse impact on the Estonian economy and business environment, which may in turn have a direct negative impact on the financial position and profitability of the Bank.

#### **The Bank is exposed to the credit risk of borrowers and other counterparties due to its lending activities**

Risks arising from adverse changes in the credit quality and recoverability of lending and other amounts due from counterparties are inherent the Bank's business, principally in its lending activities. In particular, the Bank is exposed to the risk that its counterparties may not meet their obligations in respect of loans advanced by the Bank and that the collateral (if any) securing the loans advanced may be insufficient. Credit losses could arise from a deterioration in the credit quality of specific counterparties of the Bank, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, any of which could affect the recoverability and value of the Bank's assets and require an increase in its allowance for credit losses for loans and other credit exposures.

As at 31 December 2022, the Bank's loans and advances to customers amounted to €3,187.0 million, compared to €2,677.2 million as at 31 December 2021 and €2,208.8 million as at 31 December 2020. The Bank's non-performing loans (calculated in accordance with the Guidelines on management of non-performing and forborne exposures EBA/GL/2018/06 and Annex V to Commission Implementing Regulation (EU) No 680/2014 ("NPLs") were €7.5 million as at 31 December 2022 compared to €16.0 million as at 31 December 2021 and €12.7 million as at 31 December 2020 and allowance for credit losses in respect of credit portfolios amounted to 0.6 per cent., 0.7 per cent. and 0.8 per cent. of the value of the portfolio as at 31 December 2022, 31 December 2021 and 31 December 2020, respectively.

Although the Bank makes allowances for potential credit losses in accordance with applicable requirements, the provisions are made based on available information, estimates and assumptions, which by definition are subject to uncertainty. Therefore, there can be no assurance that provisions made by the Bank are or will be sufficient to cover potential future losses. Further, if the credit quality of the Bank's loans or the financial health of any of its borrowers were to deteriorate, the Bank may have to make additional impairment provisions which could have a material adverse effect on the Bank. The recoverability of the credit provided by the Bank to its customers may be adversely affected by negative changes in the overall economic, political or regulatory environment affecting the ability of the Bank's counterparties to repay

their loans, the effectiveness of enforcement proceedings, a decrease in collateral values and other circumstances beyond the Bank's control.

**The Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia**

Geographically, the Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia.

The Bank's loans and advances to customers were €3,187.0 million, or 52.6 per cent. of its total assets, as at 31 December 2022, compared to €2,677.2 million, or 39.3 per cent. of its total assets, as at 31 December 2021 and €2,208.8 million, or 44.7 per cent. of its total assets, as at 31 December 2020. As at 31 December 2022, 99.2 per cent. of the Bank's loans and advances to customers was classified as Estonian risk meaning that the borrowers are Estonian entities or individuals. As at 31 December 2021 and 31 December 2020, the comparative percentages were 99.1 per cent. and 98.7 per cent., respectively.

The only other materially significant class of assets on the Bank's statement of financial position is the amounts due from the Estonian Central Bank, which represented 39.5 per cent. of its total assets as at 31 December 2022 compared to 56.9 per cent. as at 31 December 2021 and 44.8 per cent. as at 31 December 2020.

The Bank's deposits from customers and loans received were €5,489.0 million, equal to 96.8 per cent. of its total liabilities, as at 31 December 2022, €6,393.1 million, or 97.9 per cent. of its total liabilities, as at 31 December 2021, and €4,610.0 million, or 97.6 per cent. of its total liabilities, as at 31 December 2020. As at 31 December 2022, 76.3 per cent. of the Bank's deposits from customers and loans received was classified as Estonian risk meaning that the depositors are Estonian entities and individuals. As at 31 December 2021 and 31 December 2020, the comparative percentages were 63.1 per cent. and 70.9 per cent., respectively.

Accordingly, any deterioration in general economic conditions in Estonia or any failure by the Bank to effectively manage its geographic risk concentrations could have a more significant adverse effect on the Bank's business than on that of a more diversified bank. See "*The Bank's operations and assets are principally located in Estonia and, accordingly, the Bank is exposed to general economic conditions in Estonia*" above.

**The Bank has significant customer and sector concentrations**

The Bank's loans and advances to customers are concentrated in the real estate sector, which is traditionally the sector that receives the greatest financing from commercial banks in Estonia. As at 31 December 2022, the Bank's loans and advances before impairment provisions to the real estate sector accounted for 24.4 per cent. of its total loans and advances to customers before impairment provisions. As at 31 December 2021 and 31 December 2020, the comparative percentages were 24.4 per cent. and 22.4 per cent., respectively.

In addition, loans and advances to individuals accounted for 39.1 per cent. of the Bank's total loans and advances to customers as at 31 December 2022 compared to 37.7 per cent. as at 31 December 2021 and 38.6 per cent. as at 31 December 2020.

A small number of the Bank's loans and advances to customers carry a large risk exposure, meaning that the Bank's exposure under each loan exceeded 10 per cent. of its net own funds (broadly equal to its capital). As at 31 December 2022, the Bank had large exposure loans outstanding to five customers and these loans aggregated 59 per cent. of the Bank's net own funds. As at 31 December 2021, the Bank had large exposure loans outstanding to six customers and these loans aggregated 90 per cent. of the Bank's net own funds. As at 31 December 2020, the Bank had large exposure loans outstanding to five customers and these loans aggregated 83 per cent. of the Bank's net own funds.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Bank's large exposure counterparties, or any factors which negatively impact the real estate or retail sectors in Estonia to which the Bank has significant exposures, could result in the Bank having to make significant

additional impairment provisions and/or experiencing significantly reduced interest income, each of which could have a material adverse effect on the Bank.

The sector specific factors referred to above might include:

- a significant decline in real estate values which would weaken the credit quality of the Bank's real estate borrowers and could also reduce the value of the real estate collateral which the Bank holds;
- low levels of economic growth or a recession in Estonia which, particularly if coupled with increased levels of unemployment, falling house prices, increased inflation or other factors constraining consumer income, could materially adversely impact the ability of the Bank's retail customers to repay their financing.

The Bank's deposits received from customers are concentrated in Estonia. In particular, the Bank's retail customers are mainly based in Estonia. Retail deposits are considered an important source of funding for the Bank which it uses for supporting its lending business. As at 31 December 2022, 73.8 per cent. of the Bank's total deposits from customers were concentrated in Estonia. As at 31 December 2021 and as at 31 December 2020 the comparative percentages were 59.7 per cent. and 68.1 per cent., respectively. In addition to geographic concentration, the Bank has some very large customers contributing a large proportion of the Bank's deposits. These customers are predominantly serviced by the Bank's financial intermediates unit and their deposits are backed with liquidity buffers, instead of using the deposits for long term lending. Nevertheless, the share of the Bank's 20 largest depositors was 20.0 per cent. as at 31 December 2022, 37.3 per cent. as at 31 December 2021 and 34.5 per cent. as at 31 December 2020.

See further "*The Bank is subject to the risk that liquidity may not always be readily available*" below.

### **The Bank is subject to the risk that liquidity may not always be readily available**

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding and, particularly in the Bank's case, demand deposits), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

The Bank's assets have, on average, a longer maturity than the Bank's funding sources. The Bank has historically principally relied on deposits from customers, which are mainly repayable on demand or short-term and generally low cost in nature, to meet most of its funding needs. For example, as at 31 December in each of 2022, 2021 and 2020, demand and term deposits from customers amounted to 87.4 per cent., 89.5 per cent. and 87.7 per cent., respectively, of the Bank's total liabilities.

The availability of deposits is subject to fluctuation due to factors outside the Bank's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Bank to increase the return paid on its deposits to ensure that it retains sufficient deposits. As part of its liquidity risk management strategy, the Bank makes assumptions in relation to the potential deposit outflows which could occur at times of stress. For example, demand deposits raised from retail customers are assumed to be a relatively stable source of funding based on historical behaviour analysis. Nevertheless, they are contractually repayable on demand. If any of these assumptions prove to be incorrect, the Bank could face unplanned liquidity outflows which have not been taken into account in the Bank's liquidity contingency plans and funding plans.

On a future undiscounted cash flow basis, as at 31 December 2022, 85.3 per cent. of the Bank's deposits from customers and loans received did not have a fixed maturity. As at the same date and on the same basis, only 12.1 per cent. of the Bank's total funding (which comprises deposits from customers and loans received and subordinated debt) had a remaining contractual maturity in excess of one year. These percentages were 88.9 per cent. and 10.0 per cent., respectively, as at 31 December 2021 and 79.3 per cent. and 12.5 per cent., respectively, as at 31 December 2020. The Bank may experience outflows of deposits at times when liquidity is constrained generally in Estonia or when its major depositors experience short- or longer-term liquidity requirements.

In addition, the Bank's deposits are geographically concentrated and the Bank is reliant on certain large deposits from a limited group of customers. See "*—The Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia*" above and "*—The Bank has significant customer and sector concentrations*" above.

In addition to deposits, the Bank has raised funding from capital markets through the issuance of covered bonds and other financial instruments. The Bank may not be able to raise funds from money and/or capital markets on terms comparable with those previously available, which may have an adverse effect on the Issuer's business operations, its performance or its financial position. Access to, and the cost of, financing raised by the Bank through money and capital markets are affected, among other things, by general interest rate levels, the situation on the financial markets, or a downturn in the performance of market participants and the Bank's own capital adequacy and credit ratings.

If a substantial portion of the Bank's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Bank may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Bank will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Bank is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business generally and could potentially, result in its insolvency.

#### **The Bank could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties**

Given the high level of inter-dependence between financial institutions, the Bank is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009 and again in late 2022 and early 2023, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide or institution specific liquidity problems and losses or defaults by the Bank or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Bank interacts on a daily basis. There is also a risk that problems initially affecting only one or a few financial institutions could spill over to the Bank due to perceived interconnectedness or supposed similarities in risk profile, no matter if actually true or not. Such risks, should they materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business generally.

#### **The Bank is exposed to reputational risks related to its operations and industry**

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Bank is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Bank's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing. For example, if one of the Bank's borrowers becomes associated with financial scandals or widely publicised improper behaviour, the Bank's own reputation may be affected. In common with other banks, the Bank is also exposed to adverse publicity relating to the financial services industry as a whole or individual institutions which are perceived similar to the Bank. Financial scandals unrelated to the Bank or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Bank's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Bank which could have a material adverse effect on the Bank.

### **The Bank could be adversely affected by market risks**

The Bank could be adversely affected by market risks that are outside its control, including, without limitation, material adverse changes in interest rates, prices of securities and currency exchange rates. Regarding interest rates, there is a pricing gap between the Bank's interest-rate sensitive assets and liabilities which makes the Bank exposed to fluctuations in interest rates. For example, an increase in interest rates generally may decrease the value of the Bank's fixed-rate loans and securities and may increase the Bank's funding costs. Further, a decrease in the level of interest rates may decrease the revenue that the Bank earns from its floating rate loans, securities and other assets. At the same time, the Bank's ability to pass on declining interest rates to its customers on the funding side by lowering the rates on its deposits is limited. See subsection 3.3 in the Risk section to the 2022 Financial Statements which presents the changes in the economic value of equity and the next 12 months' net interest income that have been estimated in six stress test scenarios compared to base scenario as at 31 December 2022 and 31 December 2021. Interest rates are sensitive to many factors beyond the Bank's control, including the policies of central banks, such as the European Central Bank and the Bank of England, political factors and domestic and international economic conditions.

As a financial intermediary, the Bank is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Bank may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Bank attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set out in the Bank's internal risk management documents. However, where the Bank's positions are not matched, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Bank against such risks. See subsection 3.1 in the Risk section to the 2022 Financial Statements which shows the Bank's open foreign currency positions as at 31 December 2022 and 31 December 2021.

The Bank also has a portfolio of equity instruments measured at fair value which are exposed to the effect of changes in market prices. See subsection 3.2 in the Risk section to the 2022 Financial Statements which illustrates the Bank's sensitivity to a 2 per cent. change in market prices of its debt securities holdings and a 25 per cent. change in market prices of shares and fund units on this portfolio as at 31 December 2022 and 31 December 2021.

The Bank may enter into derivative transactions, such as interest rate swaps and currency swaps and forward contracts, as part of its ordinary business. There is no assurance that the Bank's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Bank will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Bank's depositors, borrowers and other counterparties which, in turn, may impact the Bank's deposit base and the quality of its credit exposures to certain borrowers and other counterparties. Ultimately, there can be no assurance that the Bank will be able to protect itself from any adverse effects of a currency revaluation or future negative changes in interest rate or currency exchange rates or from a significant change in the prices of its securities.

### **The Bank is exposed to a range of operational risks. In particular, the Bank is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Bank's IT systems**

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology ("IT") failures), natural disasters or the failure of external systems (for example, those of the Bank's counterparties or vendors). The Bank has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Bank faces. Losses from the failure of the Bank's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Bank's employees could engage in misrepresentation, misconduct or improper practice that could expose the Bank to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter these types of misconduct, and the precautions which the Bank takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Bank to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Bank's reputation.

**The planned migration of the Bank's UK business from its London branch to the stand-alone UK entity is subject to a range of operational and IT risks**

The Bank has a presence in the UK market through its London branch. In May 2023, LHV UK Limited, which is a subsidiary of AS LHV Group received a banking licence from the Prudential Regulation Authority. It is planned that the current business of the Bank's London branch will be migrated to LHV UK Limited (to be renamed to LHV Bank Limited) in August 2023. There is a risk that despite extensive planning and testing, the migration may not be completed as planned or will face incidents. The migration, involves among other activities, the transfer of customer data and starting to use a new banking core system and other key banking systems. Failure to execute the migration smoothly could disrupt the ability of the customers to make payments, get access to their accounts or otherwise use the service that they expect from the Bank. Any such incident could harm the Bank's reputation, result in a need to reimburse clients or lead to financial or legal/regulatory problems.

**The Bank is dependent on its IT systems and any disruption to these systems could materially disrupt the Bank's business**

The Bank depends on its IT systems to process a large number of transactions on an accurate and timely basis and to store and process substantially all of the Bank's business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and its ability to compete effectively. The Bank's business activities would be materially disrupted if there were a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of reasons some of which are outside the Bank's control, including natural disasters, extended power outages, and computer viruses and other external electronic attacks as discussed under "*The Bank's business is dependent on its IT systems which are subject to potential cyber-attack*" below. The proper functioning of the Bank's IT systems also depends on accurate and reliable data and other system inputs, which are subject to internal human errors. Any failure or delay in recording or processing transaction data could subject the Bank to claims for losses and regulatory fines and penalties. There can be no assurance that the Bank's IT safeguards will be fully effective in the event of a disaster and or that they will protect the Bank from all losses that could occur.

**The Bank's business is dependent on its IT systems which are subject to potential cyber-attack**

In common with all other financial institutions, the threat to the security of the Bank's information and customer data from security breaches and cyber-attacks presents a real and growing risk to the Bank's business. Activists, rogue states and cyber criminals are among those targeting IT systems around the world. Risks to technology and cyber-security evolve and change rapidly and require continued focus, monitoring and investment in preventative measures. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. A failure to adequately manage cyber-security risk and continually monitor, review and update current processes in response to new threats could have a number of adverse effects on the Bank, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

**The Bank's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks**

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. Some of the Bank's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

**The Bank is subject to extensive regulation and changes in this regulation, or the interpretation or enforcement of this regulation, or any failure by the Bank to comply with this regulation could have a material adverse effect on the Bank**

The financial services industry in which the Bank operates is highly regulated and the Bank's operations are subject to numerous European directives and regulations, as well as Estonian laws, policies, guidance and voluntary codes of practice. Since the global financial crisis in 2008, financial services regulation has changed materially and will continue to develop in the future. The regulatory requirements the Bank has had to adapt to since the global financial crisis and which the Bank must comply with when conducting its business and operations or which the Bank may become subject to include:

- capital adequacy requirements, for example Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as amended from time to time, including by Directive (EU) 2019/878 (the "**CRD**") and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, as amended from time to time, including by Regulation (EU) 2019/876 (the "**CRR**");
- a bank resolution framework, for example Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms as amended from time to time, including by Directive (EU) 2019/879 (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") and Regulation (EU) No 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund, as amended from time to time, including by Regulation (EU) 2019/877 (the "**SRM Regulation**");
- continuously tightening requirements on anti-money laundering and anti-terrorism financing;
- payment services regulations, for example Directive (EU) 2015/2366 on payment services in the internal market (as amended from time to time);
- regulations on markets in financial instruments, for example Directive 2014/65/EU on markets in financial instruments and Regulation (EU) No 600/2014 on markets in financial instruments (as amended from time to time);
- data protection regulations, for example Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (as amended from time to time); and
- new and continuously evolving environmental, social and governance ("**ESG**") related regulations.

AS LHV Group and the Issuer as its subsidiary are classified as significant and are being directly supervised by the ECB from 1 January 2023 onwards. As such, the Issuer became subject to the SRM Regulation, increasing the regulatory requirements applicable to the Issuer and its activities, such as those further explained under the risk factor "*The Issuer may be subject to statutory resolution*".

The Bank has sought to comply with all of the developing requirements affecting it, but no assurance can be given that it will at all times and in all material respects either be or remain in compliance with all applicable regulations. A number of Estonian and European authorities, including financial supervision, consumer protection, anti-money laundering, tax and other authorities, regularly perform investigations, examinations, inspections and audits of the Bank's business, including in relation to capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting and corporate governance. Any determination by any relevant authority that the Bank has not acted in compliance with all applicable laws and regulations could have serious legal and reputational consequences for the Bank, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or requirements to cease carrying all or part of its business.

**The Bank may need to raise capital and other regulatory funding and it may not be able to do so as and when needed on commercially attractive terms**

The capital of banks and investment firms in the EU is subject to the legal framework of the CRR, CRD and the BRRD. The requirements imposed under this framework have been constantly evolving over time and can be expected to undergo further developments in the future. This will likely necessitate further and potentially significant changes to the Bank's operations, including the Bank's procedures, rules and reporting systems, as well as to the calculation systems of the capital requirements applicable to the Bank.

The Bank is required to hold a minimum amount of regulatory capital equal to 8 per cent. of its risk exposure amounts, which must be covered by a combination of common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. In addition to these so called minimum Pillar 1 requirements, the regulation also prescribes the combined buffer requirement. For the Bank, the combined buffer requirement is comprised of:

- the other systemically important institution ("O-SII") buffer, which as at the date of this Base Prospectus stands at 2.0 per cent.;
- the capital conservation buffer which has been set at 2.5 per cent.;
- the countercyclical buffer which as at the date of this Base Prospectus stands at 1.0 per cent.; and
- the systemic risk buffer which currently stands at 0.0 per cent. but could be raised by competent authorities in the future.

The combined buffer requirement applies to the total risk exposure amount and must be met by common equity Tier 1 own funds.

In addition to the minimum own funds requirements described above, the competent authorities may require additional so called Pillar 2 capital to be maintained by a credit institution relating to elements of risk which are not fully captured by other own funds requirements. The Pillar 2 requirement applicable to the Bank as at the date of this Base Prospectus is equal to 3.40 per cent. The Pillar 2 capital requirement and the Pillar 2 guidance are subject to an annual review by the competent authorities as part of the supervisory review and evaluation process ("**SREP**").

As part of the crisis resolution plan provided for in the BRRD, as implemented in Estonia, the minimum requirement for own funds and eligible liabilities ("**MREL**") obliges banks and banking group's to have sufficient own funds and unsecured long-term liabilities that can be used to cover losses under the crisis resolution plan. The Estonian Financial Supervision and Resolution Authority (the "**EFSA**") has set the MREL requirement for the LHV Group (of which the Bank is a major part). No separate MREL requirement has currently been applied for the Bank.

In addition to regulatory capital requirements, a variety of other factors may affect the Bank's need for additional capital. For example, a significant increase in lending, reduced profitability or any losses experienced by it would reduce the Bank's capital adequacy ratios. The Bank may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.



The Bank is likely to need to obtain additional capital in the future to support the future growth of its business. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Bank's capital ratios fall close to regulatory minimum levels or the Bank's own internal minimum levels, the Bank may need to adjust its business practices, including reducing the risk and leverage of certain activities or limiting asset growth. If the Bank is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered, its cost of funding may increase and it may suffer regulatory sanctions. Any such development may have a material adverse effect on the Bank.

### **The Bank is exposed to risks related to money laundering activities and sanctions violations**

In general, the risk that banks will be subjected to or used for money laundering has increased worldwide. The high turnover of employees, the difficulty in consistently implementing related policies and technology systems, and the general business conditions in Estonia and proximate markets such as Russia, mean that the risk of the occurrence of money laundering is high. If financial market conditions, both globally and regionally, deteriorate, there is a risk that incidents involving money laundering may increase; this may affect the Bank's ability to monitor, detect and respond to such incidents.

Additionally, one of the core business areas of the Bank is offering services to financial intermediaries such as payment service providers and virtual asset service providers. The services being offered include accounts, payments (including real life EUR and GBP payments), acquiring, working capital finance and foreign currency exchange services. Servicing such financial intermediary clients entails a higher risk of fraud and money laundering compared to regular retail and non-financial corporate clients due to the large number of end customers serviced by the financial intermediaries.

In addition, banks are required to comply with a number of international sanctions regimes, including those of the European Union, the United Nations, the United States and a number of other individual countries. A wide range of countries, organisations and individuals may be subject to sanctions under these regimes and the complexity of banking operations means that steps taken to screen transactions against sanctions lists may not always be effective.

As a result, the risk of future incidents in relation to money laundering and sanctions violations always exists for financial institutions. Any violation of anti-money laundering rules or sanctions regimes, or even the suggestion of violations, may have severe legal and reputational consequences for the Bank and may, as a result, have a material adverse effect on the Bank.

### **The Bank is subject to the risk of changes in tax regulations reducing its profitability**

Estonian tax regulations are subject to changes, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable. For example, as a result of a separate corporate income tax ("CIT") regime targeted specifically at Estonian resident credit institutions, these institutions are required to make quarterly advance payments of income tax on the profit earned by them in the previous quarter while the companies operating in other sectors remain subject to the general corporate income tax regime under which profit is subject to taxation only upon distribution.

Currently advance payments of CIT are made at a rate of 14 per cent.. The quarterly profit of credit institutions, on the basis of which the advance CIT is calculated, is reduced by the amount of the tax-exempt dividends received by the credit institution in that quarter, as well as by the amount of any loss recorded during the preceding 19 quarters (loss carry forward for five years). However, the calculation of the loss carry forward only starts from the second quarter of 2018 and Estonian credit institutions are not permitted to account for losses that had arisen prior to that quarter. Estonian credit institutions have the right to set-off the CIT payable from dividend distributions (including from regular dividends) or distributions from their equity capital, against the advance CIT payments that had been previously made to the tax authority under the above described advance payment arrangement. The advance payments of CIT are not refundable to the credit institution even if dividend distributions are eventually not made. The advance CIT has a more significant impact on credit institutions in an active growth phase, such as the Bank, as it reduces the own funds of the institution.

The Estonian government has proposed changing the current CIT rate and approved the Income Tax Act and the Defense Forces Service Act. According to the bill, the CIT rate would increase from the current rate of 20 per cent. to 22 per cent. starting from 2025. Advance payments of CIT made by Estonian resident credit institutions will continue, but with CIT rate increasing to 18 per cent. from 2025 according to the bill. The parliament of Estonia has not passed the act yet.

Any other changes in Estonian tax regulations or in the interpretation of such regulations, may also have material adverse effect on the Bank.

**The Bank's internal compliance systems might not be fully effective in all circumstances**

The Bank's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Bank is subject to oversight by regulatory authorities, including regular examination activity and annual supervisory review visits, and performs regular internal audits and employs an external auditing firm to review its internal auditing function as required by applicable regulations, the Bank cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Bank could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages that could have a material adverse effect on the Bank.

**A negative change, or perceived negative change, in the Bank's credit rating could limit its ability to raise funding and may increase its borrowing costs**

The Bank currently has a long-term bank deposits rating of Baa1 with a positive outlook from Moody's. This credit rating is an important factor in determining the Bank's cost of borrowings. The interest rates charged on the Bank's borrowings are also partly dependent on its credit rating.

There is no assurance that the Bank's rating will remain in effect for any given period of time or that the rating will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade, or increased risk of a downgrade, of the Bank's credit rating, or a negative change in its outlook, may:

- limit the Bank's ability to raise funding;
- increase the Bank's cost of borrowing; and
- limit the Bank's ability to raise capital.

In addition, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of the Covered Bonds.

According to Moody's, the principal credit challenges facing the Bank are (i) its high loan growth, which could lead to higher losses in a downturn; (ii) expansion in the UK small and medium-sized enterprises segment which adds uncertainties regarding strategy, capitalisation and profitability; and (iii) the fact that it provides services to financial intermediaries which increases balance sheet volatility and operational risks. Moody's also notes four factors which, if they materialise, could lead to a future downgrade of the Bank's rating or to reverting the outlook of the rating to stable (from the current positive outlook):

- a deterioration in solvency ratios;
- a material increase in operational risk relating to its services to financial intermediaries, for example due to materialising weaknesses in AML monitoring;
- lower volumes of liquid resources, leading to reduced liquidity buffers compared to the increasing volume of more volatile funding sources such as senior debt; and

- lower levels of loss absorbing obligations, could lead to lower uplift in deposit ratings.

In addition, the credit rating assigned to the Bank may not reflect the potential impact of all risks related to an investment in the Covered Bonds, the market, additional factors discussed in this Base Prospectus and other factors that may affect the value of the Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities. A rating may be subject to revision or withdrawal at any time by an assigning rating organisation.

**The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy**

The Bank's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in Estonia is intensely competitive and the Bank could face challenges in recruiting and retaining such personnel to manage its businesses. Regulatory restrictions, such as the limits on certain types of remuneration paid by credit institutions and investment firms could adversely affect the Bank's ability to attract new qualified personnel and retain and motivate existing employees. Any loss of the services of key employees, particularly to competitors, or any inability to attract and retain highly skilled personnel may have material adverse effect on the Bank.

The Bank also depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Bank from implementing its strategies and the Bank may not be able to replace any such lost personnel easily or quickly. The Bank has crime and professional indemnity insurance cover in relation to its key personnel, but is not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

**The Bank operates in a highly competitive market which may adversely affect its results of operations if it is unable to compete effectively**

The Bank operates in a highly competitive market. In addition to the licensed credit institutions and branches of foreign banks present in Estonia, there are market participants (such as non-bank lenders) who are not subject to regulatory and capital requirements as burdensome as those to which the Bank is subject and who may therefore have a competitive advantage in relation to lending. Furthermore, the credit and lending market is characterised by the development of new products and technological solutions which compete with the more conservative and traditional products and services offered by the Bank and may result in price pressure on the products and services offered by the Bank. In addition, the Bank is competing in the market of customer deposits in order to raise the funding that is required for supporting its lending business. With the tightening of monetary conditions, it is possible that competition in the deposits market will increase. If the Bank fails to respond to a more competitive environment by offering attractive and profitable product and service solutions, it may experience a loss of market share and a decrease in profitability.

**The Bank is subject to legal risks**

The Bank's operations are materially dependent on the validity and enforceability of the transactions and agreements it enters into, high volumes of which may be based on standard templates. These transactions and agreements may be subject to the laws of Estonia or to the laws of other countries where the Bank operates. While due care is taken to ensure that the terms of these transactions and agreements are fully enforceable under the laws applicable to them, human error or new laws and regulations and changes in interpretation of existing laws and regulations by the competent authorities and courts may create uncertainty or render part or all of a particular agreement unenforceable by the Bank. Consequently, the Bank may not be able to always enforce its contractual rights. Particularly in the context of a template agreement which has been replicated extensively, this could have a material adverse effect on the Bank.

In the ordinary course of its business, the Bank is exposed to a significant risk of claims, disputes and legal proceedings. In many cases, the Bank will be the plaintiff, typically seeking to recover money advanced and it may not always be successful in this endeavour and, even where it is successful, the costs involved in the litigation will reduce its recoveries. In cases where the Bank is a defendant, in addition to the cost of

defending the claim the Bank may be required to pay significant damages and the dispute could also negatively affect the Bank's reputation.

## **RISKS ASSOCIATED WITH THE COVERED BONDS**

### **Default of Issuer's Assets or an inability to supplement the Cover Pool with Eligible Assets and Insolvency of the Covered Bond Portfolio**

Default of the Issuer's assets (in particular assets in the Cover Pool) or an inability to supplement the Cover Pool with Eligible Assets could jeopardise the Issuer's ability to make payments on the Covered Bonds in full or on a timely basis.

Under the ECBA in force as at the date of this Base Prospectus, to comply with the statutory requirements, the Issuer must ensure that (i) the nominal value of the total amount of the Cover Pool continuously exceeds the liabilities covered by at least five per cent and (ii) if the known redemption value of the Covered Bonds is higher than their nominal value at the time of issue, the Cover Pool must, in addition to meeting the requirement set out in item (i), have a nominal value at least equal to the redemption value of the Covered Bonds. Where assets included in the Cover Pool no longer satisfy the above criteria, the Issuer is required to supplement the Cover Pool with additional Eligible Assets. In case of defaults of the Issuer's assets resulting in such assets ceasing to satisfy the criteria of Eligible Assets or a lack of Eligible Assets due to any other reason, the Issuer may not have sufficient assets to add to the Cover Pool to meet such referred statutory requirement. Furthermore, after the separation of the Covered Bond Portfolio from the Issuer's assets, the Issuer is not permitted under the ECBA to make any transactions with the assets in the Covered Bond Portfolio and therefore, no addition of assets to the Cover Pool can be expected following the occurrence of a separation event which may occur due to, among other things, a declaration of bankruptcy or a moratorium in respect of the Issuer; termination of the validity of the credit institution licence or additional authorisation for issuing covered bonds held by the Issuer; the passing of a court ruling providing for compulsory dissolution of the Issuer; receiving an authorisation from the EFSA for voluntary dissolution or discontinuation of the issuance of Covered Bonds; or where the EFSA resolves that the Covered Bond Portfolio should be separated from the Issuer's assets on the grounds provided in the ECBA.

If: (i) the present value of the Cover Pool does not cover the present value of the liabilities arising from Covered Bonds and from the Derivative Instruments entered in the cover register and the expenses of management of the Covered Bond Portfolio or (ii) the Cover Pool or the income receivable from the Cover Pool is not sufficient to settle a rightful claim of at least one Covered Bondholder or at least one counterparty to a Derivative Instrument entered in the cover register and the situation is not temporary due to the financial standing of the Covered Bond Portfolio, the Covered Bond portfolio will be deemed insolvent and the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. To the extent that claims of the Covered Bondholders in respect of the Covered Bonds and counterparties to the Derivative Instruments included in the Cover Pool are not met out of the Cover Pool in the bankruptcy proceedings carried out in respect of the Covered Bond Portfolio, the Covered Bondholders and counterparties to the Derivative Instruments included in the Cover Pool may submit their claims arising from the Covered Bonds and Derivative Instruments against the Issuer or its bankruptcy estate, but such residual claims of the Covered Bondholders and counterparties to the Derivative Instruments included in the Cover Pool will not be preferred claims, will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer (save for such obligations as may be preferred by provisions of law that are both mandatory and of general application) and may thus not be satisfied in full.

### **Credit risk of the Issuer**

An investment in Covered Bonds is subject to credit risk. The Issuer's ability to meet its obligations arising from the Covered Bonds and the ability of the holders of the Covered Bonds to receive payments arising from the Covered Bonds depends on the financial position and the results of operations of the Issuer, which are subject to other risks described in this Base Prospectus.

The statutory cover conferred on holders of Covered Bonds by the ECBA extends to Mortgage Loans owned by the Issuer and other Eligible Assets included in the Cover Pool. Upon the declaration of the Issuer's bankruptcy and upon the occurrence of certain other events stipulated in the ECBA, the Covered Bond Portfolio will be separated from the other assets and liabilities of the Issuer and will form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely

to satisfy the claims of Covered Bondholders and of any counterparties to Derivative Instruments included in the Cover Pool and to cover the expenses related to the management of the Covered Bond Portfolio. If after the separation of the Covered Bond Portfolio it becomes evident that the Cover Pool or proceeds therefrom are insufficient to discharge all liabilities arising from the Covered Bonds and Derivative Instruments recorded in the cover register and such situation is not temporary or the present value of the Cover Pool does not cover the present value of the relevant liabilities (such situation may occur, for instance, due to circumstances described under the risk factor "*Default of Issuer's Assets or an inability to supplement the Cover Pool with Eligible Assets and Insolvency of the Covered Bond Portfolio*"), the Covered Bond Portfolio will be deemed insolvent and the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. Should the Issuer's assets be insufficient to satisfy the residual claims of the Covered Bondholders and all relevant obligations of the Issuer ranking ahead of or *pari passu* with such claims, the Covered Bondholders may lose some of their investment.

### **No ownership rights**

An investment into the Covered Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Issuer or any of the subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. The Covered Bonds represent a debt obligation of the Issuer, which is covered by the assets in the Cover Pool and which grants the Covered Bondholders only such rights as set forth in the Conditions.

### **There is no active trading market for the Covered Bonds**

There can be no assurance that a liquid market for the Covered Bonds will be maintained. The investors may find it difficult to sell their Covered Bonds or to sell them at prices producing a return comparable to returns on similar investments in the secondary market.

The Covered Bonds are new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Covered Bonds which is already issued). If a market does develop, it may not be liquid. Therefore, no liquidity of any market in the Covered Bonds can be assured; nor the ability of the holders of the Covered Bonds to sell their Covered Bonds or the prices at which they would be able to sell their Covered Bonds.

If the Covered Bonds are traded after their initial issuance, they may be traded at a discount or at a premium to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. It is possible that the market for the Covered Bonds will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of the Covered Bonds, regardless of the Issuer's prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Covered Bonds. If no active trading market develops, you may not be able to resell your holding of the Covered Bonds at a fair value, if at all.

Although an application has been made for the Covered Bonds to be admitted to listing on Euronext Dublin there can be no assurance that such application will be accepted, that any particular Tranche of Covered Bonds will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Covered Bonds.

### **Exchange rates and exchange controls**

The Issuer will predominantly pay principal and interest on the Covered Bonds in Euro (the "**Specified Currency**"). This presents certain risks relating to currency conversions if a holder of the Covered Bonds financial activities is denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange

controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, holders of the Covered Bonds may receive less interest or principal than expected, or no interest or principal.

### **Interest rate risks**

An investment in the Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Covered Bonds. Particularly long-term fixed-rate Covered Bonds involve a high risk of a material decline in value if the market rate exceeds the rate paid in accordance with the fixed-rate Covered Bonds. On the other hand, holders of Covered Bonds that are subject to redemption at the option of the Issuer should not expect, in case of falling market rates, that the price would substantially exceed the redemption price. The yield to maturity on the Covered Bonds is affected by a number of factors that cannot be predicted at the time of the investment.

### **The Covered Bonds may be redeemed prior to maturity**

Unless in the case of any particular Tranche of Covered Bonds the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Covered Bonds in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Covered Bonds the relevant Final Terms specify that the Covered Bonds are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Covered Bonds at times when prevailing interest rates may be relatively low. In such circumstances a holder of the Covered Bonds may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds and may only be able to do so at a significantly lower rate. This optional redemption feature is likely to limit the market value of the Covered Bonds. During any period when the Issuer may, or is perceived to be able, elect to redeem the Covered Bonds, the market value of the Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

### **Because the Global Covered Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, holders of the Covered Bonds will have to rely on their procedures for transfer, payment and communication with the Issuer**

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bonds. Such Global Covered Bonds will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Covered Bond, holders of the Covered Bonds will not be entitled to receive Definitive Covered Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bonds, holders of the Covered Bonds will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their participants.

While the Covered Bonds are represented by one or more Global Covered Bonds the Issuer will discharge its payment obligations under the Covered Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Covered Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Covered Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they

are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Covered Bonds will not have a direct right under the Global Covered Bonds to take enforcement action against the Issuer in the event of a default under the relevant Covered Bonds but will have to rely upon their rights under the Deed of Covenant.

**Regulation and reform of EURIBOR or other "benchmarks" could adversely affect any Covered Bonds linked to such "benchmarks"**

EURIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds became applicable from 1 January 2018. The EU Benchmarks Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the UK Financial Conduct Authority (the "**FCA**") or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Covered Bonds linked to EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the discontinuance or unavailability of quotes of certain benchmarks.

The euro risk-free rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, any benchmark, including EURIBOR will continue to be supported going forwards. This may cause any such benchmark to perform differently than they have done in the past, and may have other consequences which cannot be predicted.

The "*Terms and Conditions of the Covered Bonds*" set out below provide for certain fallback arrangements in the event that a published benchmark, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be determined by an independent adviser or the Issuer or set by reference to a reference bond rate, a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates

and alternative reference rates and the involvement of an independent adviser of the Issuer, the relevant fallback provisions may not operate as intended at the relevant time. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Covered Bonds, the return on the relevant Covered Bonds and the trading market for securities (including the Covered Bonds) based on the same benchmark.

Any such consequences could have a material adverse effect on the value of and return on any such Covered Bonds. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under Floating Rate Covered Bonds or could have a material adverse effect on the value or liquidity of, and the amount payable under Floating Rate Covered Bonds. Investors should consider these matters when making their investment decision with respect to Floating Rate Covered Bonds.

### **The Issuer may be subject to statutory resolution**

The BRRD sets out the necessary steps and powers to ensure that bank failures across the EU are managed in a way which mitigates the risk of financial instability and minimises costs for taxpayers. The BRRD is designed to provide authorities with a harmonised set of tools and powers to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

For this purpose, the BRRD grants supervisory authorities various rights including (but not limited to) a statutory **"write-down and conversion power"** (exercisable in relation to Tier 1 capital instruments and Tier 2 instruments) and a 'bail-in and loss absorption' power (exercisable in relation to other securities that are not Tier 1 or Tier 2 capital instruments), which gives the recovery and resolution authority under the BRRD and the SRM Regulation (the **"Relevant Resolution Authority"**), the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include Covered Bonds, with the exception that the bail-in and loss absorption mechanism cannot be applied to Covered Bonds issued in accordance with the ECBA and the financial instruments used for hedging purposes which are secured in a way similar to Covered Bonds, to the extent they are secured) of a failing financial institution and/or to convert certain debt claims (which could include the Covered Bonds, with the exception that the bail-in and loss absorption mechanism cannot be applied to Covered Bonds issued in accordance with the ECBA and the financial instruments used for hedging purposes which are secured in a way similar to Covered Bonds) into another security, including equity instruments of the surviving Issuer entity, if any. The BRRD is implemented into Estonian law by the Estonian Financial Crisis Prevention and Resolution Act (the **"FCPRA"**). For more information on the implementation of the BRRD in Estonia, see *"The Estonian resolution legislation implementing the BRRD Directive"* below.

As well as a "write-down and conversion power" and a "bail-in and loss absorption" power as described above, the powers granted to the Relevant Resolution Authority under the BRRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge bank" (a publicly controlled entity) and (iii) transfer assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time. In addition, among the broader powers granted to the Relevant Resolution Authority under the BRRD, the BRRD provides powers to the Relevant Resolution Authority to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments.

The write-down and conversion power can be used to ensure that Tier 1 and Tier 2 Capital instruments fully absorb losses at the point of non-viability of an institution (or, if applicable, its group) and before any other action is taken.

The general bail-in and loss absorption powers set out in the BRRD are not intended to apply to secured debt (such as the Covered Bonds) and accordingly, the FCPRA provides that: (i) the bail-in and loss absorption tool may not be applied to, *inter alia*, covered bonds and financial instruments included in a covered bond portfolio and used for hedging purposes that are secured in a way similar to covered bonds;



and (ii) the application of the bail-in and loss absorption tool may not affect the cover pool and upon the application of the bail-in and loss absorption tool, the cover pool shall remain segregated and with enough funding. However, to the extent that claims in relation to the Covered Bonds are not met out of the assets comprising the Cover Pool (and the Covered Bonds subsequently rank *pari passu* with unsecured debt), the Covered Bonds may be subject to write-down or conversion into equity on any application of the general bail-in and loss absorption powers, which may result in the Covered Bondholders losing some or all of their investment. Further, while the legal framework established under the BRRD has been implemented in Estonia for some time now, there remains significant uncertainty regarding the ultimate nature and scope of the bail-in and loss absorption powers under the BRRD and how they could affect the Issuer, the Group or the Covered Bondholders, and there can be no assurance that the manner in which it is implemented or the taking of any actions by the Relevant Resolution Authority contemplated in the BRRD would not adversely affect the rights of the Covered Bondholders, the price or value of the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds.

While the BRRD (and the FCPRA implementing the BRRD) lists certain general principles applicable to resolution, including the principle that no creditor of the institution subject to resolution shall incur greater losses than would have been incurred thereby if the institution had been wound up under hypothetical insolvency proceedings (the so-called "**NCWO safeguard**"), the operation of this principle in various circumstances is not clear on the basis of the manner of transposition of this principle into the FCPRA. While the EBA has explained that the NCWO safeguard serves as a fundamental right of creditors, and several amendments were introduced by the BRRD to clarify the application of the said principle, it is not entirely clear from the FCPRA whether this principle will be strictly applied in all circumstances, particularly, in cases where write-down and conversion powers are used independently without the application of any other resolution tools and outside of resolution proceedings. Provided the provisions of the FCPRA are applied and interpreted in conformity with the objectives of the BRRD, the NCWO safeguard should also apply equally to the scenario where write-down and conversion powers are exercised outside of resolution proceedings, but no assurances can be given to this respect.

In addition to the BRRD, the EU has adopted the SRM Regulation a directly applicable regulation governing the resolution of the most significant financial institutions in the Eurozone, *i.e.* a regulation establishing a Single Resolution Mechanism for them. The SRM Regulation establishes a single European resolution board (consisting of representatives from the European Central Bank (the "**ECB**"), the European Commission and the relevant national resolution authorities) (the "**Resolution Board**") having resolution powers over the entities that are subject to the SRM Regulation, thus replacing or exceeding the powers of the national resolution authorities. AS LHV Group and the Issuer as its subsidiary are classified as significant and are being directly supervised by the ECB as of 1 January 2023. As such, the Issuer became subject to the SRM Regulation.

Under the SRM Regulation, the Resolution Board has been granted those responsibilities and powers granted to the member states' resolution authorities under the BRRD for those banks subject to direct supervision by the ECB. The SRM Regulation mirrors the BRRD and, to a large part, refers to the BRRD so that the Resolution Board is able to apply the same powers (including the bail-in and loss absorption tool and the mandatory write-down and conversion power described above) that would otherwise be available to the relevant national resolution authority. The use of one or more of these tools will be included in a resolution scheme to be adopted by the Resolution Board. National resolution authorities will remain responsible for the execution of the resolution scheme according to the instructions of the Resolution Board.

The Resolution Board is responsible for preparing and adopting a resolution plan for the entities subject to its powers, including the Issuer. It also determines, after consulting competent authorities, including the ECB, the MREL requirement which the Issuer is expected to meet at all times. The Resolution Board also has the powers of early intervention as set forth in the SRM Regulation, including the power to require the Issuer to contact potential purchasers in order to prepare for resolution of the Issuer. The Resolution Board has the authority to exercise the specific resolution powers under the SRM Regulation. These will be launched if the Resolution Board assesses that the following conditions are met: (i) the Issuer is failing or is likely to fail; (ii) having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures or supervisory action or the write-down or conversion of relevant capital instruments, taken in respect of the Issuer, would prevent its failure within a reasonable timeframe; and (iii) a resolution action is necessary in the public interest.

The exercise of any resolution powers or early intervention measures or any powers pursuant to BRRD and the SRM Regulation, if and as applicable with respect to the Issuer or any suggestion of such exercise will likely materially adversely affect the price or value of an investment in Covered Bonds and/or the ability of the Issuer to satisfy its obligations under such Covered Bonds and could lead to the holders of the Covered Bonds losing some or all of their investment in the Covered Bonds.

#### **The Estonian resolution legislation implementing the BRRD Directive**

The BRRD is implemented in Estonia by the FCPRA. Under the FCPRA, the Relevant Resolution Authority is the EFSA. The FCPRA provides for certain resolution measures, including the power to impose in certain circumstances a suspension of activities. Any suspension of activities can, to the extent determined by the EFSA, result in the partial or complete suspension of the performance of agreements entered into by the Issuer. The FCPRA also grants the power to the EFSA to take a number of resolution measures which may apply to the Issuer, including (i) a forced sale of the credit institution (sale of business), (ii) the establishment of a bridge institution bank, or, (iii) the forced transfer of all or part of the assets, rights or obligations of the credit institution (asset separation) and (iv) the application of the general bail-in and loss absorption tool.

The powers set out in the resolution legislation will impact how credit institutions are managed as well as, in certain circumstances, the rights of creditors. The bail-in and loss absorption tool is not intended to apply to secured debt, and hence should apply to Covered Bonds only to the extent that the amounts payable in respect of the Covered Bonds exceed the value of the cover pool against which payment of those amounts is secured. However, there remains significant uncertainty as to the ultimate nature and scope of the bail-in and loss absorption tool and how it would affect the Covered Bondholders and the Issuer.

If the debt bail-in and loss absorption tool and the statutory write-down and conversion power become applicable to the Issuer, the Covered Bonds may be subject to write-down or conversion into equity on any application of the bail-in and loss absorption tool, which may result in Covered Bondholders losing some or all of their investment. Subject to certain conditions, the terms of the obligations owed by the Issuer may also be varied by the Relevant Resolution Authority (*e.g.* as to maturity, interest and interest payment dates). The exercise of any power under the resolution legislation or any suggestion of such exercise could materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any Covered Bonds and/or the ability of the Issuer to satisfy its obligations under any Covered Bonds.

There remains uncertainty regarding how the rights and tools available under the FCPRA would affect the Issuer, the price or value of an investment in the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds. Accordingly, it is not possible to assess the full potential impact of the FCPRA. The Covered Bonds may under certain circumstances described above be part of the claims and debts in respect of which the Relevant Resolution Authority could use the bail-in and loss absorption powers to write-down or convert the principal of the Covered Bonds. There can be no assurances that the FCPRA and the SRM Regulation could not adversely affect the price or value of an investment in Covered Bonds subject to the provisions thereof and/or the ability of the Issuer to satisfy its obligations under such Covered Bonds. Prospective investors in the Covered Bonds should consult their own advisors as to the consequences of the implementation of the FCPRA and the SRM Regulation.

#### **Changes in laws or administrative practices could entail risks**

The conditions of the Covered Bonds are based on the laws of England in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or administrative practice after the date of this Base Prospectus. Furthermore, the Issuer operates in a heavily regulated environment and has to comply with extensive regulations in the Republic of Estonia (including but not limited to the Estonian Credit Institutions Act and other laws and regulations regulating the activities of credit institutions, as well as the Estonian Securities Market Act and other laws and regulations regulating the provisions of investment services). No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices of Estonia after the date of this Base Prospectus.

#### **Denominations of the Definitive Covered Bonds may be illiquid**

In relation to any issue of Covered Bonds which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Covered

Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination (or its equivalent). In such a case a Covered Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination may not receive Definitive Covered Bonds in respect of such holding (should Definitive Covered Bonds be printed) and may need to purchase a principal amount of Covered Bonds such that its holding amounts to the minimum Specified Denomination.

If Definitive Covered Bonds are issued, Covered Bondholders should be aware that Definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the larger the remaining term of such securities the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### **Conflicts may arise between the interests of the Calculation Agent and the interests of the Covered Bondholders**

Potential conflicts of interest may exist between the Calculation Agent (if any) and Covered Bondholders, including with respect to certain determinations and judgements that such Calculation Agent makes pursuant to the Conditions that may influence amounts receivable by the Covered Bondholders during the term of the Covered Bonds and upon their redemption.

The Issuer may appoint a Dealer as Calculation Agent in respect of an issuance of Covered Bonds under the Programme. In such a case the Calculation Agent is likely to be a member of an international financial group that is involved, in the ordinary course of its business, in a wide range of banking activities out of which conflicting interests may arise. Whilst such a Calculation Agent will, where relevant, have information barriers and procedures in place to manage conflicts of interest, it may in its other banking activities from time to time be engaged in transactions involving an index or related derivatives which may affect amounts receivable by Covered Bondholders during the term and on the maturity of the Covered Bonds or the market price, liquidity or value of the Covered Bonds and which could be deemed to be adverse to the interests of the Covered Bondholders.

### **Recognition of choice of court agreements and enforcement of foreign judgements in Estonia**

In accordance with Condition 22(b) (*English courts*), the courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with the Covered Bonds (including any non-contractual obligation arising out of or in connection with the Covered Bonds). In accordance with Condition 22(d) (*Rights of the Covered Bondholders to take proceedings outside England*), notwithstanding Condition 22(b) (*English courts*), any Covered Bondholder may take proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, Covered Bondholders may take concurrent proceedings in any number of jurisdictions.

Under item (a) of paragraph 1 of Article 67 of the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "**Withdrawal Agreement**"), the provisions regarding jurisdiction of Regulation (EU) No 1215/2012 of the European Parliament and the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "**Brussels Regulation**") apply in respect of legal proceedings instituted before 1 January 2021 and in respect of proceedings or actions that are related to such legal proceedings pursuant to Articles 29, 30 and 31 of the Brussels Regulation. Under item (a) of paragraph 2 of Article 67 of the Withdrawal Agreement, the Brussels Regulation shall apply to the recognition and enforcement of judgments given in any legal proceedings instituted before 1 January 2021, and to instruments formally drawn up or registered and court settlements approved or concluded before 1 January 2021. For the purposes of legal proceedings initiated, instruments drawn up or registered, and court settlements approved or concluded on or after 1 January 2021, the recognition of the choice of jurisdiction of English courts and the recognition and enforcement of judgments of English courts would be assessed and carried out in Estonia in accordance with the Hague Convention of 30 June 2005 on Choice of Court Agreements and the Estonian Code of Civil Procedure, if and as applicable.

The validity of the parties' agreement on jurisdiction, including as stipulated in Condition 22(d) would be assessed by Estonian courts in accordance with, firstly, the Hague Convention on the Choice of Court Agreements, and, secondly, the Estonian Code of Civil Procedure. The provisions of the Estonian Code of Civil Procedure would also apply to recognition of choice of court and enforcement of judgments of courts of other countries which are not subject to the Brussels Regulation or international agreements or conventions.

The Estonian Code of Civil Procedure stipulates that parties are generally free to contractually agree on a jurisdiction of their choice, provided that, among others, the contract is concluded in the course of their business activities, in writing or in a format which can be reproduced in writing and does not relate to a matter in respect of which the exclusive jurisdiction of Estonian courts is stipulated by the Estonian Code of Civil Procedure. In order to be valid, the relevant agreement concerning applicable jurisdiction should not in bad faith exclude a party's right to use Estonian jurisdiction. The validity of asymmetric jurisdiction clauses is not expressly regulated in the Estonian Code of Civil Procedure and is untested in the practice of the Estonian Supreme Court. With respect to the recognition of judgments of foreign courts, the Estonian Code of Civil Procedure provides that a court may refuse, on the application of an interested party, to recognize the judgment based on the grounds stipulated in the Estonian Code of Civil Procedure. Such grounds include, above all, conflict with public policy, failure to deliver the action and procedural documents to the defendant, existence of the conflicting court decisions and inappropriate jurisdiction, amongst others.

Thus, the ability of Covered Bondholders to bring proceedings against the Issuer in English courts or other foreign courts and the recognition and enforcement of the judgements of English courts and other foreign courts in Estonia may be subject to limitations and conditions arising from, as applicable in each particular situation, the Brussels Regulation, the international agreements or conventions or the Estonian Code of Civil Procedure.

#### **Recognition and enforcement of choice of English law to govern the Covered Bonds and procedural rules applied in court proceedings in Estonia**

Under item (a) of Article 66 of the Withdrawal Agreement, Regulation (EC) 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (the "**Rome I Regulation**") shall apply with respect to contracts concluded before 1 January 2021. For contracts concluded on or after 1 January 2021, recognition of choice of law to govern any contractual obligations would, in a situation where a relevant dispute is brought to an Estonian court (and provided that such Estonian court has jurisdiction over the dispute) be decided by the Estonian court in accordance with the Estonian Private International Law Act. In accordance with the Estonian Private International Law Act, as a general principle, an agreement shall be governed by the law chosen by the parties and, by their choice, parties may select the law applicable to the whole or part of the agreement. However, a foreign law chosen by the parties shall not be applied by Estonian courts in certain circumstances, above all, if: (i) application of a provision of foreign law is manifestly incompatible with the public policy ("**ordre public**") of Estonia; (ii) provisions of foreign law allow the parties to deviate from the provisions of Estonian law that have extraterritorial application or overriding mandatory provisions; or (iii) the substance of the applicable foreign law cannot be established by the Estonian court, regardless of all reasonable efforts, within a reasonable time. In such circumstances Estonian courts may apply Estonian law instead.

Further to the above, in any proceedings taken in Estonian courts or other authorities for the enforcement of the Covered Bonds, the courts and the authorities would apply procedural rules of Estonian law, and the enforcement would thus be subject to the limitations arising from Estonian law. Such limitations include, inter alia, that the enforcement of the Covered Bonds in Estonian courts may be subject to restrictions based upon principles of reasonableness and fairness, statutory limitations for filing of claims and the general discretionary authority of the courts to mitigate damages. In addition, restrictions on the enforcement of the Covered Bonds could (depending on the circumstances) arise from applicable bankruptcy, insolvency, moratorium and other laws of general application relating to or affecting generally the enforcement of creditors' rights and remedies from time to time in effect.

Any of the above may adversely affect the enforcement by Covered Bondholders of their claims against the Issuer arising from the Covered Bonds.

#### **Laws applicable to assets included in the Cover Pool**

The claims under the Mortgage Loans and the mortgages that secure such claims, which form part of the assets contained in the Cover Pool, are governed by their contractual terms and various mandatory legal requirements and limitations arising from applicable laws, including mandatory consumer protection requirements, as well as rules and requirements relating to the right to enforce mortgages and dispose of the relevant property. To the extent that such requirements may restrict, limit, hinder or even prohibit certain actions in respect of the enforcement of the claims under the Mortgage Loans and the mortgages that secure such claims, there is a risk that the ability of the Issuer to realise the assets in the relevant Cover Pool may be delayed or may result in an increase in the costs of enforcement, that may ultimately lead to a reduced return to the relevant Covered Bondholders.

### **Sharing of the Cover Pool**

Under the ECBA, Covered Bondholders (along with counterparties to Derivative Instruments) are given a statutory priority in the liquidation or bankruptcy of the Issuer in relation to the assets entered into the cover register as collateral in respect of the Covered Bonds. Accordingly, notwithstanding that the Issuer has entered into liquidation or bankruptcy proceedings (as well as upon certain other events prescribed in the ECBA), the Cover Pool shall separate from the Issuer and will form an independent pool of designated assets and the Covered Bondholders (along with counterparties to Derivative Instruments and persons entitled to satisfy their claims for the account of the Cover Pool by operation of law) have the right to receive payment before all other claims against the Issuer out of the proceeds of the Cover Pool. As described in more detail under the risk factor "*Default of Issuer's Assets*", if the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in respect of the Covered Bonds are not met out of the Cover Pool, in the bankruptcy proceedings carried out in relation to the Covered Bond Portfolio the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer. Covered Bondholders will not have any preferential right to the Issuer's assets other than those entered into the cover register as collateral in respect of the Covered Bonds. Given the *pari passu* ranking of the Covered Bonds and Derivative Instruments under the ECBA, in the event of the Issuer's liquidation or bankruptcy, the amount available to be paid to Covered Bondholders out of the Cover Pool on a prioritised basis may be affected by the amounts payable at the relevant time to counterparties of Derivative Instruments.

The funds accrued from the assets entered in the Cover Pool of the Covered Bonds after the separation of the Covered Bond Portfolio are repaid in accordance with the terms and conditions of the Covered Bonds and Derivative Instruments and in accordance with provisions of the ECBA.

### **Transfer of the Covered Bonds and the Cover Pool after the separation of the Covered Bond Portfolio**

In case the Covered Bond Portfolio (consisting of the Covered Bonds, the Cover Pool and the Derivative Instruments entered into the Register) is separated from the Issuer, the Cover Pool administrator may, upon the permission of the EFSA, transfer the separated Covered Bond Portfolio in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds or to a credit institution of a Contracting State of the European Economic Area Agreement which is permitted to issue, in the country where it is established, covered bonds meeting the conditions provided for in Directive (EU) 2019/2162 of the European Parliament and of the Council (the "**Covered Bond Directive**"). Upon such transfer, all rights and obligations related to the Covered Bond Portfolio being transferred, including the liabilities arising from the Covered Bond Portfolio before the transfer of the rights and obligations, shall be transferred to the acquirer. The proceeds received from transfer of the Covered Bond Portfolio in its entirety shall be used to cover the expenses of management of the Covered Bond Portfolio. The funds remaining after all expenses are covered shall be included by the Cover Pool administrator in the Issuer's bankruptcy estate or other assets. It should be noted, however, that there can be no assurance as to whether there will be a trading market for the collateral in the Cover Pool or an eligible transferee to take over the obligations relating to the Covered Bonds and the corresponding collateral after the insolvency of the Issuer or separation of the Covered Bond Portfolio.

Upon any such transfer, whether the Covered Bondholders receive all payments to which they are entitled under the Covered Bonds, and the value of the Covered Bonds may be affected by the financial standing of the transferee of the Covered Bond Portfolio.

## **Failure of the Cover Pool to meet the requirements of the ECBA**

The Issuer will be required under the ECBA to comply with certain requirements of the ECBA as long as there is any Covered Bond outstanding. Under the ECBA, if the Cover Pool does not fulfil the requirements provided for in the ECBA, then the EFSA may (depending on the circumstances and the EFSA's discretion): (i) issue a precept requiring the Issuer to add additional Eligible Assets to the Cover Pool; (ii) determine the separation of the Covered Bond Portfolio from the Issuer; (iii) submit a bankruptcy petition with respect to the Covered Bond Portfolio; and/or (iv) revoke the Issuer's additional authorisation for the issuing of Covered Bonds.

While there have been several covered bond issuances by the Issuer and also another Estonian credit institution under the ECBA, it must be noted that the Estonian covered bond law is relatively new and it may take some time for practice in regard to the ECBA (including the amendments made thereto in November 2021) and consistent interpretation of the requirements thereunder to emerge. Meanwhile, as at the date of this Base Prospectus, there have been no investigations or proceedings towards the Issuer (nor any publicly disclosed investigations or proceedings towards any other Estonian issuer) for any breaches of or any non-compliance with the ECBA.

To be able to fulfil the requirements of the ECBA continuously, the Issuer has developed a new IT system for the management and monitoring of the Covered Bond Portfolio and related aspects (e.g. the fulfilment of the insurance requirements prescribed under the ECBA (please see "*Eligible cover pool assets*" under "*Overview of Estonian Regulation Regarding Covered Bonds*" below)). A third party has been involved in developing the IT system alongside the Issuer's technical team. The system specification has been written by the Issuer based on its interpretation of the requirements of the ECBA as at the date of this Base Prospectus. The system has been extensively tested by the Issuer. However, since the IT system is newly developed based on the current interpretation of the requirements of the ECBA, there is the risk that the system is not fully suitable for the Issuer or that technical issues with the system may occur. The materialisation of such risks could potentially affect the ability of the Issuer to fulfil the requirements of the ECBA.

Any of the above risks could result in the holders of Covered Bonds receiving payment according to a schedule that is different than that contemplated by the terms of the Covered Bonds (with accelerations as well as delays) or that the holders of Covered Bonds are not paid in full, in part, due to the statutory limit to the priority of holders of Covered Bonds.

## **Ability of Supervisor to declare Covered Bonds due and payable**

If the Covered Bond Portfolio is separated from the Issuer and the Cover Pool administrator is appointed for the Cover Pool and the Covered Bond Portfolio appears to be insolvent, the Cover Pool administrator is, under the ECBA, obliged to notify the EFSA promptly thereof. On the basis of such notification or in case the EFSA itself finds that the Covered Bond Portfolio is insolvent, the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. Under the Estonian Bankruptcy Act (which applies to the bankruptcy proceedings of the Covered Bond Portfolio, with certain exceptions provided in the ECBA), as of the declaration of bankruptcy with respect to the Covered Bond Portfolio, all the claims of the creditors against the debtor are deemed to have fallen due unless otherwise provided by law. Covered Bondholders should be aware therefore that their Covered Bonds may be declared forthwith due and payable prior to their Maturity Date.

## **Collection of Mortgage Loans and Default by Debtors**

The Mortgage Loans which secure the Covered Bonds will comprise loans secured on property located or incorporated in Estonia ("**Property**"). The Issuer will be under an obligation to substitute any assets that are, for any reason, no longer eligible for collateral with eligible assets in accordance with the ECBA. If the Issuer does not have sufficient assets to be added to the Cover Pool, the Issuer would breach its statutory obligations as stipulated by the ECBA. This could lead to the separation of the Covered Bond Portfolio and possibly to bankruptcy proceedings in respect of the Covered Bond Portfolio. Under the ECBA, following the separation of the Covered Bond Portfolio from the Issuer's assets, the Issuer is no longer entitled to enter into any transactions in respect of assets in the Covered Bond Portfolio, which would, among other things, restrict the ability of the Issuer to top up the Cover Pool.

A debtor may default on its obligations under its Mortgage Loan. Defaults may occur for a variety of reasons. Defaults under Mortgage Loans are subject to credit, liquidity and interest rate risks and rental yield reduction (in the case of investment Properties). Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. In addition, other factors in debtors' individual, personal or financial circumstances may affect the ability of the debtors to repay the Mortgage Loans. Loss of earnings, illness, divorce, weakening of financial conditions or results of business operations and other similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of debtors to repay the Mortgage Loans. In addition, an individual's obligation to repay a Mortgage Loan may in certain circumstances be discharged in part in his/her personal bankruptcy proceedings if the value of the collateral does not cover the entire loan and the borrower does not have sufficient other assets and earnings to discharge in the relevant procedure, or as a result of discharge of the borrower from obligations under proceedings for release from obligations. In addition, the ability to sell a Property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that Property, the value of that Property and property values in general at the time. Any of the above circumstances may affect the level of proceeds available to satisfy the claims of Covered Bondholders from the Cover Pool.

### **Value of Security over Property**

The security for a Mortgage Loan included in the Cover Pool consists of, amongst other things, the Issuer's interest in security over a Property. The value of such security and, accordingly, the level of recoveries on an enforcement of such security, may be affected by, among other things, a decline in the value of Property and the priority of such security. No assurance can be given that the values of relevant Properties will not decline or have not declined since the Mortgage Loan was originated. Although Estonian laws, in conjunction with the Estonian mortgage agreements, allow the mortgagee to commence enforcement of the mortgage without having to obtain a court ruling for such purpose, it is still possible that depending on the circumstances, the enforcement of the security may require obtaining a court decision or may be affected by court proceedings initiated by the debtor or the pledgor to delay or restrict the enforcement of the security. The ability of the Issuer to enforce a security interest, including disposal of a Property will depend on, *inter alia*: (i) the potential need to obtain a court ruling for the enforcement process and the specifics of the relevant court proceedings; (ii) the housing market or commercial property market conditions at the relevant time; (iii) the availability of buyers for the relevant Property; and (iv) the results of the specific enforcement process.

### **Concentration of Location of Properties**

All Mortgage Loans contained in the Cover Pool will be secured on Property. The value of the Cover Pool may decline sharply and rapidly in the event of a general downturn in the value of properties in Estonia. Any such downturn may hence have an adverse effect on the Issuer's ability to satisfy its obligations under the Covered Bonds and/or the price or value of the Covered Bonds.

### **Proceeds available to satisfy the claims of Covered Bondholders from the Cover Pool may be reduced by the payment of mandatory costs, expenses and preferred claims from the proceeds of the Cover Pool**

In accordance with the ECBA, after the separation of the Covered Bond portfolio, the Cover Pool and the proceeds received from it can be used only to satisfy the claims of the holders of the respective type of Covered Bonds and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond portfolio. The expenses related to the management of the Covered Bond Portfolio would likely mainly consist of the remuneration of the Cover Pool administrator and the expenses he or she incurs in the performance of his or her duties. The remuneration of the Cover Pool administrator shall be decided by a court, on the proposal of the EFSA, which corresponds to the qualification of the Cover Pool administrator and the scope and complexity of his or her assignments. Pursuant to the ECBA in effect as at the date of this Base Prospectus, the yearly remuneration of the Cover Pool administrator may not exceed 0.5 per cent. of the value of the cover assets included in the Cover Pool. There is no fixed limit on the reimbursement of the Cover Pool administrator's expenses but the ECBA

provides that the Cover Pool administrator is only entitled to demand reimbursement of necessary expenses, on the basis of an application to the EFSA. The EFSA is obliged to verify whether the expenses incurred in the performance of the Cover Pool administrator's duties were justified and approve the amount of the necessary and justified expenses.

In the event that the Covered Bond Portfolio is declared bankrupt, the use and distribution of proceeds received from the Covered Bond Portfolio shall be carried out in accordance with the Estonian Bankruptcy Act, among others, with the following specification provided in the ECBA:

- only the Covered Bondholders, the counterparties to the Derivative Instruments who have a claim under section 48 of the Bankruptcy Act, and other persons whose claims may be satisfied at the expense of the Cover Pool or proceeds received from it according to law, can be creditors in bankruptcy proceedings concerning the Covered Bond Portfolio; and
- claims arising from Derivative Instruments and Covered Bonds shall have the same ranking and shall be satisfied before the claims of other creditors.

In accordance with the above, the following payments may be made from the proceeds of the Covered Bond Portfolio prior to the satisfaction of the claims arising from Derivative Instruments and Covered Bonds:

- claims arising from the consequences of exclusion or recovery of assets;
- maintenance support paid to the debtor and his or her dependants (which would not be relevant in case of a legal entity);
- in bankruptcy proceedings regarding the estate, the expenses paid for the bequeather's funeral, maintenance of his/her family members, administration of the estate and conducting the inventory of the obligations related to the estate (which would not be relevant in case of a legal entity);
- consolidated obligations; and
- the costs of the bankruptcy proceedings.

Consolidated obligations are: (i) obligations arising from transactions and other acts performed by a trustee in the performance of his or her duties in the bankruptcy proceedings; (ii) expenses of administration of the bankruptcy estate by the trustee during the bankruptcy proceedings regarding the estate; (iii) obligations arising from contracts which the debtor has failed to perform, if the trustee has continued performance of the obligations or given notification that he or she intends to require performance of the contract; (iv) taxes relating to continuation of the business activities of the debtor; (v) obligations to compensate for the damage caused during the bankruptcy proceedings by an unlawful action of a debtor who is a legal person; and/or (vi) other obligations deemed to be consolidated obligations pursuant to the Estonian Bankruptcy Act.

In the event that any of the above described costs or expenses arise, such costs and expenses would be satisfied before the claims of the Covered Bondholders and the counterparties to the Derivative Instruments, meaning that that proceeds receivable by the Covered Bondholders and the counterparties to the Derivative Instruments on the account of the Cover Pool may be reduced.

### **Estonian Covered Bond Legislation is Untested and May be Modified**

The ECBA was adopted on 13 February 2019 and came into effect on 1 March 2019. In 2021, various amendments, including amendments resulting from the implementation of the Covered Bond Directive came into effect.

The protection afforded to the holders of the Covered Bonds by means of a preference on the Cover Pool is based only on the ECBA. As at the date of this Base Prospectus, there is no practical experience in relation to the operation of the ECBA and its interpretation by Estonian courts. Furthermore, the provisions of the ECBA may be modified from time to time after the Issue Date of the Covered Bonds.

### **No Events of Default**



The terms and conditions of the Covered Bonds do not include any events of default relating to the Issuer, and therefore the terms and conditions of the Covered Bonds do not entitle Covered Bondholders to accelerate the Covered Bonds. As such, it is envisaged that Covered Bondholders will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the terms and conditions of the Covered Bonds. As an exception to the above, under the ECBA, the claims arising from the Covered Bonds would become due and payable upon the declaration of the bankruptcy of the separated Covered Bond Portfolio - in such case, the Covered Bonds would become due and payable automatically, without entitling the Covered Bondholders to decide whether or not to accelerate the Covered Bonds. The absence of any events of default from the Terms and Conditions may make it less likely that the Covered Bondholders will recoup their investment in full in the event that the Issuer experiences financial distress.

### **Limited Description of the Cover Pool**

Covered Bondholders will not receive detailed statistics or information in relation to the Mortgage Loans and other Eligible Assets covering the Covered Bonds as it is expected that the composition of the portfolio of such Mortgage Loans and other Eligible Assets may change from time to time due to, for example, the inclusion and removal of Mortgage Loans to the Cover Pool from time to time. The Issuer does, however, have an obligation under the ECBA to publish certain prescribed information set out in the ECBA every quarter on its website relating to, inter alia, (i) the nominal value of outstanding covered bonds and of the cover pool; (ii) a list of all covered bonds under that covered bond programme with the International Securities Identification Numbers (ISINs), if any; (iii) the maturity structure of the covered bonds and the cover pool; (iii) the percentage of fixed-interest assets in the cover pool and the percentage of fixed-interest covered bonds in the liabilities of the covered bond portfolio; (iv) the geographical distribution of the value of cover assets, at least to the accuracy of country, based on the location of the property standing as security for a mortgage credit or commercial mortgage credit, and the location of the debtor or issuer in the case of other cover assets; (v) the type of property included in the cover pool, the total size and valuation method of the loans included in the cover pool; (vi) the distribution of substitute collateral, in terms of its value, between the types specified in subsection 20 (1) of the ECBA; (vii) the level of the liquidity buffer and information about the ratio between the total liquidity buffer and the payment obligations of the next 180 days; (viii) the percentage of the amount of substitute collateral, which has been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool; (ix) details in relation to market risk, including interest rate risk and currency risk, and credit and liquidity risks; (x) a list of the conditions suspending the maturity of a payment obligation; (xi) the amount of the main collateral, mandatory overcollateral and voluntary overcollateral; (xii) information about counterparties of derivative contracts; and (xiii) the methodology for calculating the ratio between credit and the value of the property standing as security for the credit. Furthermore, for mortgage covered bonds (such as the Covered Bonds), the ECBA requires information regarding the percentage of the amount of mortgage credits, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool to be published on quarterly basis on the website of the issuer.

As the composition of the Cover Pool may change from time to time, there are no assurances that the credit quality of the assets in the Cover Pool will remain the same as at the date of this Base Prospectus or on or after the issue date of any Covered Bonds.

### **Reliance on Derivative Transaction Providers**

The Issuer may from time to time enter into one or more derivative instruments ("**Derivative Instruments**") included in the Cover Pool to hedge against risks relating to Covered Bonds and recorded, in accordance with the ECBA, in the cover register maintained by the Issuer.

To provide a hedge against possible variances in the rates of interest receivable on the Mortgage Loans and other Eligible Assets from time to time included in the Cover Pool as cover assets for the Covered Bonds (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or interest rate caps or collars) and the interest rate(s) under the Covered Bonds, the Issuer may from time to time enter into one or more interest rate derivative transactions, and to provide a hedge against possible variances in the currency in which payments will be made to the Issuer in respect of the Mortgage Loans and other assets from time to time held by the Issuer as collateral for the Covered Bonds and the currencies in which the Issuer will be required to make payments in respect of the Covered Bonds, the Issuer may from time to time enter into currency swap transactions. If the Issuer enters into a relevant derivative transaction at the time of an issuance of Covered Bonds, the Issuer shall disclose in the Final Terms the

nature of the hedge (for example, an interest rate swap transaction or a currency swap transaction) and the identity of the derivative transaction counterparty.

If the Issuer does not enter into any relevant derivative transaction or any derivative transaction counterparty defaults on its obligations to make payments in the relevant currency and/or at the relevant rate of interest under the relevant derivative transaction, the Issuer and the Covered Bond Portfolio will be exposed to changes in the relevant rates of interest and/or the relevant currency exchange rates. Unless one or more new or replacement Derivative Instruments are entered into, the Issuer may not have sufficient funds to make payments under all Covered Bonds then outstanding and the Covered Bond Portfolio may not be sufficient to satisfy all the claims of the Covered Bondholders.

**The value of the Covered Bonds may be adversely affected by a negative change to an applicable Credit Rating**

Any adverse change in an applicable credit rating could adversely affect the trading price for the Covered Bonds.

**Risks relating to the ratings of the Covered Bonds**

The ratings assigned to the Covered Bonds to be issued under the Programme by one or more independent credit rating agencies express a relative ranking of creditworthiness.

The expected ratings of the Covered Bonds will be set out in the relevant Final Terms for each Tranche of Covered Bonds. A rating agency may lower its rating or withdraw its rating if, in the sole judgment of such rating agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.

In general, European regulated investors are restricted from using a rating for regulatory purposes in the if such rating is not issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the EU CRA Regulation. Similarly, in general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the UK and registered under the UK CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) the rating is provided by a credit rating agency not established in the UK which is certified under the UK CRA Regulation. The list of registered and certified rating agencies published by ESMA or the FCA on their respective websites in accordance with the EU CRA Regulation or the UK CRA Regulation (as the case may be) is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA or FCA list.

Covered Bondholders should note that at any time a rating agency may revise its relevant rating methodology or revise its current ratings criteria with result that, among other things, any rating assigned to the Covered Bonds may be lowered and/or in order to comply with any such revised criteria or rating methodology, amendments may be made to the transaction documents.

Any changes to the methodology applied for rating covered bonds or the expectations a rating agency with regards to the nature of counterparty contracts and ratings of Cover Pool counterparties might lead to a downgrade of the Covered Bonds or re-affirmation of the Covered Bond rating and might require that certain amendments are made to the transaction documents to be able to satisfy the revised criteria.

For the avoidance of doubt, the Issuer will not be obliged, following a change in rating methodology by a rating agency to amend any of the Conditions of a relevant Series to maintain the then ratings of the Covered Bonds.

### **The Issuer may make modifications to the Conditions without the Covered Bondholders' prior consent**

The Conditions and the Agency Agreement contain provisions for calling meetings of Covered Bondholders to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the written resolution or give their consent electronically, and including those Covered Bondholders who voted in a manner contrary to the majority.

Furthermore, the Conditions of the Covered Bonds provide that the Covered Bonds, the Conditions of the Covered Bonds and the Deed of Covenant may be amended without the consent of the Covered Bondholders or the Couponholders to correct a manifest error or to comply with any amendments, updates and/or modifications to the ECBA or any other applicable legislation passed after the date hereof by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and/or modification, which impacts the Issuer's obligations in relation to the Covered Bonds or the Covered Bond Portfolio. The Issuer cannot foresee, as at the date of this Base Prospectus, what such changes may entail, however, any changes made will be binding on Covered Bondholders.

The Issuer may also agree with the Fiscal Agent and without the consent or sanction of any of the holders of any Series of Covered Bonds and/or the Couponholders to:

- (a) any modification (except for any modification that relates to a Reserved Matter) of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, not prejudicial to the interests of the Covered Bondholders; or
- (b) any modification of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with Mandatory Provisions of Law.

The parties to the Agency Agreement are also required to, without the consent or sanction of any of the holders of any Series of Covered Bonds and/or the Couponholders, concur with the Issuer in making any modifications to the transaction documents and/or the Conditions that are requested by the Issuer to comply with any criteria of the rating agencies which may be published after the date of this Base Prospectus and which the Issuer certifies in writing are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a rating agency to any Series of Covered Bonds.

In addition, the parties to the Agency Agreement are required to, and Issuer may also agree to EMIR Related Modifications (as defined below), without the consent of the holders of Covered Bonds or couponholders of any Series subject to the Issuer certifying that the requested modifications of the terms and conditions applying to Covered Bonds of any one or more Series (including the Conditions), and/or Coupons and/or any relevant Conditions are to be made solely for the purpose of enabling the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the "**European Market Infrastructure Regulation**" or "**EMIR**") ("**EMIR Related Modifications**") and such EMIR Related Modifications do not relate to a Reserved Matter.

The Issuer may also amend, by a notice to, but without requiring the consent of, the Covered Bondholders, the circumstances in which automatic extension of the maturity date of the Covered Bonds can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time) See "*Extended Maturity of the Covered Bonds*" below for more details.

### **Extended Maturity of the Covered Bonds**

If "Extended Maturity Date" is specified as applicable in the relevant Final Terms and a bankruptcy, compulsory dissolution or another event (as more fully described in Condition 9(i)(i)(B)) has occurred in respect of the Issuer and, as a result of such an event the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, the maturity of the outstanding principal amount of such Covered Bonds on the Maturity Date will be automatically extended to the Extended Maturity Date in accordance with Condition 9(i) (*Redemption and Purchase* –

*Extension of maturity to Extended Maturity Date*) and notification of such shall be delivered to the relevant Covered Bondholders and to the Paying Agents. In the event of such extension, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. In addition, all or any part of the outstanding principal amount of such Covered Bonds may be redeemed on any extended Interest Payment Date, occurring during the period up to and including the Extended Maturity Date. The extension of the maturity of the outstanding principal amount of the Covered Bonds to the Extended Maturity Date will not result in any right of the Covered Bondholders to accelerate payments on such Covered Bonds and no payment will be payable to the Covered Bondholders in that event other than as set out in the Conditions.

If repayment of a particular Series of Covered Bonds is extended to its Extended Maturity Date, then it is possible that other Series of Covered Bonds where Extended Maturity Date is specified as being not applicable might be fully or partially paid before such Series of Covered Bonds that have an Extended Maturity Date.

Furthermore, pursuant to Condition 9(i)(i), the Issuer may amend, by a notice to the Covered Bondholders, the circumstances in which such automatic extension can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time). By virtue of this Condition the Issuer is entitled to unilaterally specify other circumstances that are not known at the date of this Base Prospectus in which the maturity of the outstanding principal amount of the Covered Bonds will be automatically extended to the Extended Maturity Date in accordance with Condition 9(i) (*Redemption and Purchase – Extension of maturity to Extended Maturity Date*), provided that the addition of such other circumstances are permitted by the ECBA as then in force.

Under Estonian law, after the separation of the Covered Bond Portfolio from the Issuer's assets which may arise due to a declaration of bankruptcy or a moratorium in respect of the Issuer; the passing of a court ruling providing for compulsory dissolution of the Issuer or other circumstances described in the section "*Overview of Estonian Regulation Regarding Covered Bonds – Separation of the covered bond portfolio*", the Issuer will then not be permitted to make any transactions with the assets in the Covered Bond Portfolio. As such, unlike the period prior to occurrence of such events (see further – *Risk Factors - Risks associated with the legal and regulatory environment - Limited Description of the Cover Pool*) the Covered Bond Portfolio will not be dynamic and, as such, no enhancement of the credit quality of the assets in the Cover Pool can be expected.

## INFORMATION INCORPORATED BY REFERENCE

The documents set out below that are incorporated by reference in this Base Prospectus are, where indicated, direct translations into English from the original languages of the documents. To the extent that there are any inconsistencies between the original language versions and the translations, the original language versions shall prevail. The information set out shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. **AS LHV Pank 2021:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of AS LHV Pank in respect of the year ended 2021 prepared in accordance with IFRS) (set out on pages 36 to 127 of the 2021 annual report of AS LHV Pank);
2. **AS LHV Group 2021:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the LHV Group in respect of the year ended 2021 prepared in accordance with IFRS (set out on pages 74 to 170 of the 2021 annual report of AS LHV Group);
3. **AS LHV Pank 2022:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of AS LHV Pank in respect of the year ended 2022 prepared in accordance with IFRS) (set out on pages 28 to 119 of the 2022 annual report of AS LHV Pank);
4. **AS LHV Group 2022:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the LHV Group in respect of the year ended 2022 prepared in accordance with IFRS (set out on pages 74 to 162 of the 2022 annual report of AS LHV Group);
5. **AS LHV Pank Q1 2023:** the condensed consolidated interim financial statements of AS LHV Pank and related notes as of and for the three months ended 31 March 2023 (set out on pages 8 to 20 of the interim report January – March 2023 of AS LHV Pank);
6. **AS LHV Group Q1 2023:** the condensed consolidated interim financial statements of the LHV Group and related notes as of and for the three months ended 31 March 2023 (set out on pages 17 to 36 of the interim report January – March 2023 of AS LHV Group; and
7. The terms and conditions set out in pages 45 to 73 of the base prospectus dated 19 May 2020.

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at Tartu mnt 2, 10145 Tallinn, Estonia.

They are also available on the LHV Group's website: <https://investor.lhv.ee/en/>

Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus. Unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus. References in the auditor's reports to "other information" are references to other information in the respective annual reports. Such other information is not incorporated by reference in this Base Prospectus.

## FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "**necessary information**" means, in relation to any Tranche of Covered Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Covered Bonds and the reasons for the issuance and its impact on the Issuer. In relation to the different types of Covered Bonds which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Covered Bonds which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Covered Bonds.

Any information relating to the Covered Bonds which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Covered Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Covered Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of Final Terms are the Conditions described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Covered Bonds or (2) by a registration document (the "**Registration Document**") containing the necessary information relating to the Issuer, a securities note containing the necessary information relating to the relevant Covered Bonds and, if necessary, a summary note.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds.

## FORMS OF THE COVERED BONDS

### **Bearer Covered Bonds**

Each Tranche of Covered Bonds in bearer form ("**Bearer Covered Bonds**") will initially be in the form of either a Temporary Global Covered Bond in bearer form (the "**Temporary Global Covered Bond**"), without interest coupons, or a Permanent Global Covered Bond in bearer form (the "**Permanent Global Covered Bond**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Covered Bond or, as the case may be, Permanent Global Covered Bond (each a "**Global Covered Bond**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Covered Bonds with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, S.A., Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Covered Bond which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Covered Bonds with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the ECB announced that Covered Bonds in NGN form are in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Covered Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Covered Bonds, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Covered Bonds or, if the Covered Bonds do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### ***Temporary Global Covered Bond exchangeable for Permanent Global Covered Bond***

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond**", then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Covered Bond, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Covered Bond unless exchange for interests in the Permanent Global Covered Bond is improperly withheld or refused. In addition, interest payments in respect of the Covered Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Covered Bond is to be exchanged for an interest in a Permanent Global Covered Bond, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Covered Bond to the bearer of the Temporary Global Covered Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Covered Bond in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Covered Bond to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Covered Bonds represented by the Permanent Global Covered Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Covered Bonds represented by the Permanent Global Covered Bond exceed the initial principal amount of Covered Bonds represented by the Temporary Global Covered Bond.

If:

- (a) the Permanent Global Covered Bond has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Covered Bond has requested exchange of an interest in the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond; or
- (b) the Temporary Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Temporary Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Covered Bond in accordance with the terms of the Temporary Global Covered Bond on the due date for payment,

then the Temporary Global Covered Bond (including the obligation to deliver a Permanent Global Covered Bond) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Covered Bond or others may have under the Deed of Covenant).

The Permanent Global Covered Bond will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Covered Bond, for Bearer Covered Bonds in definitive form ("**Definitive Covered Bonds**"):

- (a) on the expiry of such period of notice as may be specified in the Final Terms; or
- (b) at any time, if so specified in the Final Terms; or
- (c) if the Final Terms specifies "**in the limited circumstances described in the Permanent Global Covered Bond**", then if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Permanent Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Covered Bonds represented by the Permanent Global Covered Bond to the bearer of the Permanent Global Covered Bond against the surrender of the Permanent Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Covered Bond for Definitive Covered Bonds; or
- (b) the Permanent Global Covered Bond was originally issued in exchange for part only of a Temporary Global Covered Bond representing the Covered Bonds and such Temporary Global Covered Bond becomes void in accordance with its terms; or
- (c) the Permanent Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Permanent Global Covered Bond has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Covered Bond on the due date for payment,

then the Permanent Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Covered Bond becomes void (in the case of



(b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Covered Bond or others may have under the Deed of Covenant).

***Temporary Global Covered Bond exchangeable for Definitive Covered Bonds***

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for Definitive Covered Bonds**" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole but not in part, for Definitive Covered Bonds not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for Definitive Covered Bonds**" and also specifies that the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole or in part, for Definitive Covered Bonds not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Covered Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Covered Bond to the bearer of the Temporary Global Covered Bond against the surrender of the Temporary Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Covered Bond for Definitive Covered Bonds; or
- (b) the Temporary Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Temporary Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Covered Bond on the due date for payment,

then the Temporary Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Covered Bond or others may have under the Deed of Covenant).

***Permanent Global Covered Bond exchangeable for Definitive Covered Bonds***

If the relevant Final Terms specifies the form of Covered Bonds as being "**Permanent Global Covered Bond exchangeable for Definitive Covered Bonds**", then the Covered Bonds will initially be in the form of a Permanent Global Covered Bond which will be exchangeable in whole, but not in part, for Definitive Covered Bonds:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "**in the limited circumstances described in the Permanent Global Covered Bond**", then if Euroclear or Clearstream, Luxembourg or any other relevant

clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Permanent Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Covered Bonds represented by the Permanent Global Covered Bond to the bearer of the Permanent Global Covered Bond against the surrender of the Permanent Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Covered Bond for Definitive Covered Bonds; or
- (b) the Permanent Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Permanent Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Covered Bond on the due date for payment,

then the Permanent Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Covered Bond or others may have under the Deed of Covenant).

#### ***Rights under Deed of Covenant***

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Covered Bond or a Permanent Global Covered Bond which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Covered Bond or Permanent Global Covered Bond became void, they had been the holders of Definitive Covered Bonds in an aggregate principal amount equal to the principal amount of Covered Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

#### ***Terms and Conditions applicable to the Covered Bonds***

The terms and conditions applicable to any Definitive Covered Bond will be endorsed on that Covered Bond and will consist of the terms and conditions set out under "***Terms and Conditions of the Covered Bonds***" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Covered Bond in global form will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "***Summary of Provisions Relating to the Covered Bonds while in Global Form***" below.

#### ***Legend concerning United States persons***

In the case of any Tranche of Bearer Covered Bonds having a maturity of more than 365 days, the Covered Bonds in global form, the Covered Bonds in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

***"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."***

## Registered Covered Bonds

Each Tranche of Registered Covered Bonds will be in the form of either individual Covered Bond Certificates in registered form ("**Individual Covered Bond Certificates**") or a Global Covered Bond in registered form (a "**Global Registered Covered Bond**"), in each case as specified in the relevant Final Terms.

Each Global Registered Covered Bond will either be: (a) in the case of a Covered Bond which is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common depository and will be exchangeable in accordance with its terms; or (b) in the case of a Covered Bond to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Covered Bond Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Individual Covered Bond Certificates**", then the Covered Bonds will at all times be in the form of Individual Covered Bond Certificates issued to each Covered Bondholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Global Registered Covered Bond exchangeable for Individual Covered Bond Certificates**", then the Covered Bonds will initially be in the form of a Global Registered Covered Bond which will be exchangeable in whole, but not in part, for Individual Covered Bond Certificates:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "**in the limited circumstances described in the Global Registered Covered Bond** ", then if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Registered Covered Bond is to be exchanged for Individual Covered Bond Certificates, the Issuer shall procure that Individual Covered Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Covered Bond within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Covered Bond to the Registrar of such information as is required to complete and deliver such Individual Covered Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Covered Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Covered Bond at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Covered Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Covered Bond Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Covered Bond; or
- (b) any of the Covered Bonds represented by a Global Registered Covered Bond (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Covered Bonds has occurred (taking into consideration any

applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Covered Bond in accordance with the terms of the Global Registered Covered Bond on the due date for payment,

then the Global Registered Covered Bond (including the obligation to deliver Individual Covered Bond Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Registered Covered Bond will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Covered Bond or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Covered Bond will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Covered Bond became void, they had been the holders of Individual Covered Bond Certificates in an aggregate principal amount equal to the principal amount of Covered Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

***Terms and Conditions applicable to the Covered Bonds***

The terms and conditions applicable to any Individual Covered Bond Certificate will be endorsed on that Individual Covered Bond Certificate and will consist of the terms and conditions set out under "**Terms and Conditions of the Covered Bonds**" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Covered Bond will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "**Summary of Provisions Relating to the Covered Bonds while in Global Form**" below.

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on or incorporated by reference in each Global Covered Bond or Covered Bond in definitive form issued under the Programme. The terms and conditions applicable to any Covered Bond in global form will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "Summary of Provisions Relating to the Covered Bonds while in Global Form" above.*

### 1. Introduction

- (a) **Programme:** AS LHV Pank (the "**Issuer**") has established a Covered Bond Programme (the "**Programme**") for the issuance of up to EUR1,000,000,000 in aggregate principal amount of covered bonds (the "**Covered Bonds**").
- (b) **Final Terms:** Covered Bonds issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Covered Bonds. Each Tranche is the subject of a final terms (the "**Final Terms**") which completes these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Covered Bonds are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) **Agency Agreement:** The Covered Bonds are the subject of an issue and paying agency agreement dated 26 June 2023 (the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Covered Bonds), Citibank Europe Plc as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Covered Bonds), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Covered Bonds) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Covered Bonds). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.
- (d) **Deed of Covenant:** The Covered Bonds may be issued in bearer form ("**Bearer Covered Bonds**"), or in registered form ("**Registered Covered Bonds**"). Registered Covered Bonds are constituted by a deed of covenant dated 19 May 2020 (the "**Deed of Covenant**") entered into by the Issuer.
- (e) **The Covered Bonds:** All subsequent references in these Conditions to "**Covered Bonds**" are to the Covered Bonds which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing and copies may be obtained from AS LHV Pank, at Tartu mnt 2, 10145 Tallinn, Estonia.
- (f) **Summaries:** Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Covered Bondholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are (i) available for inspection or collection by Covered Bondholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below or (ii) may be provided by email to a Covered Bondholder following their prior written request to any Agent or the Issuer and provision of proof of holding and identity (in a form satisfactory to the relevant Agent or the Issuer, as the case may be. If the Covered Bonds are to be admitted to trading on the regulated market of Euronext Dublin, the applicable Final terms will be published on the website of Euronext Dublin (<https://live.euronext.com/>)).

## 2. Interpretation

- (a) **Definitions:** In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**"Calculation Agent"** means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

**"Calculation Amount"** has the meaning given in the relevant Final Terms;

**"CIBOR"** means, in respect of Danish Kroner and for any specified period, the interest rate benchmark known as the Copenhagen interbank offered rate which is calculated and published by a designated distributor (currently NASDAQ Copenhagen) in accordance with the requirements from time to time of the Danish Financial Benchmark Facility ApS based on estimated interbank borrowing rates for Danish Kroner for a number of designated maturities which are provided by a panel of contributor banks (details of historic CIBOR rates can be obtained from the designated distributor);

**"Covered Bondholder"**, in the case of Bearer Covered Bonds, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Covered Bonds*) and, in the case of Registered Covered Bonds, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Covered Bonds*);

**"Coupon Sheet"** means, in respect of a Covered Bond, a coupon sheet relating to the Covered Bond;

**"Credit Institutions Act"** means the Estonian Credit Institutions Act;

**"CRR"** means Regulation 575/2013, as the same may be amended or replaced from time to time;

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if "Actual/Actual (ICMA) " is so specified, means:
  - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) if "Actual/Actual (ISDA) " is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) if "Actual/365 (Fixed) " is so specified, means the actual number of days in the Calculation Period divided by 365;

- (v) if "Actual/360" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) if "30/360" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30";

- (vii) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$



where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**ECBA**" has the meaning given to such term in Condition 4 (*Status of the Covered Bonds*)

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration of that rate);

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Interest Amount**" means, in relation to a Covered Bond and an Interest Period, the amount of interest payable in respect of that Covered Bond for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**"Interest Period"** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**"Issue Date"** has the meaning given in the relevant Final Terms;

**"Mandatory Provisions of Law"** means any amendments, updates and/or modifications to the ECBA or any other applicable legislation passed after the date hereof by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and/or modification, which impacts the Issuer's obligations in relation to the Covered Bonds or the Covered Bond Portfolio;

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Minimum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Mortgage Loan"** means a loan or a credit issued to a natural person and secured by a mortgage or mortgages over residential property, in the meaning of Article 4 (1) (75) of the CRR, located in the territory of a Contracting State of the EEA Agreement which comply with the conditions provided for in the ECBA;

**"NIBOR"** means, in respect of Norwegian Kroner and for any specified period, the interest rate benchmark known as the Norwegian interbank offered rate which is calculated and published by a designated distributor (currently Global Rate Set Systems) in accordance with the requirements from time to time of the Norwegian association for banks, insurance companies and financial institutions, Finance Norway – FNO based on estimated interbank borrowing rates for Norwegian Kroner for a number of designated maturities which are provided by a panel of contributor banks (details of historic NIBOR rates can be obtained from the designated distributor);

**"Optional Redemption Amount (Call) "** means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Optional Redemption Date (Call) "** has the meaning given in the relevant Final Terms;

**"Payment Business Day"** means:

- (a) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

- (b) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**"Rate of Interest"** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call) or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

**"Redemption Margin"** has the meaning given in the relevant Final Terms;

**"Reference Banks"** means four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the relevant Final Terms;

**"Reference Rate"** means CIBOR, EURIBOR, NIBOR or STIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms;

**"Register"** has the meaning given in the Agency Agreement;

**"Regular Period"** means:

- (a) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and

- (c) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Covered Bondholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Covered Bonds, to reduce the amount of principal or interest payable on any date in respect of the Covered Bonds, to alter the method of calculating the amount of any payment in respect of the Covered Bonds or the date for any such payment, to change the currency of any payment under the Covered Bonds or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**SRM Regulation**" means Regulation No. 806/2014, as the same may be amended or replaced from time to time;

"**STIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Stockholm interbank offered rate which is calculated and published by a designated distributor (currently the Swedish Financial Benchmark Facility) in accordance with the requirements from time to time of the Swedish Financial Benchmark Facility (or any other Person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic STIBOR rates can be obtained from the designated distributor);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**T2**" means the Trans-European Automated Real Time Gross Settlement Express Transfer System operated by the Eurosystem, or any successor or replacement for that system;

"**TARGET Settlement Day**" means any day on which T2 is open for the settlement of payments in euro; and

"**Zero Coupon Covered Bond**" means a Covered Bond specified as Zero Coupon in the relevant Final Terms.

(b) **Interpretation:** In these Conditions:

- (i) if the Covered Bonds are Zero Coupon Covered Bonds, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Covered Bond and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Covered Bonds being "**outstanding**" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Covered Bonds; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Covered Bonds.

3. **Form, Denomination, Title and Transfer**

- (a) **Bearer Covered Bonds:** Bearer Covered Bonds are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Covered Bonds with more than one Specified Denomination, Bearer Covered Bonds of one Specified Denomination will not be exchangeable for Bearer Covered Bonds of another Specified Denomination.
- (b) **Title to Bearer Covered Bonds:** Title to Bearer Covered Bonds and the Coupons will pass by delivery. In the case of Bearer Covered Bonds, "**Holder**" means the holder of such Bearer Covered Bond and "**Covered Bondholder**" and "**Couponholder**" shall be construed accordingly.
- (c) **Registered Covered Bonds:** Registered Covered Bonds are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

- (d) ***Title to Registered Covered Bonds:*** The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Covered Bond Certificate**") will be issued to each Holder of Registered Covered Bonds in respect of its registered holding. Each Covered Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Covered Bonds, "Holder" means the person in whose name such Registered Covered Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Covered Bondholder" shall be construed accordingly.
- (e) ***Ownership:*** The Holder of any Covered Bond or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Covered Bonds, on the Covered Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Covered Bond under the Contracts (Rights of Third Parties) Act 1999.
- (f) ***Transfers of Registered Covered Bonds:*** Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Covered Bond may be transferred upon surrender of the relevant Covered Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Covered Bond may not be transferred unless the principal amount of Registered Covered Bonds transferred and (where not all of the Registered Covered Bonds held by a Holder are being transferred) the principal amount of the balance of Registered Covered Bonds not transferred are Specified Denominations. Where not all the Registered Covered Bonds represented by the surrendered Covered Bond Certificate are the subject of the transfer, a new Covered Bond Certificate in respect of the balance of the Registered Covered Bonds will be issued to the transferor.
- (g) ***Registration and delivery of Covered Bond Certificates:*** Within five business days of the surrender of a Covered Bond Certificate in accordance with paragraph (f) (*Transfers of Registered Covered Bonds*) above, the Registrar will register the transfer in question and deliver a new Covered Bond Certificate of a like principal amount to the Registered Covered Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) ***No charge:*** The transfer of a Registered Covered Bond will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) ***Closed periods:*** Covered Bondholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Covered Bonds.
- (j) ***Regulations concerning transfers and registration:*** All transfers of Registered Covered Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Covered Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar.

A copy of the current regulations will be mailed (free of charge) by the Registrar to any Covered Bondholder who requests in writing a copy of such regulations.

4. **Status of the Covered Bonds**

Covered Bonds constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds are obligations issued in accordance with the Estonian Covered Bond Act, "ECBA" and rank *pari passu* among themselves and with Derivative Instruments entered in the cover register and included in the Cover Pool (as defined below) in accordance with the ECBA. The Covered Bonds will be covered by a cover pool which comprises the claims of the Issuer arising from Mortgage Loans and certain other types of assets which qualify as substitute cover assets under the ECBA (together the "**Eligible Assets**") and are registered in the cover register maintained by the Issuer in accordance with the ECBA (the "**Cover Pool**"). On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bonds, together with the Cover Pool (including the Derivative Instruments) (together, the "**Covered Bond Portfolio**") will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio.

Pursuant to the ECBA, the separation of the Covered Bond Portfolio will not affect the liability of the Issuer for the claims arising from the Covered Bonds. Furthermore, the payment obligations arising from the Covered Bonds are not subject to automatic acceleration upon the separation of the Covered Bond Portfolio, except as otherwise provided by mandatory provisions of the ECBA. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*The rights of Covered Bondholders shall be subject to any present or future Estonian laws or regulations relating to the insolvency, recovery and resolution of credit institutions and investment firms in Estonia which are or will be applicable to the Covered Bonds only as a result of the operation of such laws or regulations.*

For the purposes of this Condition 4:

"**Derivative Instruments**" means derivative instruments included in the Cover Pool to hedge against risks relating to Covered Bonds and recorded, in accordance with the ECBA, in the cover register maintained by the Issuer.

5. **Fixed Rate Covered Bond Provisions**

- (a) **Application:** This Condition 5 (*Fixed Rate Covered Bond Provisions*) is applicable to the Covered Bonds only if the Fixed Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Extended Maturity Date*) and Condition 10 (*Payments – Bearer Covered Bonds*). Each Covered Bond will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day have been paid and (ii) the day which is five days after the Fiscal Agent has notified the Covered Bondholders that it has received all sums due in respect of the Covered Bonds up to such fifth day (except to the extent that there is any subsequent default in payment).

- (c) **Fixed Coupon Amount:** The amount of interest payable in respect of each Covered Bond for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Covered Bonds are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Calculation of interest amount:** The amount of interest payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 6. Floating Rate Covered Bond Provisions

- (a) **Application:** This Condition 6 (*Floating Rate Covered Bond Provisions*) is applicable to the Covered Bonds only if the Floating Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable, save that Condition 8 (*Extended Maturity Date*) is always applicable where an Extended Maturity Date is specified in the relevant Final Terms (notwithstanding that Condition 5 (*Fixed Rate Covered Bonds*) may be applicable to the Covered Bonds in the period prior to the extension of the Maturity Date in accordance with Condition 9(i) (*Extension of Maturity to Extended Maturity Date*)).
- (b) **Accrual of interest:** The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Extended Maturity Date*) and Condition 10 (*Payments – Bearer Covered Bonds*).
- (c) **Screen Rate Determination:** The Rate of Interest applicable to the Covered Bonds for each Interest Period will be determined by the Calculation Agent on the following basis:
  - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
    - (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
    - (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate;
  - (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;



(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable:

(A) the Issuer or an agent appointed by it will request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time and the Issuer shall, or shall procure that such agent appointed by it shall, as applicable, notify the Calculation Agent of all quotations received by it; and

(B) the Calculation Agent will determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, such banks to be selected by the Issuer and such quotations to be obtained by the Issuer or an agent appointed by it and communicated by the Issuer (or, at the direction of the Issuer, such agent appointed by it) to the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Covered Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Covered Bonds in respect of a preceding Interest Period.

(d) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(e) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Covered Bond for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(f) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents and any stock exchange by which the Covered Bonds have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Covered Bondholders and

any other competent authority and/or quotation system (if any) by which the Covered Bonds have then been admitted to trading and/or quotation at such time. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination.

- (g) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Covered Bondholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (h) **Benchmark Replacement:** Notwithstanding the provisions above in this Condition 6, if the Issuer (in consultation, to the extent practicable, with the Calculation Agent) determines that a Benchmark Event has occurred when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to a Reference Rate (as applicable), then the following provisions shall apply:
  - (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser and shall, to the extent practicable, consult with such Independent Adviser to determine a Successor Rate or, alternatively, if the Issuer, (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) determines that there is no Successor Rate, an Alternative Reference Rate, and, in each case, an Adjustment Spread no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Covered Bonds for all future Interest Periods (subject to the subsequent operation of this Condition 6(h));
  - (ii) if the Issuer is unable to appoint an Independent Adviser prior to the Determination Cut-off Date in accordance with sub-paragraph (i) above, then the Issuer (acting in good faith and in a commercially reasonable manner, and, to the extent practicable, in consultation, with the Calculation Agent ) may determine a Successor Rate or, if the Issuer determines that there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest applicable to the Covered Bonds for all future Interest Periods (subject to the subsequent operation of this Condition 6(h)); *provided, however, that* if this sub-paragraph (ii) applies and the Issuer is unable or unwilling to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub-paragraph (ii), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of a preceding Interest Period (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period);
  - (iii) if a Successor Rate or an Alternative Reference Rate is determined in accordance with the preceding provisions, such Successor Rate or Alternative Reference Rate shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 6(h));

- (iv) If a Successor Rate or Alternative Rate is determined in accordance with Condition 6(h)(i) above, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner shall determine an Adjustment Spread which may be expressed as a specified quantum, or a formula or methodology for determining the applicable Adjustment Spread and which Adjustment Spread may be positive, negative or zero and shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of the Rate(s) of Interest (or the relevant component(s) thereof) by reference to such Successor Rate or Alternative Rate, as applicable;
- (v) if the Issuer determines a Successor Rate or an Alternative Reference Rate and, in each case, any Adjustment Spread in accordance with the above provisions, the Issuer (in consultation with the Independent Adviser) may also, following consultation, to the extent practicable, with the Calculation Agent, specify changes to the Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Interest Payment Date, Relevant Screen Page, and/or the definition of Reference Rate or the Adjustment Spread applicable to the Covered Bonds (and, in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Covered Bonds, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Covered Bonds for all future Interest Periods (as applicable) (subject to the subsequent operation of this Condition 6(h)). An Independent Adviser appointed pursuant to this Condition 6(h) shall (in the absence of bad faith, gross negligence and wilful misconduct) have no liability whatsoever to the Issuer, the Fiscal Agent, the Calculation Agent or Covered Bondholder for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 6(h). No Covered Bondholder consent shall be required in connection with effecting the Successor Rate or the Alternative Reference Rate (as applicable) and, in each case, the Adjustment Spread or such other changes, including for the execution of any documents, amendments or other steps by the Issuer or Fiscal Agent (if required); and
- (vi) the Issuer shall promptly following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread give notice thereof and of any changes pursuant to sub-paragraph (v) above to the Calculation Agent, the Fiscal Agent and the Covered Bondholders.

For the purposes of this Condition 6(h):

**"Adjustment Spread"** means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, in each case, to be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such formal recommendation has been made as described in clause (i) above, or in the case of an Alternative Reference Rate, the Issuer (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) determines is recognised or acknowledged as being in customary market usage in transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Rate or Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Issuer (acting in good faith and in a commercially reasonable manner) in its discretion determines to be appropriate;

**"Alternative Reference Rate"** means the reference rate (and related alternative screen page or source, if available) that the Issuer determines has replaced the relevant Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of bonds denominated in the Specified Currency or, if the Issuer determines that there is no such rate, such other rate as the Issuer in its discretion (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) in its discretion determines is most comparable to the relevant Reference Rate;

**"Benchmark Event"** means:

- (i) the Original Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) the later of (i) the making of a public statement by the administrator of the Original Reference Rate that it will, on or before a specified date, cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate) and (ii) the date falling six months prior to the date specified in (i) above; or
- (iii) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such Reference Rate has been or will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the date specified in (i) above; or
- (iv) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means that such Reference Rate will, on or before a specified date, be prohibited from being used or that its use will be subject to restrictions or adverse consequences and (ii) the date falling six months prior to the date specified in (i) above; or
- (v) the making of a public statement by the supervisor of the administrator of the Original Reference Rate announcing that, in the view of such supervisor, such Original Reference Rate is no longer representative of an underlying market; or
- (vi) it has or will become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Covered Bondholder using the Original Reference Rate (including, without limitation, under Regulation (EU) 2016/1011, if applicable);

**"Independent Adviser"** means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense;

**"Original Reference Rate"** means the originally-specified Reference Rate used to determine the relevant Rate of Interest (or any component part thereof) in respect of any Interest Period(s) (provided that if, following one or more Benchmark Events, such originally-specified Reference Rate (or any Successor Rate or Alternative Reference Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Reference Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Reference Rate, the term "Original Reference Rate" shall include any such Successor Rate or Alternative Reference Rate);

**"Relevant Nominating Body"** means, in respect of a reference rate:

- (i) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, or any other central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate; or

- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, (d) the International Swaps and Derivatives Association, Inc. or any part thereof, or (e) the Financial Stability Board or any part thereof; and

**"Successor Rate"** means the reference rate (and related alternative screen page or source, if available) that the Issuer (in consultation with the Independent Adviser, and acting in good faith and in a commercially reasonable manner) determines is a successor to, or replacement of, the relevant Reference Rate (for the avoidance of doubt, whether or not such Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body.

#### 7. **Zero Coupon Covered Bond Provisions**

- (a) **Application:** This Condition 7 (*Zero Coupon Covered Bond Provisions*) is applicable to the Covered Bonds only if the Zero Coupon Covered Bond Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Late payment on Zero Coupon Covered Bonds:** If the Redemption Amount payable in respect of any Zero Coupon Covered Bond is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Covered Bondholder and (B) the day which is five days after the Fiscal Agent has notified the Covered Bondholders that it has received all sums due in respect of the Covered Bonds up to such fifth day (except to the extent that there is any subsequent default in payment).

#### 8. **Extended Maturity Date**

If an Extended Maturity Date is specified in the relevant Final Terms and the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 9(i) (*Extension of maturity to Extended Maturity Date*) then:

- (a) such Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date. Interest shall be payable on such Covered Bonds at the rate specified in the relevant Final Terms on the principal amount outstanding of the Covered Bonds in arrear on each Interest Payment Date after the Maturity Date in respect of the interest period beginning on (and including) the Maturity Date and ending on (but excluding) the first Interest Payment Date after the Maturity Date and each subsequent interest period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the rate of interest payable from time to time under Condition 8(a) will be as specified in the relevant Final Terms and, where applicable, determined by the Calculation Agent, three Business Days after the Maturity Date in respect of the first such interest period and thereafter as specified in the relevant Final Terms; and
- (c) in the case of Zero Coupon Covered Bonds to (and including) the Maturity Date, for the purposes of this Condition 8 the principal amount outstanding shall be the total amount

otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

9. **Redemption and Purchase**

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Covered Bonds will be redeemed at their Final Redemption Amount on the Maturity Date, subject (i) as provided in Condition 10 (*Payments – Bearer Covered Bonds*) and (ii) Condition 9(i) (*Extension of maturity to Extended Maturity Date*).
- (b) **Redemption for tax reasons:** The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part:
  - (i) at any time (if the Floating Rate Covered Bond Provisions are not specified in the relevant Final Terms as being applicable); or
  - (ii) on any Interest Payment Date (if the Floating Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Covered Bondholders, or such other period(s) as may be specified in the relevant final terms, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (A) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Covered Bonds; and
- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

**provided, however, that** no such notice of redemption shall be given earlier than:

- (1) where the Covered Bonds may be redeemed at any time, 90 days (or such other period as may be specified in the relevant final terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due; or
- (2) where the Covered Bonds may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant final terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the

Issuer shall be bound to redeem the Covered Bonds in accordance with this Condition 9(b).

- (c) **Redemption at the option of the Issuer:** If the Call Option is specified in the relevant Final Terms as being applicable, the Covered Bonds may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Covered Bondholders, or such other period(s) as may be specified in the relevant final terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Covered Bonds or, as the case may be, the Covered Bonds specified in such notice on the relevant Optional Redemption Date (Call) at the applicable amount specified in the relevant Final Terms (together, if appropriate, with accrued interest to (but excluding) the relevant Optional Redemption Date (Call)) at the Optional Redemption Amount (Call).
- (d) **Partial redemption:** If the Covered Bonds are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), in the case of Bearer Covered Bonds, the Covered Bonds to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation and the notice to Covered Bondholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Covered Bonds so to be redeemed, and, in the case of Registered Covered Bonds, each Covered Bond shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Covered Bonds to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Covered Bonds on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) **No other redemption:** The Issuer shall not be entitled to redeem the Covered Bonds otherwise than as provided in paragraphs (a) to (d) above.
- (f) **Early redemption of Zero Coupon Covered Bonds:** Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Covered Bond at any time before the Maturity Date shall be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Covered Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(f) or, if none is so specified, a Day Count Fraction of 30E/360.

- (g) **Purchase:** The Issuer, or any of its Subsidiaries, may purchase Covered Bonds in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or, in the case of Registered Covered Bonds, the Registrar for cancellation.
- (h) **Cancellation:** All Covered Bonds that are redeemed and surrendered for cancellation by the Issuer or any of its Subsidiaries (along with any unmatured Coupons attached to or surrendered with them) shall be cancelled and may not be reissued or resold.

(i) ***Extension of maturity to Extended Maturity Date:***

(i) If:

- (A) an Extended Maturity Date is specified in the relevant Final Terms as being applicable; and
- (B) any of the following events has occurred:
  - (1) the Issuer is declared bankrupt or a moratorium is declared in respect of the Issuer;
  - (2) a court order made for the compulsory dissolution of the Issuer enters into force;
  - (3) implementation of early intervention measures in respect of the Issuer on the basis of § 36 of the Financial Crisis Prevention and Resolution Act of Estonia, provided that the Estonian Financial Supervision Authority (“EFSA”) grants permission therefor;
  - (4) the additional authorisation for issuing covered bonds or credit institution license held by the Issuer ceases to be in force; or
  - (5) the EFSA resolves the separation of the Covered Bond Portfolio from the Issuer on the ground that the Issuer is likely to become insolvent in the near future and such resolution takes effect, and
- (C) as a result of such an event the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, then the maturity of the Covered Bonds and the date on which the Covered Bonds will be due and repayable for the purposes of these Conditions will be automatically extended to the Extended Maturity Date.

The Issuer may impose restrictions (which restrictions shall be effective upon notice being given to the Covered Bondholders as described below) on the circumstances in which such automatic extension can apply if it determines that such restrictions are required to ensure that the relevant Covered Bonds remain compliant with the ECBA. If the Issuer imposes restrictions on the circumstances in which such automatic extension can apply as described above, the Issuer shall give notice (which notice shall be irrevocable) to the Covered Bondholders (in accordance with Condition 19 (*Notices*)) and the Paying Agents as soon as reasonably practicable and, in any event, at least five Business Days prior to the Maturity Date.

In addition, the Issuer may amend (which amendments shall be effective upon notice being given to the Covered Bondholders as described below) the circumstances in which such automatic extension can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time). If the Issuer amends the circumstances in which such automatic extension can apply as described above, the Issuer shall give notice (which notice shall be irrevocable) to the Covered Bondholders (in accordance with Condition 19 (*Notices*)) and the Paying Agents as soon as reasonably practicable.

In the event the maturity of the Covered Bonds is extended, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. The Issuer shall give notice to the Covered Bondholders in accordance with



Condition 19 (*Notices*) and the Paying Agents as soon as reasonably practicable stating the basis on which an event under sub-paragraph (B) above has occurred, and confirming that the Maturity Date has been extended to the Extended Maturity Date (subject to the expiry of the three Business Day period mentioned above). In addition, all or any part of the principal amount outstanding of such Covered Bonds may be redeemed on an Interest Payment Date falling after the Maturity Date to and including the Extended Maturity Date. In such a scenario, the Issuer shall give notice to the Covered Bondholders (in accordance with Condition 19 (*Notices*)) and the Paying Agents stating its intention to redeem all or any of the principal amount outstanding of the Covered Bonds at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or, as applicable, the Extended Maturity Date, or give rise to rights to any such person.

If the relevant Final Terms do not specify an Extended Maturity Date, the events specified in Condition 9(i) shall not trigger an extension of the Maturity Date and the Covered Bonds will be due and repayable in accordance with these Conditions, subject to mandatory provisions of Estonian laws applicable in relation to the events specified in Condition 9(i).

- (ii) In the case of a Zero Coupon Covered Bond to (and including) the Maturity Date to which an Extended Maturity Date is specified in the relevant Final Terms as being applicable, for the purposes of this Condition 9(i), the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (iii) Any extension of the maturity of the Covered Bonds under this Condition 9(i) shall be irrevocable. Where this Condition 9(i) applies, any failure to redeem the relevant Covered Bonds on the Maturity Date or any extension of the maturity of such Covered Bonds under this Condition 9(i), shall not constitute a default, an event of default or acceleration of payment or other similar condition or event (however described) for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the Covered Bonds other than as expressly set out in these Conditions.
- (iv) In the event of the extension of the maturity of the Covered Bonds under this Condition 9(i), rates of interest, interest periods and interest payment dates on such Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the relevant Final Terms and Condition 8 (*Extended Maturity Date*).
- (v) If the Issuer redeems part and not all of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across such Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.
- (vi) If the maturity of the Covered Bonds is extended to the Extended Maturity Date in accordance with this Condition 9(i) for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Series of Covered Bonds, unless the proceeds of issue of such further Series of Covered Bonds are applied by the Issuer on issue to redeem in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

## 10. **Payments - Bearer Covered Bonds**

This Condition 10 is only applicable to Bearer Covered Bonds.

- (a) **Principal:** Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Covered Bonds at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- (b) **Interest:** Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) **Payments in New York City:** Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Covered Bonds in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Covered Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations applicable thereto in the place of payment or other laws and regulations to which the Issuer or its Agents are subject, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Covered Bondholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Final Terms specifies that the Fixed Rate Covered Bond Provisions are applicable and a Bearer Covered Bond is presented without all unmatured Coupons relating thereto:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this subparagraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the

amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- (f) **Unmatured Coupons void:** If the relevant Final Terms specifies that the Floating Rate Covered Bond Provisions are applicable, on the due date for final redemption of any Covered Bond or early redemption in whole of such Covered Bond pursuant to Condition 9(b) (*Redemption for tax reasons*) or Condition 9(c) (*Redemption at the option of the Issuer*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) **Payments on business days:** If the due date for payment of any amount in respect of any Bearer Covered Bond or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) **Payments other than in respect of matured Coupons:** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Covered Bonds at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Bearer Covered Bond or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) **Exchange of Talons:** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Covered Bonds, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Covered Bond, any unexchanged Talon relating to such Covered Bond shall become void and no Coupon will be delivered in respect of such Talon.

## 11. **Payments - Registered Covered Bonds**

This Condition 11 is only applicable to Registered Covered Bonds.

- (a) **Principal:** Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Covered Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Covered Bond Certificates at the Specified Office of any Paying Agent.
- (b) **Interest:** Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Covered Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if

that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Covered Bond Certificates at the Specified Office of any Paying Agent.

- (c) ***Payments subject to fiscal laws:*** All payments in respect of the Registered Covered Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Covered Bondholders in respect of such payments.
- (d) ***Payments on business days:*** Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Covered Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Covered Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.
- (e) ***Partial payments:*** If a Paying Agent makes a partial payment in respect of any Registered Covered Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Covered Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Covered Bond Certificate.
- (f) ***Record date:*** Each payment in respect of a Registered Covered Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Covered Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## 12. **Taxation**

- (a) ***Gross up:*** All payments of principal and/or interest in respect of the Covered Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond or Coupon:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bond or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Covered Bond or Coupon; or
  - (ii) where the relevant Covered Bond or Coupon or Covered Bond Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Covered Bond or Coupon would have been entitled to such additional amounts on presenting or surrendering such Covered Bond or Coupon or Covered Bond Certificate for payment on the last day of such period of 30 days.
- (b) **Taxing jurisdiction:** If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Estonia, references in these Conditions to the Republic of Estonia shall be construed as references to the Republic of Estonia and/or such other jurisdiction.

### 13. **Undertaking of the Issuer**

On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bond Portfolio will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio. In such a scenario, the Issuer undertakes to fully co-operate with the Cover Pool administrator or the bankruptcy administrator appointed with respect to the insolvent Covered Bond Portfolio ("**Relevant Authority**") to facilitate such Relevant Authority's ability to carry out its rights and obligations under the ECBA.

### 14. **Prescription**

The Covered Bonds and (in the case of Bearer Covered Bonds) the Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date.

### 15. **Replacement of Covered Bonds and Coupons**

If any Covered Bond, Covered Bond Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Covered Bonds, or the Registrar, in the case of Registered Covered Bonds (and, if the Covered Bonds are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Covered Bond Certificates or Coupons must be surrendered before replacements will be issued.

### 16. **Agents**

In acting under the Agency Agreement and in connection with the Covered Bonds and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Covered Bondholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or

terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; provided, however, that:

- (a) the Issuer shall at all times maintain a fiscal agent and a registrar;
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (c) if and for so long as the Covered Bonds are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Covered Bondholders.

17. **Meetings of Covered Bondholders; Modification and Waiver**

(a) **Meetings of Covered Bondholders**

The Agency Agreement contains provisions for convening meetings (including by way of conference call or by use of a videoconference platform) of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than one fifth of the aggregate principal amount of the outstanding Covered Bonds. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing one more than half of the aggregate principal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting two or more persons holding or representing Covered Bonds whatever the aggregate principal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes a Reserved Matter, the quorum shall be two or more persons holding or representing at least three-quarters of the aggregate principal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting two or more persons holding or representing at least one-quarter of the aggregate principal amount of the Covered Bonds for the time being outstanding. The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than three-quarters of the votes cast on such resolution; or (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in aggregate principal amount of the Covered Bonds for the time being outstanding. An Extraordinary Resolution passed by the Covered Bondholders will be binding on all Covered Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution and on all Couponholders.

(b) **Modification of Covered Bonds**

In addition to the modification provisions set out in Condition 9(i) (*Extension of maturity to Extended Maturity Date*) and Condition 6(h) (*Benchmark Replacement*), the Issuer may without the consent of any of the Covered Bondholders or Couponholders of any Series at any time:

- (i) agree with the Fiscal Agent:
  - (A) any modification (except for any modification that relates to a Reserved Matter) of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, not prejudicial to the interests of the Covered Bondholders; or
  - (B) any modification of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with Mandatory Provisions of Law; or

- (ii) make any modifications to the Conditions (in relation to the relevant Series of Covered Bonds) that are necessary (as determined by the Issuer acting reasonably) to comply with any criteria of the rating agencies which may be published after the Issue Date and which the Issuer certifies in writing (to the Agent and to the holders of the relevant Series of Covered Bonds) are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a rating agency to such Series of the Covered Bonds; and
- (iii) make EMIR Related Modifications (as defined below), and which the Issuer certifies (to the Agent and to the holders of the relevant Series of Covered Bonds) are to be made solely for the purpose of enabling the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the "**European Market Infrastructure Regulation**" or "**EMIR**") ("**EMIR Related Modifications**") and such EMIR Related Modifications do not relate to a Reserved Matter.

Any such modification shall be binding on the Covered Bondholders and the Couponholders and shall be notified to the Noteholders in accordance with Condition 19 (*Notices*) as soon as practicable thereafter.

- (c) ***Limitations on Modification of Covered Bonds:*** Any modification or waiver of these Conditions which affects Covered Bonds may not be effected to the extent such modification would contradict mandatory provisions of the ECBA.

#### 18. **Further Issues**

The Issuer may from time to time, without the consent of the Covered Bondholders or the Couponholders, create and issue further covered bonds having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Covered Bonds.

#### 19. **Notices**

- (a) ***Bearer Covered Bonds:*** Notices to the Holders of Bearer Covered Bonds shall be valid if published by the Issuer in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Covered Bonds.
- (b) ***Registered Covered Bonds:*** Notices to the Holders of Registered Covered Bonds shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

#### 20. **Currency Indemnity**

If any sum due from the Issuer in respect of the Covered Bonds or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Covered Bonds, the Issuer shall indemnify each Covered Bondholder, on the written demand of such Covered Bondholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to

convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Covered Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **Governing Law and Jurisdiction**

- (a) **Governing law:** The Covered Bonds and any non-contractual obligations arising out of or in connection with the Covered Bonds are governed by English law, except for:
  - (i) Condition 4 (*Status of the Covered Bonds*);
  - (ii) the provisions relating to coverage of the Covered Bonds and the Coupons pursuant to the ECBA, and
  - (iii) other provisions relating to the Covered Bonds, where provisions of Estonian laws mandatorily apply to covered bonds issued by an issuer incorporated in Estonia,which shall be governed by Estonian law.
- (b) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Covered Bonds (including any non-contractual obligation arising out of or in connection with the Covered Bonds).
- (c) **Appropriate forum:** The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) **Rights of the Covered Bondholders to take proceedings outside England:** Notwithstanding Condition 22(b) (*English courts*), any Covered Bondholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Covered Bondholders may take concurrent Proceedings in any number of jurisdictions.
- (e) **Service of process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to AS LHV Pank, London Branch at its office at 1 Old Street Yard, London, EC1Y 8AF, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Covered Bondholders. Nothing in this paragraph shall affect the right of any Covered Bondholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.



## FORM OF FINAL TERMS OF THE COVERED BONDS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[PROHIBITION OF SALES TO BELGIAN CONSUMERS - The Covered Bonds are not intended to be offered, sold or resold, transferred or delivered or otherwise made available to and should not be offered sold or resold, transferred or delivered or otherwise made available to any individual in Belgium qualifying as a consumer (*consument/consommateur*) within the meaning of Article I.1 of the Belgian Code of Economic Law (*Wetboek van economisch recht / Code de droit économique*), as amended from time to time.]<sup>1</sup>

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [Consider any negative target market]. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the [European Union (Withdrawal) Act 2018][EUWA] ("UK MiFIR"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [Consider any negative target market]. Any person subsequently

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<sup>1</sup> Include where "Prohibition of sales to Belgian consumers" is specified as applicable in the Final Terms.

offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [•]

AS LHV PANK  
Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]

EUR 1,000,000,000

Covered Bond Programme

## PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 26 June 2023 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus (the "Base Prospectus") for the purposes of the Prospectus Regulation. [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus.]<sup>2]</sup>

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 19 May 2020 which are incorporated by reference in the Base Prospectus dated 26 June 2023. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation]<sup>3</sup> and must be read in conjunction with the Base Prospectus dated 26 June 2023 [and the supplemental Base Prospectus dated [•]], which [together] constitute[s] a base prospectus (the "Base Prospectus") for the purposes of the Prospectus Regulation, save in respect of the Conditions which are set forth in the base prospectus dated [original date] and are incorporated by reference in the Base Prospectus.]

Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [is] [are] available for viewing on the website of The Irish Stock Exchange plc trading as Euronext Dublin ("Euronext Dublin") (<https://live.euronext.com/>) and is also available at the LHV Group's website <https://investor.lhv.ee/en/>. Copies may also be obtained from the registered office of AS LHV Pank.

The expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

[In accordance with the Prospectus Regulation, no prospectus is required in connection with the issuance of the Covered Bonds described herein.]<sup>4</sup>

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms.]*

- |    |       |                 |             |
|----|-------|-----------------|-------------|
| 1. | (i)   | Issuer:         | AS LHV Pank |
| 2. | [(i)  | Series Number:] | [•]         |
|    | [(ii) | Tranche Number: | [•]         |

<sup>2</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

<sup>3</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

<sup>4</sup> Delete unless the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

- [(iii) Date on which the Covered Bonds become fungible: [Not Applicable]/[The Covered Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph 24 below [which is expected to occur on or about [•]].]
3. Specified Currency or Currencies: [•]
4. Aggregate Nominal Amount: [•]
- [(i) [Series]: [•]
- [(ii) Tranche: [•]]
5. Issue Price: [•] per cent. of the Aggregate Nominal Amount plus accrued interest from [•]
6. (i) Specified Denominations: [•]
- (ii) Calculation Amount: [•]
7. (i) Issue Date: [•]
- (ii) Interest Commencement Date: [•]/[Issue Date]/[Not Applicable]
8. (i) Maturity Date: [•]
- (ii) Extended Maturity Date: [•]/[Not Applicable]
9. Interest Basis: [In respect of the period from (and including) the Interest Commencement Date to (but excluding) the Maturity Date:]
- [•] per cent. Fixed Rate
- [CIBOR/EURIBOR/NIBOR/STIBOR] [+/-] [•] per cent. Floating Rate]
- [Zero Coupon]
- (see paragraph 14/15/16/17 below)*
- [In respect of the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date (if applicable):
- [•] per cent. Fixed Rate
- [Zero Coupon]
- [CIBOR/EURIBOR/NIBOR/STIBOR] [+/-] [•] per cent. Floating Rate]
- (see paragraph 18/19/20 below)*

10. Redemption/Payment Basis: [Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.]
11. Change of Interest or Redemption/Payment Basis: [*Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14, 15, 18 and 19 below and identify there*]/[Not Applicable]
12. Call Options: [Issuer Call]  
  
(See paragraphs 20/21 below)
13. Date Board approval for issuance of Covered Bonds obtained: [[•] and [•], respectively]/[Not Applicable]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. **Fixed Rate Covered Bond Provisions** [Applicable]/[Not Applicable]  
  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: The Initial Rate of Interest is [•] per cent. per annum payable in arrear on each Interest Payment Date.
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Coupon Amount(s): [[•] per Calculation Amount]/[Not Applicable]  
  
*For Covered Bonds where the Interest Payment Dates are subject to modification: The amount of interest payable for any Interest Period is to be calculated in accordance with Condition 5(e)*
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling in/on [•]
- (v) Day Count Fraction: [30/360] / [Actual]/[Actual (ICMA/ISDA)]
- (vi) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: [The Fiscal Agent/other] shall be the Calculation Agent.
15. **Floating Rate Covered Bond Provisions** [Applicable]/[Not Applicable]  
  
*(If not applicable delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period: [•]
- (ii) Specified Interest Payment Dates: [•]

- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
- (v) Additional Business Centre(s): [Not Applicable]/[•]
- (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [•] shall be the Calculation Agent
- (vii) Provisions relating to Screen Rate Determination:
- Reference Rate: [CIBOR]/[EURIBOR]/[NIBOR]/[STIBOR]
  - Interest Determination Date(s): [•]
  - Relevant Screen Page: [•]
  - Relevant Time: [•]
  - Relevant Financial Centre: [•]
- (viii) Linear interpolation [Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (ix) Margin(s): [+/-][•] per cent. per annum
- (x) Minimum Rate of Interest: [•] per cent. per annum
- (xi) Maximum Rate of Interest: [•] per cent. per annum
- (xii) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/365 (Fixed)] / [Actual/360] / [30/360] / [30E/360] / [Eurobond Basis] / [30E/360 (ISDA)]
- (xiii) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: The [Fiscal Agent/other] shall be the Calculation Agent.

16. **Zero Coupon Covered Bond Provisions** [Applicable]/[Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Accrual Yield: [•] per cent. per annum
- (ii) Reference Price: [•]
- (iii) Day Count Fraction in relation to Redemption Amount: [30/360] / [Actual/Actual(ICMA/ISDA)] / [Actual/360] / [Actual/ 365]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE FROM THE MATURITY DATE TO THE EXTENDED MATURITY DATE**

17. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [30/360] / [Actual] / [Actual (ICMA/ISDA)]
- (vi) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: [The Fiscal Agent/other] shall be the Calculation Agent.

18. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Specified Period: [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]

- (v) Additional Business Centre(s): [[•]/Not Applicable]
- (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [•] shall be the Calculation Agent
- (vii) Provisions relating to Screen Rate Determination:
- Reference Rate: [CIBOR]/[EURIBOR]/[NIBOR]/[STIBOR]
  - Interest Determination Date(s): [•]
  - Relevant Screen Page: [•]
  - Relevant Time: [•]
  - Relevant Financial Centre: [•]
- (viii) Linear interpolation [Not Applicable/ Applicable - the rate of interest for the [long]/[short] [first]/[last] Interest Period shall be calculated using Linear Interpolation]
- (ix) Margin(s): [+/-][•] per cent. per annum
- (x) Minimum Rate of Interest: [•] per cent. per annum
- (xi) Maximum Rate of Interest: [•] per cent. per annum
- (xii) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/365 (Fixed)] / [Actual/360] / [30/360] / [30E/360] / [Eurobond Basis] / [30E/360 (ISDA)]
- (xiii) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: The [Fiscal Agent/other] shall be the Calculation Agent.

## PROVISIONS RELATING TO REDEMPTION

19. **Call Option** [Applicable]/[Not Applicable]
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Covered Bond: [[•] per Calculation Amount]

- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [•] per Calculation Amount
- (b) Maximum Redemption Amount [•] per Calculation Amount
- (iv) Notice period: [•]
20. Final Redemption Amount of each Covered Bond [•] per Calculation Amount
21. **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons: [•]/[Not Applicable]

## GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22. **Form of Covered Bonds:** **[Bearer Covered Bonds:**
- [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond]
- [Temporary Global Covered Bond exchangeable for Definitive Covered Bonds on [•] days' notice]
- [Permanent Global Covered Bond exchangeable for Definitive Covered Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond]
- Where the exchange to Definitive Covered Bonds is permitted at the option of the Covered Bondholder ensure that the specified denominations do not permit a smaller integral amount.*
- (The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000".*
- Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Covered Bonds which is to be represented on issue by a Permanent Bearer Global Covered Bond exchangeable for Definitive Covered Bonds.)*
- [Registered Covered Bonds:**
- [Global Registered Covered Bond exchangeable for Individual Covered Bond Certificates on [•] days' notice/at



any time/in the limited circumstances described in the Global Registered Covered Bond]

and

[Global Registered Covered Bond registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS)).]

23. New Global Note / New Safekeeping Structure: [Yes] / [No]
24. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable]/[give details].  
*Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraph 15(v) relates*
25. Talons for future Coupons to be attached to Definitive Covered Bonds (and dates on which such Talons mature): [Yes]/[No]. [As the Covered Bonds have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]

Signed on behalf of AS LHV Pank:

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Admission to Trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of Euronext Dublin with effect from [•]. Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of Euronext Dublin with effect from [•]. [Not Applicable.]

*(When documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)*

- (ii) Estimate of total expenses related to admission to trading: [•]

### 2. RATINGS

[The Covered Bonds to be issued [have been/are expected] to be rated]/[The following ratings reflect ratings assigned to Covered Bonds of this type issued under the Programme generally]:

Ratings: [Moody's Deutschland GmbH: [•]]

[[Other]: [•]]

*[Insert a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

***Option 1 - CRA established in the EEA and registered under the EU CRA Regulation and details of whether rating is endorsed by a credit rating agency established and registered in the UK or certified under the UK CRA Regulation***

*[Insert legal name of particular credit rating agency entity providing rating]* is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**"). *[[Insert legal name of particular credit rating agency entity providing rating]* appears on the latest update of the list of registered credit rating agencies (as of *[insert date of most recent list]*) on the ESMA website <https://www.esma.europa.eu/>. [The rating *[Insert legal name of particular credit rating agency entity providing rating]* has given to the Covered Bonds is endorsed by *[insert legal name of credit rating agency]*, which is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] */[[Insert legal name of particular credit rating agency entity providing rating]* has been certified under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] */[[Insert legal name of particular credit rating agency entity providing rating]* has not been certified under Regulation (EC) No 1060/2009, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and the rating it has given to the Covered

Bonds is not endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation.]

***Option 2 - CRA established in the EEA, not registered under the EU CRA Regulation but has applied for registration and details of whether rating is endorsed by a credit rating agency established and registered in the UK or certified under the UK CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and has applied for registration under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority] / [European Securities and Markets Authority]. [[Insert legal name of particular credit rating agency entity providing rating] appears on the latest update of the list of registered credit rating agencies (as of [insert date of most recent list]) on the ESMA website <https://www.esma.europa.eu/>. [The rating [Insert legal name of particular credit rating agency entity providing rating] has given to the Covered Bonds is endorsed by [insert legal name of credit rating agency], which is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] / [[Insert legal name of particular credit rating agency entity providing rating] has been certified under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] / [[Insert legal name of particular credit rating agency entity providing rating] has not been certified under Regulation (EC) No 1060/2009, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation.]

***Option 3 - CRA established in the EEA, not registered under the EU CRA Regulation and not applied for registration and details of whether rating is endorsed by a credit rating agency established and registered in the UK or certified under the UK CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and is neither registered nor has it applied for registration under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**").[[Insert legal name of particular credit rating agency entity providing rating] does not appear on the latest update of the list of registered credit rating agencies (as of [insert date of most recent list]) on the ESMA website <https://www.esma.europa.eu/>. [The rating [Insert legal name of particular credit rating agency entity providing rating] has given to the Covered Bonds is endorsed by [insert legal name of credit rating agency], which is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of

the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] /[[Insert legal name of particular credit rating agency entity providing rating] has been certified under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] / [[Insert legal name of particular credit rating agency entity providing rating] has not been certified under Regulation (EC) No 1060/2009, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation.]

***Option 4 - CRA established in the UK and registered under the UK CRA Regulation and details of whether rating is endorsed by a credit rating agency established and registered in the EEA or certified under the EU CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**"). [Insert legal name of particular credit rating agency entity providing rating] appears on the latest update of the list of registered credit rating agencies (as of [insert date of most recent list]) on the FCA's website. [The rating [Insert legal name of particular credit rating agency entity providing rating] has given to the Covered Bonds to be issued under the Programme is endorsed by [insert legal name of credit rating agency], which is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**").] [Insert legal name of particular credit rating agency entity providing rating] has been certified under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**").] [Insert legal name of particular credit rating agency entity providing rating] has not been certified under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**") and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation.]

***Option 5 - CRA not established in the EEA or the UK but relevant rating is endorsed by a CRA which is established and registered under the EU CRA Regulation AND/OR under the UK CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA or the UK but the rating it has given to the Covered Bonds to be issued under the Programme is endorsed by [insert legal name of credit rating agency], which is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**") [and] [insert legal name of credit rating agency], which is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European

Union (Withdrawal) Act 2018 ( the "UK CRA Regulation")].

***Option 6 - CRA not established in the EEA or the UK and relevant rating is not endorsed under the EU CRA Regulation or the UK CRA Regulation but CRA is certified under the EU CRA Regulation AND/OR under the UK CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA or the UK but is certified under [Regulation (EC) No 1060/2009, as amended (the "EU CRA Regulation")][and] [Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK CRA Regulation")].

***Option 7 - CRA neither established in the EEA or the UK nor certified under the EU CRA Regulation or the UK CRA Regulation and relevant rating is not endorsed under the EU CRA Regulation or the UK CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA or the UK and is not certified under Regulation (EC) No 1060/2009, as amended (the "EU CRA Regulation") or Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK CRA Regulation") and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in either the EEA and registered under the EU CRA Regulation or in the UK and registered under the UK CRA Regulation.

### 3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:)*

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its] affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 23 of the Prospectus Regulation.)]*

### 4. **[Fixed Rate Covered Bonds only – YIELD]**

Indication of yield: [•]

*[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]*

## 5. OPERATIONAL INFORMATION

ISIN:	[•]
Common Code:	[•]
[FISN:	[•]]
[CFI Code:	[•]]
Delivery:	Delivery [against/free] of payment
Names and addresses of additional Paying Agent(s) (if any):	[insert name of additional Paying Agent / Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[Yes. Note that the designation "<b>yes</b>" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] <i>[include this text for Registered Covered Bonds]</i> and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/</p> <p>[No. Whilst the designation is specified as "<b>no</b>" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] <i>[include this text for Registered Covered Bonds]</i>. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p>

## 6. DERIVATIVE INSTRUMENTS

Derivative Instruments applicable to issuance of Covered Bonds:	[Yes]/[No]
	<i>(If "No" delete the remaining sub-paragraphs of this paragraph)</i>
(i) Type of Derivative Instruments:	Interest Rate Swap Transaction/ Currency Swap Transaction
(ii) Description of Derivative Instruments:	[•]
(iii) Derivative Instruments as specific collateral for this issuance:	[Yes]/[No]

- (iv) Swap counterparty: [•]
- (v) Collateral posting requirements: [•]

## 7. DISTRIBUTION

- (i) Method of Distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated:
  - (A) Names of Dealers [Not Applicable/*give names*]
  - (B) Stabilisation Manager(s), if any: [Not Applicable/*give names*]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/*give names*]
- (iv) U.S. Selling Restrictions: [Reg S Compliance Category [2];  
  
*(In the case of Bearer Covered Bonds)* TEFRA C/TEFRA D]
- (v) Prohibition of Sales to EEA Retail Investors: [Applicable]/[Not Applicable]
- (v) Prohibition of Sales to UK Retail Investors: [Applicable]/[Not Applicable]
- (vi) Prohibition of Sales to Belgian Consumers: [Applicable]/[Not Applicable]<sup>5</sup>
- (vii) Relevant Benchmarks [CIBOR]/[EURIBOR]/[NIBOR]/[STIBOR] is provided by administrator [*legal name, repeat as necessary*]. As at the date hereof, administrator [*legal name*] [appears/does not appear] [*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the EU Benchmarks Regulation]/[As far as the Issuer is aware, as at the date hereof, [CIBOR] / [EURIBOR] / [NIBOR] / [STIBOR] does not fall within the scope of the EU Benchmarks Regulation]/[Not Applicable]

## 8. REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS

- Reasons for the offer: [ ] [See ["Use of Proceeds"] in the Base Prospectus/*Give details*] [*If reasons differ from what is disclosed in the Base Prospectus, give details here.*]
- Estimated net proceeds: [ ]

<sup>5</sup> If the Covered Bonds are to be placed with Belgian consumers, "Not Applicable" should be specified.

## SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM

### Clearing System Accountholders

In relation to any Tranche of Covered Bonds represented by a Global Covered Bond in bearer form, references in the Terms and Conditions of the Covered Bonds to "**Covered Bondholder**" are references to the bearer of the relevant Global Covered Bond which, for so long as the Global Covered Bond is held by a depositary or a common depositary, in the case of a classic global covered bond ("**CGCB**"), or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Covered Bonds represented by a Global Registered Covered Bond, references in the Terms and Conditions of the Covered Bonds to "**Covered Bondholder**" are references to the person in whose name such Global Registered Covered Bond is for the time being registered in the Register which, for so long as the Global Registered Covered Bond is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Covered Bond or a Global Registered Covered Bond (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Covered Bond or Global Registered Covered Bond and in relation to all other rights arising under such Global Covered Bond or Global Registered Covered Bond. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Covered Bond or Global Registered Covered Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Covered Bonds are represented by a Global Covered Bond or Global Registered Covered Bond, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Covered Bonds and such obligations of the Issuer will be discharged by payment to the holder of such Global Covered Bond or Global Registered Covered Bond.

### Conditions applicable to Global Covered Bonds

Each Global Covered Bond and Global Registered Covered Bond will contain provisions which modify the Terms and Conditions of the Covered Bonds as they apply to the Global Covered Bond or Global Registered Covered Bond. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Global Covered Bond or Global Registered Covered Bond which, according to the Terms and Conditions of the Covered Bonds, require presentation and/or surrender of a Covered Bond, Covered Bond Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Covered Bond or Global Registered Covered Bond to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Covered Bonds. On each occasion on which a payment of principal or interest is made in respect of the Global Covered Bond, the Issuer shall procure that in respect of a CGCB the payment is noted in a schedule thereto and in respect of an NGN the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

**Payment Business Day:** In the case of a Global Covered Bond, or a Global Registered Covered Bond, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

**Payment Record Date:** Each payment in respect of a Global Registered Covered Bond will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing**



**System Business Day"** means a day on which each clearing system for which the Global Registered Covered Bond is being held is open for business.

***Partial exercise of call option:*** In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Issuer*) in relation to some only of the Covered Bonds, the Permanent Global Covered Bond or Global Registered Covered Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Covered Bonds to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

***Notices:*** Notwithstanding Condition 19 (*Notices*), while all the Covered Bonds are represented by a Permanent Global Covered Bond (or by a Permanent Global Covered Bond and/or a Temporary Global Covered Bond) or a Global Registered Covered Bond and the Permanent Global Covered Bond is (or the Permanent Global Covered Bond and/or the Temporary Global Covered Bond are), or the Global Registered Covered Bond is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Covered Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Covered Bondholders in accordance with Condition 19 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF AS LHV PANK

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Financial review". See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below shows the Bank's consolidated statement of financial position as at 31 December in each of 2022, 2021 and 2020.

	As at 31 December		
	2022	2021	2020
<b>Assets</b>	(€ thousand)		
Due from central bank.....	2,390,964	3,874,284	2,213,211
Due from credit institutions.....	84,885	106,461	170,062
Due from investment companies.....	3,391	6,188	9,985
Financial assets at fair value through profit or loss	407	127,720	322,930
Financial assets measured at amortised cost	364,230	—	—
Loans and advances to customers.....	3,186,989	2,677,160	2,208,823
Receivables from customers.....	9,253	2,970	2,454
Other financial assets .....	124	2,236	2,073
Other assets .....	2,866	2,446	1,943
Tangible assets .....	7,947	4,182	2,766
Right-of-use assets	3,013	3,957	3,805
Intangible assets .....	2,881	1,243	807
<b>Total assets.....</b>	<b>6,056,950</b>	<b>6,808,847</b>	<b>4,938,859</b>
<b>Liabilities</b>			
Loans received from central banks (TLTRO)	147,841	197,461	200,000
Deposits from customers and loans received.....	4,956,931	5,846,602	4,141,431
Loans received and debt securities in issue.....	384,149	349,063	268,584
Financial liabilities at fair value through profit or loss .....	3,850	157	221
Accounts payable and other liabilities.....	61,901	46,616	25,441
Subordinated debt.....	114,056	88,989	88,500
<b>Total liabilities .....</b>	<b>5,668,728</b>	<b>6,528,888</b>	<b>4,724,177</b>
<b>Equity</b>			
Share capital .....	141,500	111,500	106,500
Statutory legal reserve .....	8,736	5,648	4,022
Retained earnings .....	231,805	156,745	98,285
<b>Total equity attributable to owners of the parent .....</b>	<b>382,041</b>	<b>273,893</b>	<b>208,807</b>
Non-controlling interest .....	6,181	6,066	5,875
<b>Total equity .....</b>	<b>388,222</b>	<b>279,959</b>	<b>214,682</b>
<b>Total liabilities and equity .....</b>	<b>6,056,950</b>	<b>6,808,847</b>	<b>4,938,859</b>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below shows the Bank's consolidated statement of profit or loss and other comprehensive income for each of 2022, 2021 and 2020.

	2022	2021	2020
	<i>(€ thousand)</i>		
<b>Continuing operations</b>			
Interest income .....	152,168	124,637	88,374
Interest expense .....	(22,679)	(26,973)	(19,327)
<b>Net interest income .....</b>	<b>129,489</b>	<b>97,664</b>	<b>69,047</b>
Fee and commission income .....	52,889	48,711	31,152
Fee and commission expense .....	(20,481)	(17,538)	(12,769)
<b>Net fee and commission income.....</b>	<b>32,408</b>	<b>31,173</b>	<b>18,383</b>
Net gains (losses) from financial assets measured at fair value .....	(1,829)	(1,515)	834
Foreign exchange rate gains (losses).....	1,407	(26)	43
<b>Net gains (losses) from financial assets .....</b>	<b>(422)</b>	<b>(1,541)</b>	<b>877</b>
Other income .....	199	599	208
Staff costs .....	(36,129)	(26,721)	(21,115)
Administrative and other operating expenses .....	(28,416)	(22,619)	(15,150)
<b>Profit before credit losses.....</b>	<b>97,129</b>	<b>78,555</b>	<b>52,250</b>
Impairment losses on loans and advances .....	(2,996)	(3,948)	(10,898)
<b>Profit before income tax.....</b>	<b>94,133</b>	<b>74,607</b>	<b>41,352</b>
Income tax expense .....	(13,260)	(10,557)	(6,749)
<b>Net profit for the financial year .....</b>	<b>80,873</b>	<b>64,050</b>	<b>34,603</b>
<b>Other comprehensive income/(loss)</b>			
Net gains on investments in equity instruments designated at FVOCI .....	0	0	(212)
<b>Total net profit and other comprehensive income for the financial year .....</b>	<b>80,873</b>	<b>64,050</b>	<b>34,391</b>
<b>Net profit attributable to:</b>			
Owners of the parent .....	78,658	61,759	32,514
Non-controlling interest .....	2,215	2,291	2,089
	<b>80,873</b>	<b>64,050</b>	<b>34,603</b>
<b>Total net profit and other comprehensive income attributable to:</b>			
Owners of the parent .....	78,658	61,759	32,302
Non-controlling interest .....	2,215	2,291	2,089
<b>Total net profit and other comprehensive income for the financial year</b>	<b>80,873</b>	<b>64,050</b>	<b>34,391</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

The table below summarises the Bank's consolidated statement of cash flows for each of 2022, 2021 and 2020.

	2022	2021	2020
	<i>(€ thousand)</i>		
Cash flows from operating activities before changes in operating assets and liabilities .....	93,433	73,998	50,099
Net cash from/(used in) operating activities .....	(1,305,710)	1,390,748	1,375,835
Net cash from/(used in) investing activities .....	(242,358)	189,162	(291,531)
Net cash from/(used in) financing activities .....	47,577	(2,254)	23,631
Effect of changes in foreign exchange rates on cash and cash equivalents .....	1,407	(26)	43
Net increase/(decrease) in cash and cash equivalents .....	(1,499,084)	1,577,630	1,107,978
Cash and cash equivalents at the beginning of the year .....	3,929,635	2,352,005	1,244,027
Cash and cash equivalents at the end of the year ..	2,430,551	3,929,635	2,352,005

## SELECTED CONSOLIDATED RATIOS AND APMs

The table below shows selected consolidated ratios for the Bank as at, and for the years ended, 31 December in each of 2022, 2021 and 2020.

	<b>As at/years ended 31 December</b>		
	2022	2021	2020
	<i>(per cent.)</i>		
<b>Performance measures</b>			
Return on average assets <sup>(1)</sup> .....	1.3	1.1	0.9
Return on average equity <sup>(2)</sup> .....	24.0	25.6	17.3
Cost to income ratio <sup>(3)</sup> .....	39.9	38.6	41.0
<b>Financial ratios</b>			
Net interest margin <sup>(4)</sup> .....	2.0	1.6	1.9
Interest spread <sup>(5)</sup> .....	2.0	1.6	1.8
<b>Asset quality</b>			
Non-performing loans ratio <sup>(6)</sup> .....	0.2	0.6	0.6
Loan loss coverage ratio <sup>(7)</sup> .....	276.4	119.3	133.0
Loans to assets ratio <sup>(8)</sup> .....	52.6	39.3	44.7
Loans to deposits ratio <sup>(9)</sup> .....	64.3	45.8	53.3
<b>Other ratios</b>			
LCR <sup>(10)</sup> .....	135.6	140.6	146.5
NSFR <sup>(10)</sup> .....	144.5	164.2	153.9
Leverage ratio <sup>(10)</sup> .....	6.27	4.04	4.36

Core equity tier 1 capital adequacy ratio <sup>(10)</sup> .....	15.26	14.00	13.65
Tier 1 capital adequacy ratio <sup>(10)</sup> .....	17.65	16.01	16.23
Total capital adequacy ratio <sup>(10)</sup> .....	20.38	18.66	19.66

**Notes:**

- (1) Profit for the year of the Bank for the year divided by average assets for the year, with average assets calculated as the sum of assets at the beginning and at the end of the year divided by two.
- (2) Profit for the year attributable to owners of the parent divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of total equity attributable to owners of the parent at the beginning and at the end of the year divided by two.
- (3) The sum of staff costs and administrative and other operating expenses divided by the sum of net interest income, net fee and commission income, net gains from financial assets and other income.
- (4) Net interest income divided by average interest earning assets for the year, with average interest earning assets calculated as the sum of interest earning assets at the beginning and at the end of the year divided by two. Interest earning assets comprise assets due from central bank, credit institutions and investment companies, loans and advances to customers, and financial assets at fair value through profit and loss.
- (5) Yield on interest earning assets (calculated as interest income divided by interest earning assets) less the cost of interest bearing liabilities (calculated as interest expense divided by average interest bearing liabilities, with average interest bearing liabilities calculated as the sum of interest bearing liabilities at the beginning and at the end of the year divided by two). Interest bearing liabilities comprise deposits from customers and loans received, accounts payable and other liabilities and subordinated debt.
- (6) Non-performing loans (calculated in accordance with the Guidelines on management of non-performing and forborne exposures EBA/GL/2018/06 and Annex V to Commission Implementing Regulation (EU) No 680/2014) which amounted to €7.5 million as at 31 December 2022, €16.0 million as at 31 December 2021 and €12.7 million as at 31 December 2020) as a percentage of total nominal value of the loans (being loans and advances to customers before impairment provisions at nominal value).
- (7) Impairment provisions as a percentage of non-performing loans. Provisions include provisions for loans and guarantees issued as well as provisions made for loan and guarantees commitments.
- (8) Loans and advances to customers divided by total assets.
- (9) Loans and advances to customers divided by deposits from customers.
- (10) Calculated in accordance with applicable requirements in Estonia.

## **DESCRIPTION OF THE BANK**

### **INTRODUCTION**

The Bank is the third largest bank in Estonia with a 17 per cent. market share in deposits and a 18 per cent. market share in corporate loans, in each case according to adjusted data provided by the EFSA as at 31 December 2022.

The Bank is an Estonian licensed credit institution offering banking services to corporate and retail clients in Estonia. In addition to branch offices in Tallinn, Tartu and Pärnu, the Bank also:

- has a 65 per cent. owned subsidiary which provides consumer finance and hire purchase services in Estonia; and
- has a London branch which was established in 2018.

In 2022, the Bank's profit for the year was €80.9 million, compared to €64.1 million in 2021 and €34.6 million in 2020.

As at 31 December 2022, the Bank's loans and advances to customers amounted to €3.2 billion and its deposits from customers and loans received amounted to €5.5 billion. As at the same date, the Bank's total assets were €6.1 billion and its Tier 1 and total capital ratios were 17.7 per cent. and 20.4 per cent., respectively. As at 31 December 2022, the Bank employed 719 people (on a full time employee basis) and had over 378,000 customers.

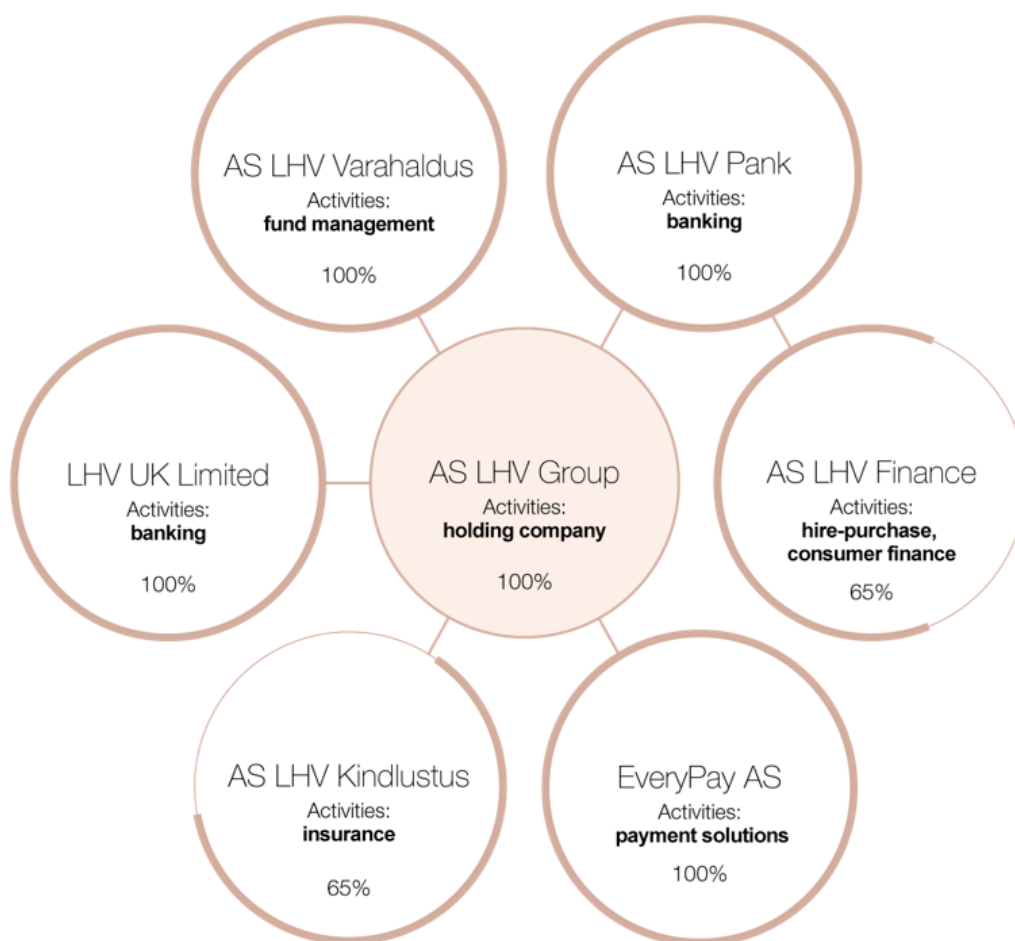
In February 2023 an independent survey company, Dive, announced that the Bank offered the best service in Estonian banking for the eighth time with a score of 97.8 per cent. In July 2022, Euromoney named the Bank as the best bank in Estonia for the fifth consecutive year.

The Bank is incorporated under the laws of Estonia, in accordance with the requirements of the Estonian Commercial Code and is registered in the Estonian Commercial Register with registration number 10539549.

### **HISTORY**

The Bank was established on 2 March 1999 pursuant to the Estonian Commercial Code by nine individuals and four legal entities, including Mr Rain Lõhmus and Mr Andres Viisemann. In 2005, LHV Group, in which Mr Rain Lõhmus and Mr Andres Viisemann remain significant shareholders, was established as a holding company for both the Bank and a sister fund management company.

Below is a chart showing the structure of LHV Group and its subsidiaries as at the end of March 2023 (unaudited):



The table below summarises the Bank's history.

1999	The Bank was established as an investment firm, providing brokerage and portfolio management services.
2009	The Bank obtained its credit institution license and initiated deposit taking and lending operations.
2010	The Bank launched payments services.
2011	The Bank launched bank payment cards.
2013	AS LHV Finance was established as a majority-owned subsidiary of the Bank and launched hire-purchase services.
2014	The Bank launched bank payment cards acquiring services.

2015	The Bank joined the SEPA payments network as a direct member and launched ATM network services.
2016	The Bank commenced offering mortgage loans to private individuals.
2017	The Bank began servicing payment service providers.
2018	The Bank opened a branch in London, United Kingdom; Moody's assigned the Bank a credit rating of Baa1.
2019	The Bank completed the acquisition of a small corporate loan portfolio from Versobank in January 2019 and a significant private loan portfolio from Danske Bank's Estonian branch in November 2019.
2020	The Bank commenced making payments as a direct member of the Faster Payments scheme in the United Kingdom. The Bank issued its inaugural covered bond. In October 2020, the Bank completed the acquisition of a portfolio of corporate and municipality loans that had been originated by Danske Bank's Estonian branch.

## SHAREHOLDERS AND SUBSIDIARY

### Shareholders

The Bank is wholly owned by LHV Group, which also owns 100 per cent. of the fund management company LHV Varahaldus, and 65 per cent. of non-life insurance company AS LHV Kindlustus (established in 2020). In 2021, LHV Group established another subsidiary LHV UK Limited that obtained a banking licence in the United Kingdom in May 2023. The Bank's financial intermediaries business will be transferred to LHV UK Limited in August 2023. In April 2022, LHV Group acquired 100% of EveryPay AS (EveryPay) shares. After the acquisition, EveryPay's focus has been on developing new payment methods and supporting the Group's strategic goals. As of 31 March 2023, 46.5 per cent. of the shares in LHV Group belong to the members of the Supervisory Board and the members of the Management Board and to persons associated with them. The shareholder with a significant shareholding is Rain Lõhmus and persons related to him, owning a total of 21.76 per cent. of the share capital of the Group.

The table below shows LHV Group's five largest shareholders as at 31 March 2023 (unaudited).

	<b>Number of shares</b>	<b>Participation</b>
	<i>(million)</i>	<i>(per cent.)</i>
Rain Lõhmus <sup>(1)</sup> and related parties	68.6	21.76
Andres Viisemann <sup>(1)</sup> & related parties	35.8	11.34
Krenno OÜ	12.3	3.89
AS Genteel	11.3	3.59
AS Amalfi	10.9	3.45



Notes:

(1) Founder and member of the Supervisory Board.

As at 31 March 2023, LHV Group had approximately 34,000 shareholders.

To the knowledge of the Issuer, Mr Rain Lõhmus and Mr Andres Viisemann have not entered into a shareholders' agreement in relation to the shareholdings in LHV Group. Mr Rain Lõhmus and Mr Andres Viisemann are entitled to use their rights as shareholders of LHV Group in accordance with applicable law, the Articles of Association and the rules of Nasdaq Tallinn Stock Exchange (where the shares of LHV Group are listed).

## **Subsidiary**

The Bank has a 65 per cent. shareholding in AS LHV Finance, a joint venture with Toveko Invest OÜ, which was established to provide hire purchase services and now also offers consumer loans. The Bank and Toveko Invest OÜ are party to a shareholders agreement in relation to AS LHV Finance.

## **STRATEGY**

The Group's vision is to help people and businesses dare to think big and act big. The Group's mission is to provide for better access to financial services and capital.

The Bank's home markets are Estonia and the United Kingdom (through its branch office). The Bank has the capability to grow its business in both of these geographies by leveraging its technological solutions. The Bank strives to grow but to do so within the bounds of predetermined risk appetite and profitability targets. The Group (and the Bank as part of the Group) envisions itself as an international financial group that offers the best service to all customer groups and through all channels, from the mobile bank to the bricks-and mortar office.

The Bank's strategy is to ensure that its products and service are simple, transparent and relevant to its customers, with a focus on products that positively distinguish it from the market. The Bank is currently able to finance any Estonian company and issues mortgage loans all over Estonia. It makes swift decisions with extra conditions tailored to the customer. It also offers free-of-charge payments, integrated investment services, and what it believes are the quickest and the most flexible loan products.

The Bank communicates with its customers principally through modern electronic channels and in ways preferred by its clients. For example, it provides the bulk of its services, including securities trading, private customer loan applications and loan agreement conclusion, through its mobile app.

The Bank's long-term aim is to become Estonia's largest bank. This strong ambition is guided by the goal of taking predetermined risks and maintaining strong profitability. The Bank focuses on efficiency, profitability, innovation and providing the best possible service.

In relation to its corporate customers, the Bank intends to keep growing its loan portfolio. It is targeting customers in search of a bank who understands the nature of their business and is able to provide the required financing structure. The Bank intends to continue its single-level decision-making process, where all decisions are made locally, swiftly and in a flexible manner. It also expects to continue its multi-year project of adopting the internal ratings-based ("**IRB**") approach to credit risk. This will allow the Bank to

model not only the probability of default but also to model its own loss given default and exposure-at-default levels and enhance the Bank's return on equity through efficient capital allocation.

In relation to its retail customers, the Bank intends to focus on expanding its customer base and enhancing customer activity. Its focus lies on major Estonian cities, targeting active customers who prioritise electronic channels. The Bank opened its third physical bank office to better support its customers in the western part of Estonia. The Bank seeks to better engage customers who have opened a current account with the Bank, whose salary is transferred to the account and who use the Bank's cards for their daily financial affairs. The Bank intends to focus also on boosting its market share in mortgage loans, and is continuously improving its offering of payment solutions and investment services.

The Bank's financial intermediaries business line continues servicing various fintech companies including payment service providers and virtual asset service providers. The Bank already offers services such as accounts, payments (including real-time EUR and GBP payments), acquiring services, working capital finance and foreign currency exchange services. Customers are able to use many of the services through an application programming interface (API) called LHV Connect. The Bank is continuing to expand its service offering to better meet the needs of the growing client base. The Group's subsidiary LHV UK Limited obtained a banking licence in the United Kingdom in May 2023. It is expected that the business of the Bank's London branch will be transferred from the Bank to LHV UK Limited in 2023. Over time, the entire financial intermediary business is intended to be transferred to LHV UK Limited from the Bank.

## STRENGTHS

The Bank believes that its principal strengths are:

- **Leading brand in Estonia.** The Bank believes that the LHV brand is well known as a leading locally owned financial group. This is supported by the expansion and success of the Bank as well as by the activities of the Bank's sister company, LHV Varahaldus, which is the second largest pension fund manager in Estonia with a market share of 30.9 per cent. of the assets under management in the Estonian pension system according to the Estonian Pension Register (Pensionikeskus) as of March 2023. In addition, the Bank's subsidiary, LHV Finance, is a leading consumer finance and hire-purchase provider in Estonia. The Bank believes that the LHV Group provides services that are important for its local retail and corporate customers.
- **Superior offering in terms of quality, range of products, technological innovation and price.** The Bank aims to be in the forefront of technical innovation and to introduce these innovations into everyday use for the benefit of its retail and corporate customers. For example, the Bank has launched many novel products and has been one of the first to incorporate internationally successful products and services, such as LHV Connect API, which offers flexible payments services with access to several instant payments schemes via single file format and automated payment routing options. The Bank also offers services such as virtual accounts and agency banking services. The Bank believes that its mobile banking capabilities exceed those of its competitors in terms of their intuitiveness, the range of services offered and because they bear no additional costs. The Bank is one of only a few banks in the world that can offer real-time SEPA and pound sterling payments and a list of easily accessible services for corporate customers from the financial technology sector.
- **Strong track record.** The Bank has a strong track record of low loan loss provisions throughout its 13-year history of operating in Estonia (a period which includes the global financial crisis that started in the second half of 2008). The Bank believes that this evidences its strong credit analysis and management process, and its expert staff in this area. The Bank's non-performing loans amounted to

€7.5 million as at 31 December 2022, €16.0 million as at 31 December 2021 and €12.7 million as at 31 December 2020, which represented 0.2 per cent., 0.6 per cent. and 0.6 per cent. of the value of total loans as at 31 December 2022, 31 December 2021 and 31 December 2020, respectively.

## BUSINESS

The Bank provides banking services to retail banking, corporate banking and financial intermediary clients. The retail banking services cover all private individuals and small legal entities with credit exposure under €500,000. The corporate banking services cover all corporate customers and other legal entities with exposure over €500,000. The Bank offers all of these customers universal banking services, including the settlement of payments, the issuing and acquiring of bank cards, deposit services, financing services (including loans, leasing, credit limits, overdrafts and guarantees), securities brokerage and investment services. The financial intermediaries unit provides services to fintech customers such as payment service providers and virtual asset service providers.

The Bank also provides hire-purchase and consumer finance in Estonia, through its subsidiary AS LHV Finance.

The Bank discloses financial information by reporting segment in its financial statements and the table below, which is based on information in the Bank's financial statements as at, and for the year ended, 31 December 2022 shows the relative contribution of each reporting segment to LHV Bank's total net operating revenue and net profit in 2022 and to its total assets and total liabilities as at 31 December 2022. This information is included to illustrate the relative contribution of the Bank's different activities.

### **The relative contribution to LHV Bank's total net operating revenue and profit for the year ended 31 December 2022**

	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Hire-purchase and consumer finance</u>	<u>Financial intermediates</u>	<u>Other activities</u>	<u>Total</u>
	<i>(per cent.)</i>					
Total net operating revenue	37.2	37.5	6.5	20.2	(1.4)	<b>100.0</b>
Net profit <sup>(1)</sup>	41.0	52.9	7.6	12.5	(14.0)	<b>100.0</b>
Total assets	46.9	52.9	1.5	0.0	(1.3)	<b>100.0</b>
Total liabilities	65.3	8.5	1.3	26.2	(1.3)	<b>100.0</b>

Notes:

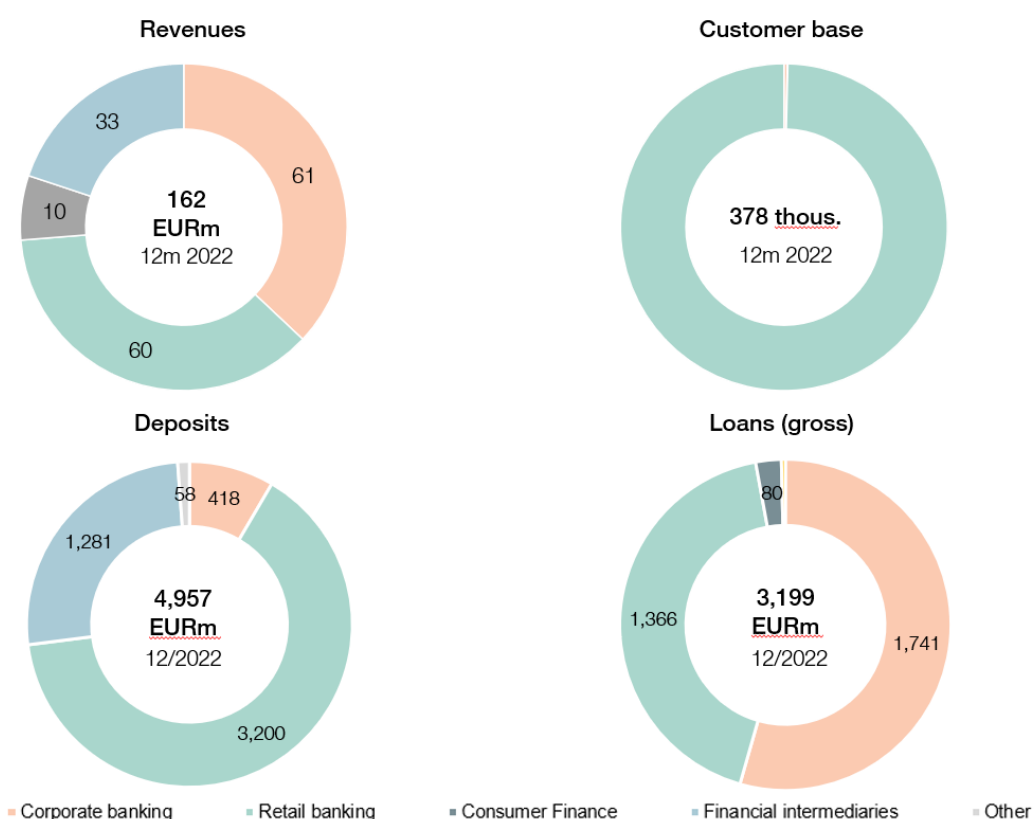
(1) Net profit from continuing operations.

## Banking activities

The Bank is principally deposit funded through retail and corporate current account deposits and, to a smaller extent, through term deposits. The loan portfolio comprises both corporate and retail loans. Historically, corporate loans have dominated the bank's lending business. However, in recent years, the Bank has increased the diversification of its loan portfolio with mortgage loans to retail clients totalling 33 per cent. of its total credit portfolio as at 31 December 2022, compared to 31 per cent. as of 31 December 2021 and 31 per cent. as at 31 December 2020. Total loans to private individuals amounted to 39 per cent. of its total credit portfolio as at 31 December 2022 compared to 38 per cent. as at 31 December 2021 and 39 per cent. as at 31 December 2020. Loans to the real estate sector made up 24 per cent. of the total credit portfolio as at 31 December 2022 (compared to 24 per cent. as at 31 December 2021 and 4 per cent. as at 31 December 2020). The Bank has imposed internal limits on the proportion of loans to the real estate sector to avoid excessive sector concentration and is monitoring the split of various sectors in its credit portfolio on a regular basis.

The Bank's commitment to deliver quality service to its customers is strengthened by continuous upgrading of its technology and the training provided to its staff. The Bank's technology enables its customers to access their accounts, interact with the Bank and manage any of the Bank's products by way of internet banking and mobile banking.

Below is a diagram showing a breakdown of the business volumes of the Issuer, in the case of total revenue, for the 12 months ended 31 December 2022 and in the case of deposits, customer base and loans (gross) as at 31 December 2022.



\* Note: The "Other" segment in "Deposits" above includes deposits raised from deposit platforms in the amount of €0.5 million, deposits from other companies of LHV Group in the amount of €56 million and accrued interest in the amount of €1 million. Deposits from deposit platforms are considered a treasury activity and not part of any of the business units. "Total net revenue" includes net interest income and net fee and commission income but does not include the negative result of the treasury segment in the amount of €2 million.

### ***Corporate banking***

The key corporate banking product offered by the Bank is business loans (including investment loans, working capital facilities and overdraft facilities). In terms of sector breakdown, loans to the real estate sector make up the largest proportion but this has been declining over recent years as the Bank's corporate credit portfolio has become more diversified. The Bank also provides a wide range of other common banking services such as current account (both euro and foreign currency options), cash management services (including cash pool), term deposits, payments services, cards and acquiring, trade finance services (including letters of credit and guarantees as well factoring and inventory financing). The Bank also provides capital markets advisory services on the Baltic markets, both for debt and equity raising projects.

The corporate banking business provides services to all corporate and governmental sector clients. The Bank considers all Estonian corporates as its target clients.

In the longer term, the Bank is seeking to grow the size of its corporate loan portfolio while maintaining high loan credit quality and fulfilling return on equity targets. The Bank is proud of its excellent client service, including swift credit process and decision-making, understanding the client's business (including the risks) and partnering with the client when negotiating the loan. The Bank is also developing its trade finance business.

In addition to credit products, the Bank maintains a good offering of cash management and payments services.

### ***Retail banking***

As at the end of December 2022, the Bank had around 377,000 retail customers using its retail banking products. For retail customers, the Bank offers daily financial affairs management products and services, along with mortgage loans, and it specialises in providing the best services for growing customers' savings and investments. For small and medium sized business customers, the Bank provides flexible and appropriate financing. The Bank's products and services are simple, transparent and relevant. Modern electronic means of communication are used for customer relations (including the Bank's mobile app). Where possible, the Bank aims for higher automation of its business processes to speed up the decision making for the client and achieve greater organisational efficiency. The resultant reduced costs are also reflected in the affordable prices of the Bank's everyday banking services.

The retail banking unit is an important source of deposits for the Bank in order to fund both its mortgage and corporate banking businesses. Accordingly, the Bank focuses its sales and marketing activities on attracting private individuals who use the Bank for their core daily banking activities (including receiving salary payments), wealthy customers (to the private banking offering) and small and medium sized companies. The Bank's product offering includes a full range of services for these clients, including accounts and deposits, credit cards, debit cards and digital wallet services.

Mortgage lending is the retail banking unit's key credit product. The Bank aims to grow its market share in mortgage loans by offering clients rapid service and fast turnaround times for loan applications compared to its competitors. The Bank's target is to provide an indicative offer to a prospective customer within 24 hours after receiving an application for a mortgage loan, which is significantly faster than other banks offering mortgage loans in Estonia and can be achieved by automated internal processes and use of technology. The Bank is not aiming to be a price leader in the market but intends to offer premium service to command pricing which enables it earn targeted return on equity within acceptable risk appetite. For homes with high energy efficiency, a green mortgage loan product is being offered at lower cost for the

customer. The retail banking unit also provides loans to small and medium sized companies. The Bank's leasing offering is mainly based on motor vehicles which make up around half of the total sales. Equipment leasing of various types (including for forestry, construction and agricultural businesses) makes up the rest of the leasing business volume.

Retail banking also incorporates the Bank's private banking business which offers investment management services and certain premium banking services to its clients. The private banking unit mainly targets wealthy individuals based in Estonia as clients. Retail banking also includes the Bank's investment services offering, comprising brokerage and foreign currency services.

### ***Financial intermediation***

The Bank's financial intermediation business comprises the provision of Banking infrastructure and services to more than 200 payment intermediation and technology customers, including Wise, Coinbase, Paysafe and Trustly, and includes the activities of the Bank's branch in the United Kingdom. The Bank continues to focus on acquiring new customers and expanding the product portfolio. In addition to its recent connection to the UK's GBP instant payment system, the Bank has significantly improved its anti-money laundering systems. The FinTech company market remains active and the demand for the banking services that the Bank provides to these companies continues to grow. The Bank believes that its LHV Connect service is the first bank API through which FinTech companies can access euro and pound real-time payments. The revenue base of the Bank's business in the UK is growing, with revenue generated mainly from payments, currency exchange, card payment mediation, credit services and maintenance fees. The Bank aims to further develop its payments infrastructure to broaden the range of its service offering.

The financial results of the financial intermediation unit include all costs related to the Bank's payments infrastructure (which is shared between all of the Bank's business units, including its retail and corporate units), as in terms of organisational set-up, the relevant team is part of the financial intermediation unit.

The Group's subsidiary LHV UK Limited obtained a banking licence in the United Kingdom in May 2023. The financial intermediation business is planned to be transferred from the Bank to LHV UK Limited. The purpose of the change is to clearly separate the Bank's Estonian universal banking business and its financial intermediary business, focused on international clients, due to the different growth and risk profile of these two business lines.

### ***Delivery channels***

The Bank views its electronic channels (including both the internet bank and mobile app) as the core channels for interaction with its clients. The Bank aims to continuously upgrade its electronic channels with new functionalities and to make them as convenient as possible for customers. However, it also supports its clients through more conventional delivery channels. Accordingly, the Bank's delivery channels include:

- *branches* – the Bank has four branches located in Tallinn, Tartu, Pärnu and London;
- *online banking* – which allows customers to monitor their account activity, transfer funds, pay bills, manage their credit cards and other loans, arrange time deposits, request and conclude agreements for services and update information. Users can also chat on the home page with a virtual assistant, Uku, to get real time answers;
- *mobile banking* – which allows customers to open an account, order a bank card, make investments and apply for various loan products. In addition to Baltic shares, customers can also buy and sell

shares listed on international stock exchanges and exchange-traded funds. The mobile banking app is growing in importance as a delivery channel for the Bank's customers;

- 96 ATMs – through which customers can withdraw cash, makes certain transfers and payments and initiate certain enquiries. The ATM network was significantly expanded in 2019 following the conclusion of a shared network contract with Luminor Bank, Danske Bank and Worldline; and
- LHV Connect – an API which offers integration between the information system (such as accounting software) of the customer and the Bank. The API offers access to a range of the Bank's payment services.

### **Hire purchase and consumer financing in Estonia**

The Bank provides hire purchase and consumer financing services in Estonia through its joint venture, AS LHV Finance, which was established in 2013 to provide hire-purchase services. In 2015, it began offering consumer loans as well. In 2017, AS LHV Finance started to offer rebranded targeted consumer loans (such as renovation loans and car loans). As at 31 December 2022, AS LHV Finance's credit portfolio amounted to €93.6 million and it had over 49,000 effective credit agreements. The hire-purchase market in Estonia is decreasing, and 83 per cent. of AS LHV Finance's portfolio comprised consumer loans as at 31 December 2022.

### **Other activities**

As an institutional broker, the Bank helps Baltic companies to raise equity and debt financing via capital markets activities.

The Bank is the leading market participant on the Baltic stock exchanges in terms of trading volume based on data provided by the Nasdaq Baltic stock exchange. In 2023, the Bank received the "Best Stock Exchange Member of the Year" award of the Nasdaq Baltic stock exchanges for the eighth time. The Bank also publishes regular research about publicly listed Baltic companies, organises meetings between investors and the management of listed companies and is a market maker for seven publicly traded companies.

The Bank's securities trading system, LHV Trader, is available to customers and the funds of those customers are treated as off-balance sheet assets of the Bank. Due to the nature of the system, the Bank deposits these funds in personalised accounts with its partner and does not use them for its own business purposes. The Bank earns commission and interest income on intermediation of transactions in these accounts. The Bank has provided contractual guarantees to its partner in respect of LHV Trader accounts, guaranteeing any losses incurred from financing of the transactions executed by customers intermediated by itself, with the primary collateral being the securities used as collateral for leveraged loans. To date, no such losses have occurred.

### **Lending and loan portfolio**

For details of the Bank's approach to lending, see "*Risk management—Credit risk*". For details of the Bank's loan portfolio, see "*Financial review—Lending*".

### **Deposit portfolio**

For details of the Bank's loan portfolio, see "*Financial review—Liquidity and funding—Funding—Customer deposits and loans received*".

## **Mortgage lending process**

The Bank regards mortgage loans as a core product and wants to grow its portfolio of residential mortgage loans. The Bank has accordingly set up appropriate internal processes to ensure good service for its customers as well as efficient internal procedures and appropriate risk process. The Bank's mortgage lending process is currently set up based on the following core guidelines.

- Customers – Estonian residents. Non-residents might be accepted if there is strong connection to Estonia.
- Currency – the Bank currently provides loans in Euro only.
- Loan to Value ("**LTV**") - Maximum LTV is set at 85 per cent. In case there is a guarantee from the Estonian governmental institution Kredex, LTV can be up to 90 per cent.
- Maturity - Maximum loan maturity offered is 30 years.
- Basic overview of credit checks – Maximum debt to income ratio is set at 50 per cent. (adjusted for number of dependent persons). Income of the borrower is always verified based on bank account statements. Credit history checks to external credit bureau databases are conducted. Stress test for increase of interest rates are conducted.
- Collateral - Valuation of collateral is based on market value. Collateral for mortgage loan is immovable property encumbered with a mortgage in official land register. Majority of valuations are carried out by external values who are required to have professional certificate. In some cases, qualified internal valuer of the Bank who is part of the risk organisation can also carry out the valuation. Valuation is updated at least once a year, indexing is typically used for collateral of residential properties and in such case revaluation happens quarterly.
- Contract signing process - All Estonian real estate and established mortgages are listed in land register and every transaction of establishing a mortgage must be verified by notary public.
- Different layers of internal decision making authorities for approving a loan have been set, based on the loan amount.

## **Credit risk process**

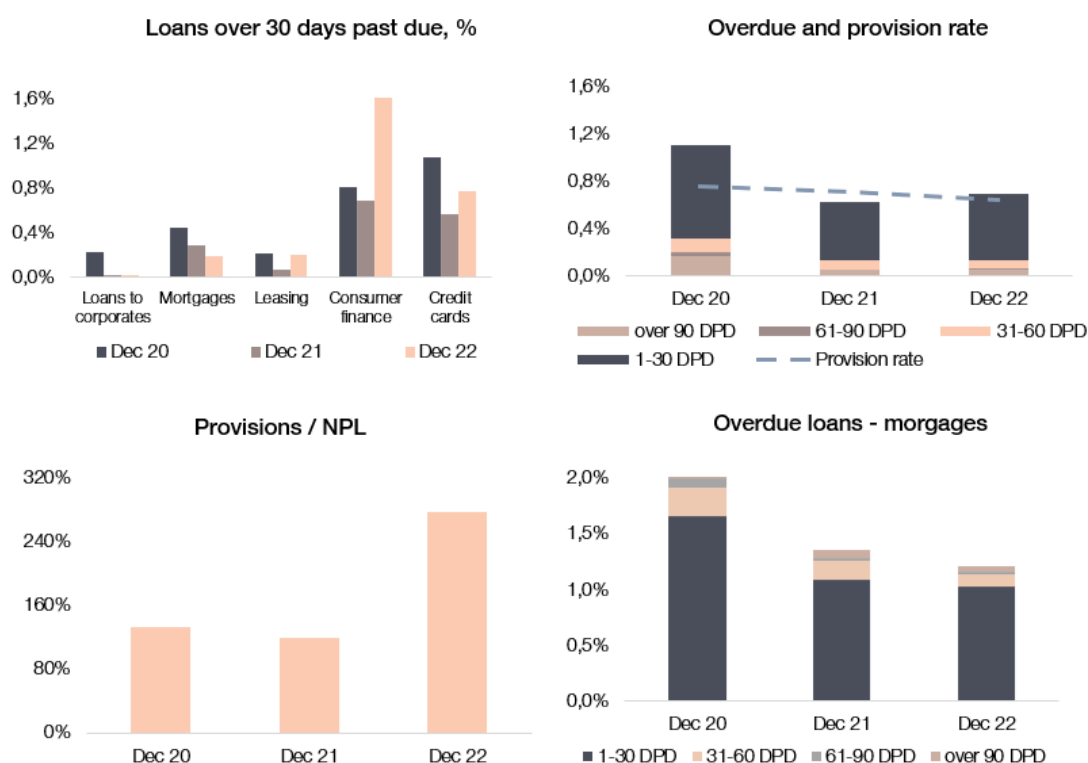
Credit risk is one of the key risks for the Bank. In order to evaluate credit risk, the Group analyses the operations and financial position of its customers and business partners. After approving the credit, the solvency of the customer and the value of the collateral are regularly monitored. The credit risk management and control are centralised in the credit risk management unit which reports regularly to the Management Board and Supervisory Board.

Economic conditions in Estonia, being the key geographic market for the Bank's operations, are a relevant factor for the performance of the Bank's credit portfolios. Over the past few years, Estonia's economic conditions have been affected by the Coronavirus pandemic and more recently, as a result of high inflation, fluctuating energy and other commodity prices and higher interest rates. The Russian invasion of Ukraine and the sanctions imposed by the western countries are considered to have had a moderate impact on the Estonian economies. The Bank's provisions exceeded the amount of non-performing loans as at 31 December 2022. Mortgages in arrears have been at very low level in the Bank. As of 31 December 2022, the share of mortgage based loans which were more than 90 days in arrears or where the contract had been



terminated amounted to 0.05 per cent., compared to 0.08 per cent. as of 31 December 2021 and 0.10 per cent. as of 31 December 2020. The Bank has been able to reduce the share of loans in arrears in the acquired portfolio owing to a more proactive approach in contacting the clients with overdue loans.

The following graphs show the percentages of overdue loans in the Bank's portfolio by loan type; rate of credit impairments against overdue loans; credit allowances against NPLs and the percentage of overdue mortgage loans over the period 31 December 2020 to 31 December 2022.



\* Non-performing loans and advances are calculated in accordance with the Guidelines on management of non-performing and forbore exposures EBA/GL/2018/06 and Annex V to Commission Implementing Regulation (EU) No 680/2014) and are accordingly defined as one or more of the following a) material exposures which are more than 90 days past due; b) where the debtor is assessed as unlikely to pay his or her credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due; c) exposures in respect of which a default is considered to have occurred. Provisions include provisions for loans and guarantees issued as well as provisions made for loan and guarantees commitments. Provision rate is calculated as amount of provisions divided by nominal loan amount (client balance). Loan amounts used for calculating the percentage of overdue loans are nominal amounts (client balance).

## COMPETITION

As at 31 December 2022, there were 13 banks operating in Estonia. Of these, four were branches of foreign credit institutions. The largest banks in Estonia are owned by Nordic financial groups (SEB and Swedbank)

which together accounted for around two thirds of the market (64 per cent. of deposits, 56 per cent. of corporate loans and 70 per cent. of household loans as at 31 December 2022, according to EFSA data). Accordingly, the Estonian banking sector is fairly concentrated. The Bank and Luminor are the third and fourth largest banks in terms of market share of deposits and lending. The Bank's market share amounted to 17 per cent. for deposits, 18 per cent. for corporate loans and 10 per cent. for household loans as at 31 December 2022, according to EFSA data.

The Bank principally seeks to compete by:

- offering premium customer service. The Bank has won awards for best service and expressly targets that it should have the best service among its competitors. The Bank focuses on understanding the needs of its clients. Among corporate clients, instead of offering completely standardised products, the Bank is willing to provide flexibility where possible to better match the client's business needs;
- providing a transparent product offering and service. The Bank seeks to make its product offering and communications easily understandable for its customers. The pricing of its products and services is transparent;
- swift decision-making and lean organisation. The Bank focuses on efficient internal processes and swift decision-making. Where possible, the Bank automates its internal processes. The Bank keeps its organisation efficient and does not create unnecessary complexity which would involve added time and cost for the Bank and ultimately for the client. The Bank is able to react to market developments by introducing new products and services without undue delay; and
- offering premium electronic channels. The Bank views its internet bank and mobile app as the key channels for communication with its clients. The Bank places great emphasis on developing the functionalities of these channels and making them as convenient for the client as possible. This approach creates efficiencies for the Bank and is also attractive for its clients.

## **INFORMATION TECHNOLOGY**

The Bank has only three physical branches in Estonia and one in London. Instead of branches, the Bank prioritises digital channels and information technology to service its customers. One of the cornerstones of the Bank's IT strategy is a strong internal IT team, making up a quarter of the Bank's workforce. Most of the Bank's IT systems are developed in-house according to common service-oriented architecture and modular design principles, with the addition of a few third-party integrations. Modern digital channels, a strong technical footprint and automation capabilities enable the Bank to use the convenience of its mobile and internet banking facilities and speed of automated processes as a competitive advantage.

The Management Board has overall accountability for setting, approving and overseeing the implementation of the Bank's IT strategy as part of its overall business strategy as well as for establishing an effective risk management framework for IT and information security risks. The IT strategy and related action plans are reviewed and updated annually to reflect changes in the business environment and in both the size and complexity of the Bank's operations.

IT and information security risk is treated as one of the risk categories within operational risk and therefore subject to the Bank's operational risk management framework. Responsibility for the creation and contents of this framework is assigned to the Bank's non-financial risk management function, reporting to the Chief Risk Officer.

Responsibility for setting and implementing information security requirements, and for directing and overseeing the establishment and implementation of respective procedures and security measures is assigned to the Chief Information Security Officer and information security function, reporting to the Chief Information Officer.

A separate internal audit function has the capacity to independently review and provide objective assurance of the compliance of all IT and information security related activities.

The Bank's IT risk management and information security measures include:

- defined logical access control procedures, including access on a "need to know" basis, access management, access logging and appropriate authentication methods;
- defined physical security measures, including limited access and appropriate environmental hazard protection;
- appropriate operations security measures, including ensuring that software and firmware is maintained up to date, the implementation of secure configuration baselines of all network components, the implementation of network segmentation, data loss prevention systems and the encryption of network traffic, the implementation of protection of endpoints including servers, workstations and mobile devices, ensuring that mechanisms are in place to verify the integrity of software, firmware and data, and encryption of data at rest and in transit;
- security monitoring, including policies and procedures to detect anomalous activities and security threats, and to respond to them appropriately;
- information security reviews, assessment and testing, including tests carried out by independent testers with sufficient knowledge, skills and expertise, and vulnerability scans and penetration tests commensurate to the level of risk identified with the business processes and systems; and
- information security training and awareness, including periodic security awareness programmes, for all staff and contractors to ensure that they are trained to perform their duties and responsibilities consistent with the relevant security policies and procedures to reduce human error, theft, fraud, misuse or loss and how to address information security related risks.

## **INSURANCE**

The Bank maintains the following insurance policies:

- comprehensive crime and professional indemnity; and
- directors' and officers' liability.

The Bank's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations. Therefore insurance may not cover all losses incurred by the Bank and no assurance is given that the Bank will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

## **COMPLIANCE**

The Bank's compliance function plays a vital role in identifying, assessing and providing advice relating to compliance with applicable laws and regulatory requirements. In addition to monitoring and reporting on compliance-related risks (which may give rise to legal and administrative penalties, financial loss or reputational damage), the compliance function is also responsible for conducting compliance audits. The compliance function covers the entire activity of the Bank and is not limited to specific areas. However, the Bank has separated the AML compliance function from the general compliance function.

## **ANTI-MONEY LAUNDERING**

Managing the risks related to anti-money laundering (“**AML**”), combating the financing of terrorism and sanctions and implementing adequate controls is mainly divided between first and second line of defence. The Bank applies a risk-based approach, which relies on the assessment of product, service and customer risks, and implementation of risk mitigation measures. The Bank invests substantially in strengthening and maintaining a robust controls framework and systems. As set out in the Bank's customer acceptance principles, potential new and existing high risk clients' business relationships need to be approved by the Bank's Risk Client Committee (and in selected cases, also by the Management Board). By the same principles, all customers of the Financial Intermediaries business line (payment service providers and virtual asset service providers), must be approved by the Financial Intermediaries Client Assessment Committee and by the Management Board. Business units – being the owners and managers of the risk, and risk takers – are responsible for implementing the main KYC principles and due diligence measures, including collecting and maintaining the information during the customer relationship.

Controls in the first line of defence are performed by the Customer Relations department and business units' AML departments, which is responsible for the maintenance of area-related procedures, initial analysis of suspicious customers and transactions, preparation and conduct of trainings and supporting of internal reporting.

Controls in the second line of defence are performed by the AML Compliance department, which is responsible for supporting governance and the risk assessment framework, the maintenance of area related policies and procedures, analysis and information sharing of ongoing trends, design and support on internal reporting, deciding and reporting to authorities on suspicious customers and transactions based and escalations received from the first line of defence and development and maintenance of the training framework.

## **LITIGATION**

The Bank is party to legal and administrative proceedings in the course of its everyday business operations. Generally, the Bank acts as plaintiff in these proceedings, seeking to recover debts by defaulting borrowers and other customers. As at the date of this Prospectus, the Bank is only acting as plaintiff on ongoing litigation all of which relates to debt recovery.

Since the Bank operates in a field which is subject to extensive regulation, it is also subject to administrative proceedings initiated primarily by the ECB in the course of its financial supervision. As of the date of this Base Prospectus, none of the legal or administrative proceedings to which the Bank is a party (including any such proceedings which are pending or threatened of which management is aware) are considered likely to have a significant effect on the Bank's financial position and there are no legal or administrative proceedings to which the Bank has been party during the 12 months preceding the date of this Base Prospectus which may have, or have had, a significant effect on the Bank's financial position or profitability.

## MANAGEMENT AND EMPLOYEES

### MANAGEMENT

In accordance with Estonian law, the Bank has a two-tier board system, consisting of the management board (the "**Management Board**") and the supervisory board (the "**Supervisory Board**"). The Management Board is responsible for the day-to-day management of the Bank's operations and is authorised to represent the Bank based on the law and the articles of association of the Bank (the "**Articles of Association**"). The Supervisory Board is responsible for strategic planning and for supervising the activities of the Management Board.

The address of operations of the Management Board and the Supervisory Board is the Bank's registered address: Tartu mnt 2, 10145 Tallinn, Estonia.

#### Management Board

##### *Role and duties*

The Management Board is responsible for the day-to-day management of the Bank's operations, representing the Bank and managing its accounting. Furthermore, in accordance with the Estonian Commercial Code, the Management Board is obliged to draft the Bank's annual reports and submit the annual reports to the Supervisory Board for review and to the general meeting of shareholders (as at the date of this Base Prospectus, the sole shareholder) of the Bank (the "**General Meeting**") for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

The Management Board must present an overview of its activities, including the economic activities and economic situation of the Bank, to the Supervisory Board at least once every three months. The Management Board must give immediate notice to the Supervisory Board of any material deterioration in the economic condition of the Bank, the existence of any threat of such material deterioration or any deviation from the prudential requirements. If the Bank is insolvent (other than on a temporary basis), the Management Board must immediately, but no later than twenty days after the date on which the insolvency became evident, submit a voluntary bankruptcy petition in respect of the Bank.

The Management Board may enter into transactions that lie outside the Bank's ordinary scope of business only with the consent of the Supervisory Board. Such transactions include, but are not limited to:

- (i) any transactions and operations which are beyond the scope of the budget for the financial year;
- (ii) the acquisition or termination of holdings in other companies;
- (iii) the establishment and dissolving of subsidiaries;
- (iv) the acquisition or transfer of an enterprise, or the termination of its activities;
- (v) the conclusion of transactions with the members of the Management Board, shareholders and persons related to them, if such a transaction goes beyond the scope of the Bank's day-to-day business activities;
- (vi) the borrowing and carrying out equivalent transactions, except for transactions within the budget for the financial year;
- (vii) the granting of loans and securing of debt obligations beyond the scope of day-to-day business activities;

- (viii) the making of investments exceeding the amount of expenditure for that financial year;
- (ix) any transactions in immovable property, registered movables and securities (including the acquisition, transfer, encumbrance or any other disposal of the above);
- (x) the establishment or liquidation of branches and representative offices; and
- (xi) any material changes to the Bank's day-to-day business activities.

In accordance with the Articles of Association, the Bank may be represented in all transactions and legal acts by two members of the Management Board acting jointly. A member of the Management Board may not represent the Bank in transactions or legal disputes with third parties in relation to which such member of the Management Board, or a person who shares economic interests with such member of the Management Board, has personal economic interests.

### ***Members of the Management Board***

According to the Articles of Association, the Management Board comprises three to seven members who are appointed by the Supervisory Board for a term of up to five years. As at the date of this Base Prospectus, there are six members in the Management Board as shown in the table below.

<b>Name</b>	<b>Role</b>	<b>Date appointment first registered</b>
Ms Kadri Kiisel .....	Chair	23 August 2018
Mr Andres Kitter .....	Member	20 December 2013
Mr Indrek Nuume.....	Member	2 February 2009
Mr Jüri Heero .....	Member	19 December 2007
Mr Meelis Paakspuu.....	Member	1 September 2015
Mr Martti Singi .....	Member	12 June 2012

The term of all current members of the Management Board expires on 31 March 2027.

#### ***Ms Kadri Kiisel***

Ms Kiisel is the Chair of the Management Board of the Bank. She was born in 1981 and holds an MBA degree in finance from the University of Tartu.

Ms Kadri Kiisel has worked in the Bank since 2011, starting as the manager of the Bank's Tallinn branch and continuing as the head of branches of the Bank in 2017. From 2018 to 2020 she was the sole member of the Management Board of AS LHV Finance, from January 2021 holds the position of Chair of the Supervisory Board of AS LHV Finance and from April 2022, she is a member of the Supervisory Board of EveryPay AS. She was appointed as a member of the Management Board of the Bank in August 2018 and has been holding the position of the Chair of the Management Board since January 2021. She is also a member of the Management Board of the Estonian Banking Association from January 2021.

*Mr Andres Kitter*

Mr Kitter is a member of the Management Board and the Head of Financial Intermediaries of the Bank. He belongs to the Board of Directors of LHV UK Ltd and is the deputy COO of LHV UK Ltd. In April 2022, Mr Kitter was appointed to the Supervisory Board of EveryPay AS. Mr Kitter was born in 1978. He obtained a master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003.

Between 2000 and 2007, Mr Kitter worked for AS SEB Ühisliising, holding several different positions in the company. Before assuming his position in the Bank as the Head of Retail Banking in 2013, he served as a payment operations manager and partner relations manager in Skype Technologies OÜ. In the past he has been a member of the Management Board of Kingu OÜ.

*Mr Indrek Nuume*

Mr Nuume is a member of the Management Board and the Head of Corporate Banking of the Bank. Mr Nuume was born in 1976 and obtained a master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2002. Before joining the Bank, Mr Nuume worked for Danske Bank A/S Estonian Branch as the Head of Corporate Banking between 1998 and 2009. He was a member of the Supervisory Board of the non-profit organisation SA Tilsa LK Fond.

*Mr Jüri Heero*

Mr Heero is a member of the Management Board and the Head of IT of the Bank. Mr Heero was born in 1977 and holds a degree in economics from the Faculty of Economics and Business Administration of the University of Tartu awarded to him in 1999. During his professional career, Mr Heero worked as a software developer and consultant in several companies. Additionally, between 2000 and 2004, he was a member of the Supervisory Board of AS Cognitive Dynamics, and from 2005 to 2009, he served as a member of the Management Board of OÜ Heero Invest.

Mr Heero joined the Group in 2004 as the Head of IT and has been participating in the management of the Group since 2006. From 2006 to 2007, he served as a member of the Supervisory Board of the Bank and since 2007 he has been a member of the Management Board of the Bank. In November 2022, he was appointed to the Management Board of AS LHV Group.

*Mr Meelis Paakspuu*

Mr Paakspuu is a member of the Management Board and the Chief Financial Officer of the Bank. He was born in 1974 and graduated from the University of Tartu in 1996 with a degree in economics.

During his professional career, Mr Paakspuu worked as the chief analyst of the Banking Supervision of the Bank of Estonia between 1996 and 1998 and in different positions in the treasury department of Swedbank AS (formerly AS Hansapank) including as Head of Treasury from 1998 to 2012. Before joining the Bank, Mr Paakspuu served as the Chief Financial Officer of DNB Pank AS from 2012 to 2015. In the past he has been a member of the Management Board of MP Advisory OÜ and Estonian Banking Association. In November 2022, he was appointed to the Management Board of AS LHV Group.

### *Mr Martti Singi*

Mr Singi is a member of the Management Board and the Chief Risk Officer of the Bank. Mr Singi was born in 1974 and holds a master's degree in international business administration from the Estonian Business School awarded to him in 2009.

Before assuming his current position in the Bank in 2012, Mr Singi served at AS Swedbank as the Head of Group Credit Risk Control from 2007 to 2009 and as the Head of Risk Control from 2009 to 2012. Between 2000 and 2007, Mr Singi held different positions in SEB Group. In November 2022, he was also appointed in the Management Board of AS LHV Group.

## **Supervisory Board**

### ***Role and duties***

In accordance with the Estonian Commercial Code, the Supervisory Board is responsible for strategic planning and supervising the activities of the Management Board. The Supervisory Board is accountable to the shareholders acting through the General Meeting.

In accordance with the Estonian Commercial Code and the Articles and Association, before the annual General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report and also providing information on how the Supervisory Board has organised and supervised the Bank's activities during the year.

In accordance with the Articles of Association, the competence and obligations of the Supervisory Board include:

- (i) the approval of the Bank's strategy and general principles of operation;
- (ii) the approval of the Bank's credit and investment policy;
- (iii) the approval of the Bank's general risk management policies and strategy;
- (iv) the approval of the Bank's organisational structure and its principles;
- (v) the approval of the general principles of supervision of the Bank's operations;
- (vi) the election and recalling of members of the Management Board, the Chair of the Management Board, the deputy to the Chair of the Management Board and procurators, and the remuneration of such persons;
- (vii) the approval of the statutes of the internal audit unit of the Bank, the election and recalling of the head of the internal audit unit and, upon the proposal of the head of the internal audit unit, the election and recalling of the employees of the internal audit unit;
- (viii) the approval of the Bank's budget and investment plan;
- (ix) the establishment and closure of foreign branches;
- (x) the acquisition (including increase of shareholding in) and disposal (including reducing of shareholding in) of legal entities (including establishment and liquidation of legal entities), if the



volume of such transaction exceeds 10 per cent. of the Banks' own fund or the other entity's share capital or where the said threshold is reached with such transaction;

- (xi) the approval of the general principles and competence of the credit committee;
- (xii) approving the conclusion of transactions that lie outside the Bank's ordinary scope of business;
- (xiii) approving the conclusion of transactions with members of the Management Board of the Bank and appointing the Bank's representatives for such transactions, in accordance with applicable law;
- (xiv) the submission of claims against members of the Management Board of the Bank and appointing the Bank's representatives for such claims;
- (xv) determining the agenda of the General Meeting (where prescribed by law); and
- (xvi) approving other matters in the competence of the Supervisory Board under law and the Articles of Association.

### ***Members of the Supervisory Board***

According to the Articles of Association, the Supervisory Board comprises five to seven members who are appointed by the General Meeting of shareholders for a term of up to five years. The members of the Supervisory Board elect among themselves a Chair of the Supervisory Board who is responsible for organising the activities of the Supervisory Board.

According to the Articles of Association, meetings of the Supervisory Board are held as necessary, with a minimum of at least one meeting every three months. A meeting of the Supervisory Board is quorate if more than half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is adopted if more than half of the members of the Supervisory Board who participate at the meeting vote in favour. In case of a tied vote, the Chair of the Supervisory Board has a casting vote. As at the date of this Base Prospectus, there are six members in the Supervisory Board as shown in the table below.

<b>Name</b>	<b>Role</b>	<b>Date appointment first registered</b>
Mr Madis Toomsalu .....	Chair	5 December 2016
Mr Rain Lõhmus .....	Member	29 December 2006
Mr Andres Viisemann .....	Member	10 October 2007
Mrs Tiina Mõis.....	Member	29 December 2006
Mr Raivo Hein.....	Member	23 April 2010
Mr Heldur Meerits.....	Member	18 December 2008

The terms of the current members of the Supervisory Board expire as follows: Madis Toomsalu and Heldur Meerits (31 March 2026), Andres Viisemann and Raivo Hein (31 March 2027) and Rain Lõhmus and Tiina Mõis (31 December 2024).

*Mr Madis Toomsalu*

Mr Toomsalu was born in 1982. Mr Toomsalu obtained a Bachelor's degree in business management from the Tallinn University of Technology in 2009 and a Master's degree in public sector finance in 2011. In addition to holding the position of Chair of the Bank's Supervisory Board, Mr Toomsalu is also the Chair of the Management Board of LHV Group, the Chair of the Supervisory Boards of AS LHV Varahaldus, EveryPay AS and AS LHV Kindlustus and the Chair of the Board of Directors of LHV UK Ltd. Previously Mr Toomsalu has held various positions within LHV Group. Mr Toomsalu also acts as a member of the Management Board of non-profit organisation MTÜ FinanceEstonia.

*Mr Rain Lõhmus*

Mr Lõhmus was born in 1966. He graduated from the Tallinn Technical University in 1988 where he obtained a degree in economics. In 1999, he attended the General Manager Program at the Harvard Business School. During his professional career, Mr Lõhmus worked as an investment banker and served as a member of the Management Board of several companies, including Osühing Zarenor Invest from 2002 until 2012. He has been involved with the Group since it was established in 1999 and is one of its founders. Currently Mr Lõhmus serves as the Chair of the Supervisory Board of AS LHV Group and as a member of the Supervisory Board of the Bank. Additionally, he is a member of the Management Board of AS Lõhmus Holdings, Lõhmus Capital OÜ, OÜ Merona Systems, OÜ Umblu Records, Kõrberebane OÜ and Zerospotnrg OÜ; and is a member of the Supervisory Board of Kodumaja AS. In the past he has held the position of member of the Supervisory Boards of Kodumajagrupi AS, AS Audentes, AB Archyvų sistemas (previously AS Arhiivikeskus), Arco Vara AS, Thermory AS and AS LH Capital and several other companies and the position of member of the Management Board of OÜ Cuber Technology and several other companies. He also participated in the establishment of the predecessor of AS Swedbank (operating under the business name AS Hansapank) in the 1990s.

*Mr Andres Viisemann*

Mr Viisemann was born in 1968. Mr Viisemann obtained a degree in finance from the University of Tartu in 1992. He also obtained an MBA degree from INSEAD in 1997. During his professional career, Mr Viisemann worked as an investment manager and served as a member of the Management Boards of numerous companies. He has been engaged with the Group since its establishment in 1999 and is one of its founders. Within the Group, in addition to his position as a member of the Supervisory Board of the Bank, he is also a member of the Supervisory Boards of AS LHV Group and AS LHV Varahaldus, where he also serves as a manager of pension funds. He is also a member of the Management Board of Viisemann Holdings OÜ and a member of the Supervisory Board of AS Fertilitas. In the past, he has been a member of the Supervisory Board of Rocca al Mare Koolimaja AS, AS Viimsi Haigla, AS LH Capital and non-profit organisation Rocca al Mare Kooli Sihtasutus and a member of the Management Board of Pealinna Spordiklubi and OÜ Miura Investeeringud.

*Mrs Tiina Mõis*

Mrs Mõis was born in 1957. Mrs Mõis holds degrees in econometrics and organisation of service and economic engineering from the Tallinn Technical University awarded to her in 1980. From 1991 to 1999 she worked as the Chief Accountant and was a member of the Management Board of the predecessor of AS Swedbank (operating under the business name AS Hansapank). Since 1999, she has been a member of the Management Board and the Managing Director of AS Genteel, her wholly-owned investment vehicle. In addition, she is a member of the Management Board of Nine Lives OÜ. Within the Group, in addition to her position as a member of the Supervisory Board of the Bank, she is also a member of the Supervisory

Board of AS LHV Group. In addition, she is a member of the Supervisory Boards of Rocca al Mare Kooli AS and Rocca al Mare Kooli SA. She has also been a member of the Supervisory Boards of Green Clay Manufacturing OÜ, SA Tallinna Tehnikaülikooli Arengufond, AS Martinson Trigon, Rocca al Mare Kooli AS, Rocca al Mare Koolimaja AS, HTB Investeeringute OÜ, Nordecon AS and a member of the Management Board of Tallinna Tehnikaülikooli Vilistlaskogu and the Estonian Chamber of Commerce and Industry.

#### *Mr Raivo Hein*

Mr Hein was born in 1966. Mr Hein holds a degree in road construction from the Tallinn Technical University awarded to him in 1991. He worked as a member of the Management Board of AS Starman (current business name Elisa Teleteenused AS) between 1997 and 1999 and again between 2001 and 2003. He was the head of the entrepreneurship department of the City of Tallinn between 2000 and 2002. Between 2000 and 2008, he served as a member of the Management Board of AS CV Keskus. Within the Group, in addition to his position as a member of the Supervisory Board of the Bank, he also serves as the member of the Supervisory Board of AS LHV Group. In addition to his participation in the management of the Group, he is a member of the Management Boards of Zerospotnrg OÜ, E-Finance OÜ, OÜ Kakssada Kakskümmend Volti, Lame Maakera OÜ, Põhjala Kellad OÜ and OÜ Saarte Sillad. He is a member of the Supervisory Board of AS Puumarket. In the past he has been a member of the Supervisory Boards of Aktsiaselts Fix Ideed Estonia, Moonfish Media OÜ and United Dogs and Cats OÜ; the Chair of the Supervisory Board of OÜ Tarbegaas and a member of the Management Boards of Sundog Media OÜ, Higgsi Boson OÜ, Desoksüribonukleinhape DNA OÜ, Kuu on Päike OÜ and Köver Aegruum OÜ.

#### *Mr Heldur Meerits*

Mr Meerits was born in 1959. Mr Meerits obtained a degree in finance and credit from the University of Tartu in 1982. During his professional career Mr Meerits worked for the Estonian National Bank between 1988 and 1991 and between 1995 and 1997. Between 1991 and 1995 he worked for the predecessor of AS Swedbank (operating under the business names AS Hoiupank and AS Hansapank). From 1999 to 2002, Mr Meerits served as a state official working for the Government Office. Since 2002, he has been engaged in investing through his wholly-owned investment vehicle, Amalfi AS. Within the Group, in addition to his position as a member of the Supervisory Board of the Bank, he is also a member of the Supervisory Board of AS LHV Group. Mr Meerits is a member of the Management Board of AS Altamira, SIA Valdemara Group and AS Amalfi and a member of the Supervisory Board of Kodumaja AS and non-profit organisations SA Tähelaps and SA Põltsamaa Ühisgümnaasiumi Toetusfond. He is also the protector and beneficiary of Castra Hiberna Foundation. In the past he has been a member of the Supervisory Board of AS Audentes, Green Clay Manufacturing OÜ, Steri AS, Mainor Ülemiste AS, AS Ecosalvager, AS Smart City Group, AS Estonian Air, non-profit organisation SA Dharma and a member of the Management Board of MTÜ Eesti Eraüldhariduskoolide Ühendus, AS Avatud Eesti Fond and Sihtasutus Teater NO99.

### **General Meeting**

The General Meeting is the highest governing body of the Bank. The competence of the General Meeting includes:

- (i) approving any amendment to the Articles of Association;
- (ii) approving any increase and reduction of share capital;
- (iii) approving the issue of convertible bonds;

- (iv) approving the election, and removal, of members of the Supervisory Board;
- (v) approving the election of an auditor;
- (vi) approving the conduct of a special audit;
- (vii) approving annual reports and the distribution of profits;
- (viii) approving the dissolution, merger, division or transformation of the Bank;
- (ix) approving the conclusion, and terms and conditions, of transactions with members of the Supervisory Board, determining the conduct of legal disputes with members of the Supervisory Board and the appointment of a representative of the Bank in such transactions and disputes; and
- (x) approving other matters within the competence of the General Meeting by law.

An annual General Meeting must be held once a year and within six months from the end of the financial year, pursuant to the procedures and at the time set forth by law and the Articles of Association.

A special General Meeting must be convened as set forth in the Articles of Association but also: (i) where the net equity of a company decreases below the legally required minimum level, or (ii) if shareholders representing at least one-tenth of the share capital, the Supervisory Board, or the Bank's auditor request that a meeting is convened or (iii) if the General Meeting is required in the interests of the Bank. If the Management Board fails to convene a special General Meeting within one month after the receipt of the relevant request from shareholders (or from the Supervisory Board or from the auditor), the shareholders (or, respectively, the Supervisory Board or the auditor) have the right to convene the General Meeting themselves.

The General Meeting will be quorate if shareholders holding shares representing more than 50 per cent. of the total voting rights represented by all shares held by shareholders are present at the General Meeting. If this quorum requirement is not met, the Management Board is required to convene a new meeting not more than three weeks, but not less than seven days, after the date of the initial meeting. There are no quorum requirements applicable to an adjourned General Meeting convened in such a manner.

Save as otherwise specified, a resolution of the General Meeting will be passed by a majority of the shareholders eligible to vote at such meeting voting in favour of such resolution. Certain resolutions, such as approving an amendment to the Articles of Association, increasing or decreasing the share capital and resolutions relating to a merger or liquidation of the Bank require a qualified majority of at least two-thirds of the votes represented at the General Meeting. In addition to such resolutions, there are resolutions which require an even higher rate of affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of three-quarters of the votes represented at the General Meeting, and the "squeeze-out" of minority shares, which requires the affirmative vote of ninety-five per cent. of the votes represented at the General Meeting.

## **Committees**

The Bank has one Supervisory Board committee and three committees established on the level of the Supervisory Board of LHV Group that also report to the Supervisory Board of the Bank:

### ***Risk and Capital Committee***

This committee, which was previously a committee of the AS LHV Group Supervisory Board but was formed at the Bank Supervisory Board level in December 2019 following amendments to the Estonian Credit Institutions Act, advises and supports the Supervisory Board with regard to supervision of the general, actual and future risk management principles and risk tolerance, considering all types of risk and ensuring their compliance with the business strategy, objectives, business practice and values.

The Risk and Capital Compliance committee has four members: Rain Lõhmus (Chair), Andres Viisemann, Heldur Meerits and Madis Toomsalu. Under its Rules of Procedure, it should meet at least four times a year.

### ***Audit Committee***

The Audit Committee is established on the level of AS LHV Group and supports the Supervisory Board of the Bank in issues related to accounting, audit, risk management, internal control and internal audit, supervision, budgeting and compliance.

The Audit Committee has three members: Verner Uiibo (Chair), Tauno Tats and Raivo Hein. Under its Rules of Procedure, it should meet at least four times a year.

### ***Nominating Committee***

The Nominating Committee is established on the level of AS LHV Group and supports the Supervisory Board of the Bank in issues concerning the selection process and fit-and-proper requirements.

The Nominating Committee has three members: Tiina Mõis (Chair), Rain Lõhmus and Andres Viisemann. Under its Rules of Procedure, it should meet at least once a year.

### ***Remuneration Committee***

The Nominating Committee is established on the level of AS LHV Group, supports the Supervisory Board of the Bank in developing, implementing and supervising the remuneration strategy of the employees and members of the Management Boards.

The Remuneration Committee has three members: Tiina Mõis (Chair), Rain Lõhmus and Andres Viisemann. Under its Rules of Procedure, it should meet at least once a year.

The Bank has set up additional committees to handle certain topics on the executive management level. Such committees are composed of members of the Management Board and/or of employees. Such committees include:

- Risk Client Acceptance Committee
- Assets and Liabilities Management Committee
- Credit Committee
- Financial Intermediaries Client Acceptance Committee
- AML Committee

- Retail Banking Credit Committee

### **Conflicts of interest**

There are no known actual or potential conflicts of interest between the duties of any of the members of the Management Board and the Supervisory Board named above to the Bank and their private interests or other duties.

### **EMPLOYEES**

As at 31 December 2022, the Bank employed 719 full time equivalent staff, compared to 571 as at 31 December 2021 and 472 as at 31 December 2020. LHV Group employed 898 full time equivalent staff as at 31 December 2022.

The Bank's remuneration policy seeks to ensure fair, motivating and transparent remuneration in accordance with the law. A broader goal of the remuneration policy is the recruitment of employees with the capabilities, skills and experience necessary to implement the Bank's strategy, reconcile the interests of employees and shareholders, motivate the employees and ensure effective risk management for growing business activities. The remuneration system consists of basic remuneration, compensation and employee benefits. The Bank does not provide its employees with services at a lower than the market price, does not make payments to a third pillar pension fund at the expense of the employer and does not provide benefits such as a company car, a mobile phone or a laptop for personal use.

The general remuneration strategy is to ensure motivating pay to achieve long-term goals, creating a strong link between remuneration and the financial results of the Bank.

The Bank's recruitment strategy is to find, engage and keep the best people in the labour market. In determining remuneration, the Bank is prepared to make exceptions rather than restricting its choices with strict remuneration intervals for a specific position. To keep its employees, the Bank seeks to develop its benefits and compensation in cooperation with its employees.

In determining remuneration, the following factors are taken into account:

- commitment and results of the employee;
- workload;
- responsibility;
- the required level of education;
- management level;
- intensity of work;
- the necessary knowledge and experience for the position;
- the existence of additional benefits;
- the situation in the labour market;

- the pay level of the geographical location; and
- the level of criticality of the position.

The determination of the amount of remuneration is objective and is paid according to the work done and its value, not according to the personality, gender, age, origin, or other factors personal to the employee.

## FINANCIAL REVIEW

*The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.*

*The discussion of the Bank's consolidated financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the heading "Risk factors".*

*See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.*

## OVERVIEW

The Bank is the third largest bank in Estonia with a 17 per cent. market share in deposits and a 18 per cent. market share in corporate loans, in each case according to data provided by the EFSA as at 31 December 2022.

The Bank is an Estonian licensed credit institution offering banking services to corporate and retail clients in Estonia. In addition to branches in Tallinn, Tartu and Pärnu the Bank also:

- has a 65 per cent. owned subsidiary which provides consumer finance and hire purchase services in Estonia; and
- has a London branch which was established in 2018.

The Bank has an ambitious growth strategy with the long-term aim of becoming the largest and the most profitable bank in Estonia. To achieve this, it intends to continue focusing on efficiency, profitability, innovation and the provision of the best possible service.

In February 2023 it was announced by an independent survey company, Dive, that the Bank offered the best service in Estonian banking for the eighth time with a score of 97.8 per cent. In July 2022, Euromoney identified the Bank as the best bank in Estonia for the fifth consecutive year.

## PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Bank's results of operations.

### Economic conditions

The Bank is an Estonian bank primarily focused on lending to, and accepting deposits from, commercial and retail customers, principally those located or resident in Estonia. As a result, its revenue and results of operations are principally affected by economic and market conditions in Estonia. For further information, see *"Market Environment – Estonian macroeconomic environment"*.

### Loan portfolio acquisition in 2020

In October 2020, the Bank acquired a €273 million credit portfolio of corporate and public sectors credits from Danske Bank for a price of €254 million, i.e the Bank purchased the portfolio at a discount to the



nominal value of the loans. The portfolio consisted of loans to 346 business clients, 252 apartment associations and 80 public sector customers. Approximately 56 per cent. of the portfolio consisted of loans to local municipalities.

The acquisition contributed to the growth of the Bank's loan volumes in 2020. The Bank's loan volumes grew by 31 per cent. in 2020 and reached €2,209 million as at the end of the year. As at 31 December 2020, the loans to corporate clients made up 62 per cent. of the total loan portfolio while loans to private individuals made up 39 per cent. of the total portfolio.

### **Factors affecting total net operating revenues**

The Bank's total net operating revenues principally comprises its net interest income and, to a lesser extent, its net fee and commission income. The Bank's total net operating revenues (which comprises net interest income, net fee and commission income and net gains from financial assets) amounted to €161.5 million in 2022, €127.3 million in 2021 and €88.3 million in 2020. The Bank's net interest income comprised 80.2 per cent. of its total net operation revenues in 2022, 76.7 per cent. in 2021 and 78.2 per cent. in 2020 whilst its net fee and commission income comprised 20.1 per cent. of its total net operation revenues in 2022, 24.5 per cent. in 2021 and 20.8 per cent. in 2020.

Within the Bank's net interest income:

- interest income on loans to companies (including retail loans) is the major contributor to total interest income, comprising 51.9 per cent. of the Bank's total interest income in 2022, 49.9 per cent. in 2021 and 53.0 per cent. in 2020. Interest income on consumer loans and mortgage loans comprised 6.3 per cent. and 18.5 per cent., respectively, of the Bank's total interest income in 2022, 6.5 per cent. and 17.2 per cent., respectively, in 2021 and 9.4 per cent. and 20.6 per cent., respectively, in 2020; and
- interest expense paid on deposits from customers and loans received is a major contributor to total interest expense, comprising 25.1 per cent. of the Bank's total interest expense in 2022, 19.4 per cent. in 2021 and 39.2 per cent. in 2020. Interest expense on balances with the central bank comprised 33.8 per cent. of the Bank's total interest expense in 2022, 52.5 per cent. in 2021 and 30.9 per cent. in 2020 and interest expense on subordinated debt comprised 41.1 per cent. of the Bank's total interest expense in 2022, 28.0 per cent. in 2021 and 30.0 per cent. in 2020.

The Bank's net interest income is affected by a number of factors. It is primarily determined by the volume of interest-earning assets and interest-bearing liabilities, as well as the differential between the rates earned on interest-earning assets and the rates paid on interest-bearing liabilities.

The Bank's net interest income for 2022 was €31.8 million, or 32.6 per cent., higher than its net interest income in 2021 which, in turn, was €28.6 million, or 41.4 per cent., higher than its net interest income in 2020.

For a discussion of the trends in the Bank's net interest income, see "*—Results of operations—Net interest income*".

Within the Bank's net fee and commission income:

- fees from cards and settlements is the major contributor to total fee and commission income, comprising 52.0 per cent. of the Bank's total fee and commission income in 2022, 48.5 per cent. in 2021 and 48.9 per cent. in 2020. Security brokerage and commission fees comprised 8.2 per cent. of the Bank's total fee and commission income in 2022, 12.6 per cent. in 2021 and 15.5 per cent. in 2020; and

- fees related to card payments acquiring is a major contributor to total fee and commission expense, comprising 35.9 per cent. of the Bank's total fee and commission expense in 2022, 40.5 per cent. in 2021 and 35.2 per cent. in 2020. Fees related to bank cards comprised 30.8 per cent. of the Bank's total fee and commission expense in 2022, 33.7 per cent. in 2021 and 37.0 per cent. in 2020.

The Bank's net fee and commission income is affected by a number of factors. Card-related fees (both earned and paid) are primarily determined by the amounts spent on those cards whilst acquiring fees (both earned and paid) are primarily determined by the volume of acquiring transactions, although in both cases changes in the amount of fee charged would also have a significant affect.

The Bank's net fee and commission income for 2022 was €1.2 million, or 4 per cent., higher than its net fee and commission income in 2021 which, in turn, was €12.8 million, or 69.6 per cent., higher than its net fee and commission income in 2020.

For a discussion of the trends in the Bank's net fee and commission income, see "*Results of operations—Net fee and commission income*".

### **Operating expense items**

The Bank's main operating expense items are staff costs and other administrative expenses. Together, total operating expenses amounted to €64.5 million in 2022 compared to €49.3 million in 2021 and €36.3 million in 2020, with growth rates of 30.8 per cent. in 2022 and 36.1 per cent. in 2021. The Bank's cost income ratio<sup>6</sup> fell from 41.0 per cent. in 2020 to 38.6 per cent. in 2021 and then increased to 39.9 per cent. in 2022.

The increase in the Bank's operating expenses in 2022 and 2021 principally reflected growth in its business. Also, additional staff were employed for implementing sanctions. This led to an increased number of employees, IT expenses and various other operating expense items. For a discussion of the trends in the Bank's operating expenses, see "*Results of operations—Other income and expense items*".

## **RECENT DEVELOPMENTS**

On 18 April 2023, the Bank published the Interim Financial Statements, which are incorporated by reference in this document. Below is a summary of the key developments of the Bank for the period 1 January 2023 to 31 March 2023.

- In the first quarter of 2023, the Bank's net profit was €37.3 million (compared to €14.9 million in the first quarter of 2022. Total net operating revenues was €61.7 million (compared to €32.3 million in the first quarter of 2022) and operating expenses increased to €20.8 million from €14.4 million in the first quarter of 2022. Impairment losses on loans and advances decreased to (€1.6) million compared to €0.7 million in the first quarter of 2022. Return on equity equalled 30.4 per cent. for the first quarter of 2023 compared to 14.7 per cent. for the first quarter of 2022 and 21.8 per cent. for the first quarter of 2021.
- The Bank's deposits from customers and loans received decreased in the first quarter and reached €4,919 million as at 31 March 2023 (compared to €4,957 million as at 31 December 2022, representing a 0.8 per cent. decrease during the quarter resulting mainly from a decrease in financial intermediaries' deposits. The number of term deposits has been increasing from very low levels owing to higher interest rates being paid on term deposits.
- The Bank's total loans and advances to customers decreased to €3,127 million as at 31 March 2023 (compared to €3,187 million as at 31 December 2022, representing a 1.9 per cent. decrease during the quarter). The growth was principally driven by the repayment of two large loans.

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<sup>6</sup> The sum of staff costs and administrative and other operating expenses divided by the sum of net interest income, net fee and commission income, net gains from financial assets and other income.

- Deposits of customers other than financial intermediaries grew as planned. Customer activity was at a good level and the number of customers grew at a good pace. The loan portfolio decreased due to the repayment of two large loans and is expected to continue growing. Net profit of the Bank was ahead of the financial plan mainly due to higher net interest income and lower loan impairment losses. The Bank's overall asset quality remains strong and the share of loans past due continues to be low.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the significant accounting policies applied by the Bank generally, see section "Summary of significant accounting policies" on page 76 of the 2022 Financial Statements.

## **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

In preparing the Bank's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Bank's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Bank's financial statements, see note 2 to the 2021 Financial Statements, which identifies, as the most significant factor, the estimates and assumptions required in applying IFRS 9.

## **RESULTS OF OPERATIONS**

### **Net interest income**

The Bank's net interest income is the difference between its interest income and its interest expense.

The Bank's interest income comprises the interest it receives on:

- the loans that it advances to customers (including corporate loans, consumer loans, mortgage loans, private loans, credit card loans, and leveraged loans and lending of securities); and
- hire purchase transactions;
- leasing transactions;
- debt securities it holds; and
- balances it places with credit institutions and investment companies (including its minimum reserve requirements with the Estonian Central Bank).

The Bank's interest expense comprises the interest it pays on:

- customer deposits and loans received;
- balances with the central bank; and

- subordinated debt which it has borrowed.

The Bank recognises interest income and interest expense using the effective interest method, which is explained in paragraph 17 of the section "Summary of significant accounting policies" on page 86 of the 2022 annual report of AS LHV Pank incorporated by reference herein.

The table below shows the breakdown of the Bank's net interest income in each of 2022, 2021 and 2020.

	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<i>(€ thousand)</i>		
<b>Interest income</b>			
Corporate loans	78,909	62,213	46,834
Hire purchase	3,338	3,409	3,708
Consumer loans	9,607	8,156	8,314
Leveraged loans and lending of securities	1,629	1,742	753
Credit card loans	836	834	849
Due from credit institutions and investment companies	3,664	281	33
Mortgage loans	28,144	21,441	18,170
Private loans	2,450	2,299	2,109
Due from central banks	8,594	2,283	0
Other loans	8,821	16,332	3,710
Leases	6,407	6,000	4,329
From debt securities	(231)	(353)	(435)
<b>Total interest income</b> .....	<b>152,168</b>	<b>124,637</b>	<b>88,374</b>
<b>Interest expense</b>	0	0	0
Deposits from customers and loans received	(5,696)	(5,245)	(7,569)
Due to central banks	(7,661)	(14,171)	(5,966)
Subordinated debt	(9,322)	(7,557)	(5,792)
<b>Total interest expense</b> .....	<b>(22,679)</b>	<b>(26,973)</b>	<b>(19,327)</b>
<b>Net interest income</b> .....	<b>129,489</b>	<b>97,664</b>	<b>69,047</b>

The Bank's net interest income amounted to €129.5 million in 2022 compared to €97.7 million in 2021 and €69.0 million in 2020.

#### ***2022 and 2021 compared***

The increase of €31.8 million, or 32.6 per cent., in net interest income in 2022 compared to 2021 reflected an increase of €27.5 million, or 22.1 per cent., in interest income and a decrease of €4.3 million, or 15.9 per cent., in interest expense.

The €27.5 million increase in interest income in 2022 principally reflected:

- a €16.7 million, or 26.8 per cent., increase in interest income from loans to companies from €62.2 million in 2021 to €78.9 million in 2022, which was driven by an increase in loan volumes and in interest rates; and
- a €6.7 million, or 31.3 per cent., increase in interest income from mortgage loans from €21.4 million in 2021 to €28.1 million in 2022, which was driven by an organic increase in the portfolio.

The €4.3 million decrease in interest expense in 2022 principally reflected:

- a €1.8 million, or 23.4 per cent., increase in interest expense on subordinated debt from €7.6 million in 2021 to €9.3 million in 2022, which was driven by an increase in outstanding subordinated loans; and
- a €6.5 million, or 45.9 per cent., decrease in interest expense on balances with the central bank from €14.2 million in 2021 to €7.7 million in 2022, which was driven by lower balances kept in the Estonian Central Bank and increased interest rates.

### ***2021 and 2020 compared***

The increase of €28.6 million, or 41.4 per cent., in net interest income in 2021 compared to 2020 reflected an increase of €36.3 million, or 41.0 per cent., in interest income and an increase of €7.6 million, or 39.6 per cent., in interest expense.

The €36.3 million increase in interest income in 2021 principally reflected:

- a €15.4 million, or 32.8 per cent., increase in interest income from loans to companies from €46.8 million in 2020 to €62.2 million in 2021, which was driven by an increase in loan volumes;
- a €12.6 million, or 340.2 per cent., increase in interest income from other loans, from €3.7 million in 2020 to €16.3 million in 2021, which was driven by an increase in loan volumes; and
- a €3.3 million, or 18.0 per cent., increase in interest income from mortgage loans from €18.2 million in 2020 to €21.4 million in 2021, which was driven by an organic increase in the portfolio.

The €7.6 million increase in interest expense in 2021 principally reflected:

- a €1.8 million, or 30.5 per cent., increase in interest expense on subordinated debt from €5.8 million in 2020 to €7.6 million in 2021, which was driven by an increase in outstanding subordinated loans;
- a €2.3 million, or 30.1 per cent., decrease in interest expense on deposits from customers and loans received from €7.6 million in 2020 to €5.2 million in 2021, which was driven by a decrease in the volume of deposits and other liabilities being issued in order to fund the growing business volumes; and
- a €8.2 million, or 137.5 per cent., increase in interest expense on balances with the central bank from €6.0 million in 2020 to €14.2 million in 2021, which was driven by higher balances kept in the Estonian Central Bank.

### **Net fee and commission income**

The Bank's net fee and commission income is the difference between its fee and commission income and its fee and commission expense.

The Bank's fee and commission income principally relates to:

- the card and settlement services that its provides to customers;
- its security brokerage activities;
- its asset management activities; and
- currency exchange services that it provides to customers.

The Bank's fee and commission expense principally relates to:

- cards;
- acquiring services;
- consumer loans and hire purchase costs; and
- security brokerage costs.

The Bank recognises fee and commission income and fee and commission expense after the service has been received and when the liability has been incurred.

The table below shows the breakdown of the Bank's net fee and commission income in each of 2022, 2021 and 2020.

	2022	2021	2020
	<i>(€ thousand)</i>		
<b>Fee and commission income</b>			
Security brokerage and commission fees	4,329	6,159	4,825
Asset management and related fees	5,807	5,354	3,662
Currency exchange fees	8,462	8,617	3,418
Fees from cards and settlements	27,498	23,635	15,226
Other fee and commission income	6,793	4,946	4,021
<b>Total fee and commission income .....</b>	<b>52,889</b>	<b>48,711</b>	<b>31,152</b>
<b>Fee and commission expense</b>			
Security brokerage and commission fees paid	(2,386)	(1,856)	(1,062)
Expenses related to cards	(6,312)	(5,904)	(4,722)
Expenses related to card payments acquiring	(7,344)	(7,104)	(4,498)
Fees related to consumer loans and hire-purchase paid	(830)	(667)	(635)
Other fee expense	(3,609)	(2,007)	(1,852)
<b>Total fee and commission expense .....</b>	<b>(20,481)</b>	<b>(17,538)</b>	<b>(12,769)</b>
<b>Net fee and commission income.....</b>	<b>32,408</b>	<b>31,173</b>	<b>18,383</b>

The Bank's net fee and commission income amounted to €32.4 million in 2022 compared to €31.2 million in 2021 and €18.4 million in 2020.

#### ***2022 and 2021 compared***

The increase of €1.2 million, or 4.0 per cent., in net fee and commission income in 2022 compared to 2021 reflected an increase of €4.2 million, or 8.6 per cent., in fee and commission income and an increase of €2.9 million, or 16.8 per cent., in fee and commission expense.

The €4.2 million increase in fee and commission income in 2022 principally reflected:

- a €3.9 million, or 16.3 per cent., increase in fee and commission income from cards and settlements from €23.6 million in 2021 to €27.5 million in 2022, which was driven by an increase in business volumes; and
- a €1.8 million, or 37.3 per cent., increase in fee and commission income from other fee and commission income from €4.9 million in 2021 to €6.8 million in 2022, which was driven by an increase in business volumes.

The €2.9 million increase in fee and commission expense in 2022 principally reflected:

- a €1.6 million, or 79.8 per cent., increase in other fee expenses from €2.0 million in 2021 to €3.6 million in 2022, which was driven by the guarantee fees paid to LHV Group
- a €0.5 million, or 28.6 per cent., increase in security brokerage and commission fees paid from €1.9 million in 2021 to €2.4 million in 2022, which was driven by a higher trading volume; and
- a €0.4 million, or 6.9 per cent., increase in fees related to bank cards paid from €5.9 million in 2021 to €6.3 million in 2022, which was driven by increase in the customer base and the volume of outstanding card transactions.

#### ***2021 and 2020 compared***

The increase of €12.8 million, or 69.6 per cent., in net fee and commission income in 2021 compared to 2020 reflected an increase of €17.6 million, or 56.4 per cent., in fee and commission income and an increase of €4.8 million, or 37.3 per cent., in fee and commission expense.

The €17.6 million increase in fee and commission income in 2021 principally reflected:

- a €8.4 million, or 55.2 per cent., increase in fee and commission income from cards and settlements from €15.2 million in 2020 to €23.6 million in 2021, which was driven by an increase in business volumes;
- a €5.2 million, or 152.1 per cent., increase in fee and commission income from currency exchange fees from €3.4 million in 2020 to €8.6 million in 2021, which was driven by an increase in volumes; and
- a €1.7 million, or 46.2 per cent., increase in fee and commission income from asset management and related fees from €3.7 million in 2020 to €5.4 million in 2021, which was driven by a performance fee earned from high return of pension funds L and XL.

The €4.8 million increase in fee and commission expense in 2021 principally reflected:

- a €1.2 million, or 25 per cent., increase in fees related to bank cards paid from €4.7 million in 2020 to €5.9 million in 2021, which was driven by increase in the customer base and the volume of outstanding card transactions;
- a €2.6 million, or 57.9 per cent., increase in expenses related to acquiring services from €4.5 million in 2020 to €7.1 million in 2021, which was driven by increase in the customer base and the volume of outstanding card transactions; and
- a €0.8 million, or 74.8 per cent., increase in security brokerage and commission fees paid from €1.1 million in 2020 to €1.9 million in 2021, which was driven by a higher trading volume.

### **Net gains from financial assets**

The Bank's net gains from financial assets represent fair value changes on financial assets measured at fair value and foreign exchange rate gains and losses. The Bank's net gains from financial assets amounted to €(0.4) million in 2022, €(1.5) million in 2021 and €0.9 million in 2020, an increase of €1.1 million, or 72.6 per cent., in 2021 compared to 2020 and a decline of €2.4 million, or 275.8 per cent., in 2021 compared to 2020.

### **Other income and expense items**

The table below shows the Bank's other income and expense items in each of 2022, 2021 and 2020.

	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<i>(€ thousand)</i>		
Staff costs .....	(36,129)	(26,721)	(21,115)
Administrative and other operating expenses .....	(28,416)	(22,619)	(15,150)
Other income .....	199	599	208
<b>Total.....</b>	<b>(64,346)</b>	<b>(48,741)</b>	<b>(36,057)</b>

The Bank's other income and expense items amounted to €64.3 million in 2022 compared to €48.7 million in 2021 and €36.1 million in 2020.

### **2022 and 2021 compared**

The increase of €15.6 million, or 32.0 per cent., in other income and expense items in 2022 compared to 2021 principally reflected:

- an increase of €9.4 million, or 35.2 per cent., in staff costs from €26.7 million in 2021 to €36.1 million in 2022, principally as a result of an increase in the number of employees (the average number of the Bank's staff increased by 25.9 per cent. from 571 in 2021 to 719 in 2022) and also due to salary increases; and
- an increase of €5.8 million, or 25.6 per cent., in administrative and other operating expenses from €22.6 million in 2021 to €28.4 million in 2022. This increase principally reflected (i) a €1.1 million, or 27.1 per cent., increase in IT expenses from €3.9 million in 2021 to €4.9 million in 2022 driven by an increase in business volumes and development of the Bank's products and services, (ii) a €1.9 million, or 54.8 per cent., increase in other outsourced services expenses from €3.4 million in 2021 to €5.3 million in 2022, driven by an increase in expenses related to the Bank's UK branch.



### ***2021 and 2020 compared***

The increase of €12.7 million, or 35.2 per cent., in other income and expense items in 2021 compared to 2020 principally reflected:

- an increase of €5.6 million, or 26.6 per cent., in staff costs from €21.1 million in 2020 to €26.7 million in 2021, principally as a result of an increase in the number of employees (the average number of the Bank's staff increased by 21.0 per cent. from 472 in 2020 to 571 in 2021) and also due to salary increases; and
- an increase of €7.5 million, or 49.3 per cent., in administrative and other operating expenses from €15.2 million in 2020 to €22.6 million in 2021. This increase principally reflected (i) a €0.9 million, or 30.0 per cent., increase in IT expenses from €3.0 million in 2020 to €3.9 million in 2021 driven by an increase in business volumes and expansion of the Bank's products and services, (ii) a €3.5 million, or 106.8 per cent., increase in other administrative expenses from €3.3 million in 2020 to €6.7 million in 2021 driven by an increase in business volumes generally and higher supervisory fees and fees to deposit insurance schemes which are also related to higher business volumes.

### **Profit before credit losses**

Reflecting the above factors, the Bank's profit before credit losses was €97.1 million in 2022 compared to €78.6 million in 2021 and €52.3 million in 2020, an increase of €18.6 million, or 23.6 per cent., in 2022 and an increase of €26.3 million, or 50.0 per cent., in 2021.

### **Impairment losses on loans and advances**

The Bank's impairment losses on loans and advances charged to its income statement amounted to €3.0 million in 2022 compared to €3.9 million in 2021 and €10.9 million in 2020, a decrease of €1.0 million, or 24.1 per cent., in 2022 and a decrease of €6.9 million, or 64.0 per cent., in 2021.

The Bank's allowances for credit losses on loans and advances are principally recorded against its portfolio of corporate loans and advances (including overdraft, factoring, apartment association loans and trade finance), with total allowances for credit losses against that portfolio amounting to €15.4 million as at 31 December 2022 compared to €15.3 million as at 31 December 2021 and €13.4 million as at 31 December 2020, giving a total net increase of provisions against the portfolio of corporate loans and advances of €0.1 million during 2022 and a total net increase of provisions against the portfolio of corporate loans and advances of €1.8 million during 2021. In 2021 impairment losses accumulated during the year differ from the amount of impairment losses recognised in the statement of profit or loss, that have been written off earlier as uncollectible claims. These receipts were recorded among impairment losses in the statement of profit or loss. In 2022 credit quality of loans and advances has remained at a good level and there were no major changes in allowances for credit losses.

### **Profit before income tax**

Reflecting the above factors, the Bank's profit before income tax was €94.1 million in 2022 compared to €74.6 million in 2021 and €41.4 million in 2020, an increase of €19.5 million, or 26.2 per cent. in 2022 and an increase of €33.2 million, or 80.4 per cent in 2021.

### Income tax expenses

The Bank's income tax expenses amounted to €13.3 million in 2022 compared €10.6 million in 2021 and €6.7 million in 2020, an increase of €2.7 million, or 26.6 per cent. in 2022 and an increase of €3.8 million, or 56.0 per cent. in 2021.

In 2022 and 2021, the increase in income tax expense principally reflected the Bank's higher pre-tax profitability in that year.

### Profit for the year

Reflecting the above factors, the Bank's profit for the year was €80.9 million in 2022 compared to €64.1 million in 2021 and €34.6 million in 2020, an increase of €16.8 million, or 26.3 per cent., in 2022 and an increase of €29.4 million, or 85.1 per cent., in 2021.

### Other comprehensive income

The Bank did not report any other comprehensive income in 2022 nor in 2021.

## LIQUIDITY AND FUNDING

### Overview

The Bank's liquidity needs arise primarily as a result of the need to fund loans and advances to customers, the payment of expenses and dividends and investments in securities. Additionally, the Bank maintains a liquidity buffer the size of which is determined based on regulatory requirements and the Bank's internal liquidity planning framework. To date, the Bank's liquidity needs have been funded principally through deposits and loans received, operating cash flow, including interest and fee and commission income received, and the sale of investments in securities. In addition to deposits received from the Bank's customers in Estonia and the UK, the Bank has also been acquiring funding through the issue of covered bonds and other financial instruments in the capital markets.

### Liquidity

The table below shows the Bank's cash flow from operating activities, investing activities and financing activities for each of 2022, 2021 and 2020.

	2022	2021	2020
	(€ thousand)		
Cash flows from operating activities before changes in operating assets and liabilities .....	93,433	73,998	50,099
Net cash from/(used in) operating activities .....	(1,305,710)	1,390,748	1,375,835
Net cash from/(used in) investing activities .....	(242,358)	189,162	(291,531)
Net cash from/(used in) financing activities .....	47,577	(2,254)	23,631
Effect of exchange rate changes on cash and cash equivalents .....	1,407	(26)	43
Net increase/(decrease) in cash and cash equivalents .....	(1,499,084)	1,577,630	1,107,978
Cash and cash equivalents at the beginning of the year .....	3,929,635	2,352,005	1,244,027
Cash and cash equivalents at the end of the year ...	2,430,551	3,929,635	2,352,005

### Operating activities

The Bank's net cash inflow from operating activities before changes in operating assets and liabilities in 2022 was €93.4 million compared to €74.0 million in 2021 and to €50.1 million in 2020. The Bank's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its net interest income and net fee and commission income less its administrative and other operating expenses (including staff costs) and income tax charge. The Bank's net cash outflow from operating activities in 2022 was €1,305.7 million compared to a net cash inflow of €1,390.7 million in 2021 and net cash inflow of €1,375.8 million in 2020. The changes in the Bank's operating cash flows in each year principally reflect movements in operating assets (principally loans and advances to customers) and liabilities (principally customer deposits and loans received). The increase in operating cash flow in 2022 compared to 2021 principally reflects the decline in customer deposits and the growth of the loan portfolio.

### ***Investing activities***

The Bank's net cash outflow from investing activities was €242.4 million in 2022 compared to a cash inflow of €189.2 million in 2021 and cash outflow €291.5 million in 2020.

In 2022, the Bank principally recorded a cash outflow of €234.8 million from net changes of investment securities at fair value through profit or loss and amortised cost and a cash outflow of €7.5 million on the purchase of tangible and intangible assets.

In 2021, the Bank principally recorded a cash inflow of €193.8 million from net changes of investment securities at fair value through profit or loss and amortised cost and a cash outflow of €4.7 million on the purchase of tangible and intangible assets.

### ***Financing activities***

The Bank's net cash inflow from financing activities was €47.6 million in 2022 compared to a net cash outflow of €2.3 million in 2021 and inflow of €23.6 million in 2020.

In 2022, the Bank's net cash inflow principally reflected €30.0 million from additional paid in share capital, €30.0 million proceeds from subordinated debt, €5.0 million redemption of subordinated debt and €6.0 million paid out in dividends.

In 2021, the Bank's net cash outflow principally reflected €5.0 million from additional paid in share capital and €6.0 million paid out in dividends.

In 2020, the Bank's net cash inflow principally reflected €25.0 million as proceeds from the issuance of subordinated debt and €11.0 million from additional paid in share capital which was partially offset by €7.0 million spent on redeeming subordinated debt and €4.1 million paid out in dividends.

## **Funding**

### ***Sources of funding***

The Bank's principal source of funding is its customer deposits and loans received. In addition, the Bank's funding comprises subordinated debt. In 2020, the Bank completed its debut covered bond issue and participated in the targeted longer-term refinancing operations (TLTROs) by the Eurosystem. In 2022 and in 2021 senior unsecured debt was issued. In 2022, the Bank also issued subordinated debt.

The Bank also has access to a pool of unencumbered and liquid debt securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Bank's customer deposits and loans received amounted to €5,488.9 million, or 96.8 per cent. of its total liabilities, as at 31 December 2022, €6,393.1 million, or 97.9 per cent. of its total liabilities, as at 31 December 2021 and €4,610.0 million, or 97.6 per cent. of its total liabilities, as at 31 December 2020.

### Customer deposits and loans received

The table below shows the breakdown of the Bank's customer deposits and loans received by customer category and type as at 31 December in each of 2022, 2021 and 2020.

	<u>Individuals</u>	<u>Financial intermediaries</u>	<u>Non-financial entities</u>	<u>Public sector</u>	<u>Total</u>
	<i>(€ thousand)</i>				
<b>31 December 2022</b>					
Demand deposits .	1,065,135	1,533,598	2,042,117	58,406	4,699,256
Term deposits .....	63,208	23,046	146,137	24,587	256,978
Loans received ....	—	—	—	—	—
Accrued interest liability .....	336	192	156	13	697
<b>Total .....</b>	<b>1,128,679</b>	<b>1,556,836</b>	<b>2,188,410</b>	<b>83,006</b>	<b>4,956,931</b>
<b>31 December 2021</b>					
Demand deposits .	1,005,757	2,512,958	2,008,349	161,510	5,688,574
Term deposits .....	39,209	15,679	81,808	22,587	159,283
Loans received ....	—	—	—	—	—
Accrued interest liability .....	285	(1,537)	-5	2	(1,255)
<b>Total .....</b>	<b>1,045,251</b>	<b>2,527,100</b>	<b>2,090,152</b>	<b>184,099</b>	<b>5,846,602</b>
<b>31 December 2020</b>					
Demand deposits .	745,304	1,043,509	1,447,554	420,460	3,656,827
Term deposits .....	256,764	10,118	194,403	22,017	483,302
Loans received ....	—	—	268,442	200,000	468,442
Accrued interest liability .....	1,208	—	230	6	1,444
<b>Total .....</b>	<b>1,003,276</b>	<b>1,053,627</b>	<b>1,910,629</b>	<b>642,483</b>	<b>4,610,015</b>

### Deposit and depositor types

The Bank's deposits principally comprise demand deposits which represented 85.6 per cent. of its total deposits and loans received as at 31 December 2022, 89.0 per cent. of its total deposits and loans received as at 31 December 2021 and 79.3 per cent. of its total deposits and loans received as at 31 December 2020. The Bank's only other class of deposit is term deposits which are available for terms of between one month and two years and generally pay higher rates of interest than its demand deposits.

As at 31 December 2022, non-financial entities accounted for 44.1 per cent. of the Bank's total deposits, financial entities accounted for 31.4 per cent., private individuals accounted for 22.8 per cent. and the public sector accounted for 1.7 per cent. of the Bank's total deposits.

As at 31 December 2021, non-financial entities accounted for 35.7 per cent. of the Bank's total deposits, financial entities accounted for 43.2 per cent., private individuals accounted for 17.9 per cent. and the public sector accounted for 3.1 per cent. of the Bank's total deposits.

As at 31 December 2020, non-financial entities accounted for 35.2 per cent. of the Bank's total deposits, financial entities accounted for 30.8 per cent., private individuals accounted for 24.2 per cent. and the public sector accounted for 9.8 per cent. of the Bank's total deposits.

The increase in the Bank's loans received as at 31 December 2022 compared to 31 December 2021 principally reflected the issuance of senior unsecured debt in the amount of €65 million, repayment of senior unsecured debt in the amount of €31 million and the Bank's repayment of Eurosystem's TLTRO facility in the amount of €50 million.

### ***Depositor concentration***

As at 31 December 2022, the share of the Bank's 20 largest depositors was 20.0 per cent. The same concentration indicator stood at 37.3 per cent. as of 31 December 2021 and at 34.5 per cent. as of 31 December 2020.

SEE "RISK FACTORS—RISKS RELATING TO THE BANK—THE BANK HAS SIGNIFICANT CUSTOMER AND SECTOR CONCENTRATIONS".

### ***Maturity profile***

The table below shows the Bank's customer deposits and loans received by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2022, 2021 and 2020.

	<b>On demand</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total<sup>(1)</sup></b>
	<i>(€ thousand)</i>					
As at 31 December 2022	4,699,726	95,807	150,530	565,054	0	<b>5,511,117</b>
As at 31 December 2021	5,687,287	55,271	102,924	551,826	0	<b>6,397,308</b>
As at 31 December 2020	3,657,063	99,647	386,654	465,776	1,473	<b>4,610,613</b>

Note:

- (1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's customer deposits principally comprise demand deposits. The Bank believes that its demand accounts are diversified by customer type and generally sticky in nature with an average duration of two years based on their behavioural nature, and therefore constitute a stable and secure source of low cost funding.

### ***Interest repricing***

The Bank pays interest on the majority of its demand deposits. The interest rate depends on the customer segment and the deposit amount and ranges from 0.01 per cent. to over 3.0 per cent. Interest rates payable on deposits have been increasing alongside the upwards shift of market and policy interest rates that have rapidly changed in 2022-2023. However, the interest rate for demand deposits is still only moderately sensitive to market rate fluctuations.

The Bank uses certain behavioural assumptions about the interest rate repricing term of its deposits depending on the type of deposit product and the type of the customer (except for deposits from certain financial customers where interest rate repricing is assumed to occur immediately). Amounts may be withdrawn from demand deposit accounts at any time without notice.

The Bank's term deposits also pay interest, currently up to 4.0 per cent., and amounts can be withdrawn from these accounts at their maturity.

See "*Risk Factors—Risks relating to the Bank—The Bank is subject to the risk that liquidity may not always be readily available*".

The table below shows the Bank's customer deposits and loans received Banked by the recalculation dates of interest rates for each of 2022, 2021 and 2020.

	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Carrying amount <sup>(1)</sup></b>
	<i>(€ thousand)</i>				
As at 31 December 2022.	3,829,982	306,833	1,353,419	0	<b>5,488,921</b>
As at 31 December 2021	2,288,647	101,744	4,007,466	0	<b>6,393,126</b>
As at 31 December 2020	974,235	398,683	3,235,625	28	<b>4,610,015</b>

Note:

(1) The carrying amount includes accrued interest which amounted to €(1,313) thousand as at 31 December 2022, €(4,731) thousand as at 31 December 2021 and €1,444 thousand as at 31 December 2020 .

### ***Currency mix***

The Bank accepts deposits principally in euro. As at:

- 31 December 2022, 93.3 per cent. of its deposits from customers and loans received were denominated in euro, 3.5 per cent. were denominated in pounds sterling, 2.7 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies;
- 31 December 2021, 93.8 per cent. of its deposits from customers and loans received were denominated in euro, 4.3 per cent. were denominated in pounds sterling, 1.6 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies; and
- 31 December 2020, 94.9 per cent. of its deposits from customers and loans received were denominated in euro, 2.7 per cent. were denominated in pounds sterling, 1.9 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies.

### ***Geographical distribution***

In terms of the geographical distribution of deposits from customers and loans received:

- as at 31 December 2022, 76.3 per cent. were classified as Estonian, 22.8 per cent. were from other EU countries and the United Kingdom, 0.3 per cent. were from US and 0.6 per cent. were from other countries;

- as at 31 December 2021, 63.1 per cent. were classified as Estonian, 34.9 per cent. were from other EU countries and the United Kingdom, 1.0 per cent. were from US and 1.0 per cent. were from other countries; and
- as at 31 December 2020, 70.9 per cent. were classified as Estonian, 28.1 per cent. were from other EU countries and the United Kingdom and 1.0 per cent. were from other countries.

In 2022, the increase in the proportion of Estonian deposits and the decrease in other EU deposits principally reflected the decrease in the volume of deposits raised from the Bank's financial intermediary customers who are mostly based outside Estonia. In 2021, the decrease in the proportion of Estonian deposits and the increase in other EU deposits principally reflected the increase in the volume of deposits raised from the Bank's financial intermediary customers who are mostly based outside Estonia.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

### Subordinated debt

As at 31 December 2022 the Bank has ten issues of subordinated bonds outstanding as shown in the table below.

Type of bonds	Amount	Interest rate	Maturity date
	(€ thousand)	(per cent.)	
Tier 2	10,000	6.50	20 December 2028
Tier 2	20,500	6.50	29 June 2029
Tier 2	5,000	6.50	29 October 2029
Tier 2	10,000	7.00	30 September 2030
Tier 2	15,000	6.00	27 February 2032
AT1	2,000	9.50	No maturity date
AT1	10,000	9.50	No maturity date
AT1	21,000	9.50	No maturity date
AT1	5,000	9.50	No maturity date
AT1	15,000	11.50	No maturity date

The bonds have been issued principally to increase the Bank's regulatory capital. In the case of a winding up of the Bank, the bonds are repayable after all other debt has been repaid but before shareholders.

### LENDING

The Bank's loans and advances to customers amounted to €3,187.0 million as at 31 December 2022. The table below shows a breakdown of the Bank's loans and advances to customers by type of customer and type of loan as at 31 December in each of 2022, 2021 and 2020.

	2022	2021	2020
	(€ thousand)		
<b>Loans to legal entities</b>			
Corporate loans .....	1,725,720	1,469,216	1,192,803
Leasing .....	121,015	111,001	102,297
Overdraft .....	36,686	32,327	30,338
Trade finance.....	36,255	37,162	20,497
Leveraged loans.....	3,679	5,304	5,551

Credit card loans and hire-purchase .....	747	570	519
Apartment association loans.....	18,273	10,929	7,135
Factoring .....	16,677	17,382	8,400
<b>Total.....</b>	<b>1,959,052</b>	<b>1,683,891</b>	<b>1,367,540</b>
<b>Loans to individuals</b>			
Hire purchase .....	15,824	13,081	14,294
Mortgage loans .....	1,049,386	840,736	695,204
Consumer loans .....	77,119	56,936	52,202
Private loans .....	52,801	49,683	50,264
Leasing .....	31,678	30,127	26,554
Leveraged loans.....	6,857	9,008	6,366
Credit card loans.....	8,933	7,540	7,232
Overdraft .....	25	19	23
Study loans .....	2,559	1,213	974
Real estate leasing .....	3,332	3,975	5,028
<b>Total.....</b>	<b>1,248,514</b>	<b>1,012,318</b>	<b>858,141</b>
Loans to related parties	5,815	6,047	4,096
Impairment provisions.....	(20,577)	(19,049)	(16,858)
<b>Total loans and advances to customers .....</b>	<b>3,186,989</b>	<b>2,677,160</b>	<b>2,208,823</b>

As at 31 December 2022, corporate loans accounted for 53.8 per cent. of the Bank's total loans and advances to customers before impairment provisions compared to 54.5 per cent. as at 31 December 2021 and 53.6 per cent. as at 31 December 2020. The Bank's other significant categories of loan are mortgage loans (which accounted for 32.7 per cent. of the Bank's total loans and advances to customers before impairment provisions as at 31 December 2022 compared to 31.2 per cent. as at 31 December 2021 and 31.2 per cent. as at 31 December 2020) and leasing loans (which accounted for 4.8 per cent. of the Bank's total loans and advances to customers before impairment provisions as at 31 December 2022 compared to 5.2 per cent. as at 31 December 2021 and 5.8 per cent. as at 31 December 2020).

The table below shows a breakdown of the Bank's loans and advances to customers by industry as at 31 December in each of 2022, 2021 and 2020.

	2022		2021		2020	
	(€ thousand)	(per cent.)	(€ thousand)	(per cent.)	(€ thousand)	(per cent.)
Individuals.....	1,245,358	39.1	1,009,927	37.7	856,124	38.8
Agriculture .....	79,448	2.5	68,459	2.6	72,099	3.3
Mining and Quarrying .....	1,630	0.1	2,019	0.1	2,471	0.1
Manufacturing .....	154,069	4.8	151,638	5.7	151,668	6.9
Energy .....	93,170	2.9	58,504	2.2	43,129	2.0
Water and Utilities	29,129	0.9	23,505	0.9	2,841	0.1
Construction .....	108,401	3.4	83,011	3.1	45,011	2.0
Wholesale and retail .....	148,560	4.7	131,630	4.9	87,715	4.0
Transport and logistics .....	24,831	0.8	28,752	1.1	27,412	1.2
Hotels and Restaurants .....	30,742	1	28,680	1.1	14,095	0.6
Information and communication....	14,301	0.4	10,878	0.4	12,656	0.6
Financial services	127,950	4	85,505	3.2	67,306	3.0



Real estate .....	777,830	24.4	654,325	24.4	495,952	22.5
Professional, scientific and technical activities	75,174	2.4	44,669	1.7	41,153	1.9
Administrative activities.....	116,551	3.7	114,446	4.3	73,124	3.3
Public management.....	79,145	2.5	97,622	3.6	120,805	5.5
Education.....	5,445	0.2	4,328	0.2	16,337	0.7
Health.....	11,542	0.4	13,139	0.5	13,231	0.6
Art and entertainment.....	55,271	1.7	48,832	1.8	57,737	2.6
Other servicing activities.....	8,442	0.3	17,293	0.6	7,952	0.4
<b>Total (before impairment) .....</b>	<b>3,186,989</b>	<b>100</b>	<b>2,677,160</b>	<b>100</b>	<b>2,208,823</b>	<b>100.0</b>

The Bank's principal industry concentration is real estate. This category principally comprises commercial and residential real estate developments in cities but excludes construction which constitutes a separate category. The Bank also has a significant proportion of loans to individuals in its portfolio. Real estate loans accounted for 24.4 per cent. of the Bank's loans and advances to customers (after impairment) as at 31 December 2022, compared to 24.4 per cent. as at 31 December 2021 and 22.5 per cent. as at 31 December 2020. Loans to individuals accounted for 39.1 per cent. of the Bank's loans and advances to customers (after impairment) as at 31 December 2022, compared to 37.7 per cent. as at 31 December 2021 and 38.8 per cent. as at 31 December 2020.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

### Risk concentration

As at 31 December 2022, loans made to five customers have a high risk concentration (that is, more than 10 per cent. of the Bank's net own funds) either individually or at a Bank level, with the aggregate concentration totalling 59 per cent. of the Bank's net own funds. As at 31 December 2021, loans made to six customers had a high risk concentration (that is, more than 10 per cent. of the Bank's net own funds) either individually or at a Bank level, with the aggregate concentration totalling 90 per cent. of the Bank's net own funds. As at 31 December 2020, loans made to five customers had a high risk concentration either individually or at a Bank level, with the aggregate concentration totalling 83 per cent. of the Bank's net own funds.

### Maturity profile

The table below shows the Bank's loans and advances to customers by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2022, 2021 and 2020.

	<u>On demand</u>	<u>Up to 3 months</u>	<u>3-12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Total<sup>(1)</sup></u>
	(€ thousand)					
As at 31 December 2022 ...	—	186,547	487,298	2,095,373	1,258,430	<b>4,027,648</b>
As at 31 December 2021 ...	—	173,534	431,582	1,661,341	924,419	<b>3,190,876</b>

As at 31 December 2020 ...	—	146,192	329,310	1,375,417	741,393	<b>2,592,312</b>
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Note:

- (1) This figure is different than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's loan and advances to customers are well diversified by maturity with 4.6 per cent. (by future contractual undiscounted cash flows) falling due within three months, 12.1 per cent. falling due between three and 12 months, 52.0 per cent. falling due between one and five years and the remaining 31.3 per cent. falling due after five years, in each case as at 31 December 2022.

### Interest repricing

The Bank's loans and advances to customers bear interest at floating rate bases, mostly using a six month repricing period. The proportion of loans with a fixed interest rate is approximately 9 per cent. of the Bank's total value of loans to customers as at 31 December 2022.

The table below shows the Bank's loans and advances to customers Banked by the recalculation dates of interest rates for each of 2022, 2021 and 2020.

	<u>Up to 3 months</u>	<u>3-12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Total<sup>(1)</sup></u>
	<i>(€ thousand)</i>				
As at 31 December 2022 ...	1,454,057	1,622,589	90,799	31,931	<b>3,199,376</b>
As at 31 December 2021 ...	1,214,410	1,375,207	85,595	15,869	<b>2,691,081</b>
As at 31 December 2020 ...	993,697	1,113,053	103,141	10,616	<b>2,220,507</b>

Note:

- (1) Excludes accrued interest and impairments which amounted to €8,190 thousand and €(20,577) thousand, respectively, as at 31 December 2022, €5,128 thousand and €(19,049) thousand, respectively, as at 31 December 2021 and €5,174 thousand and €(16,858) thousand, respectively, as at 31 December 2020.

As at 31 December 2022, 45.4 per cent. of the Bank's customer loans and advances repriced within three months, 50.7 per cent. repriced between three and 12 months, 2.8 per cent. repriced between one and five years and the remaining 1.0 per cent. repriced after five years.

### Currency mix

The Bank makes customer loans and advances principally in euro. As at:

- 31 December 2022, 99.8 per cent. of its customer loans and advances were denominated in euro and the balance was denominated in other currencies;
- 31 December 2021, 99.7 per cent. of its customer loans and advances were denominated in euro and the balance was denominated in other currencies; and
- 31 December 2020, 99.4 per cent. of its customer loans and advances were denominated in euro and the balance was denominated in other currencies.

### Geographical distribution

In terms of the geographical distribution of customer loans and advances:

- as at 31 December 2022, 99.2 per cent. were classified as Estonian, 0.6 per cent. were from other EU countries and 0.2 per cent. were from other countries;
- as at 31 December 2021, 99.1 per cent. were classified as Estonian, 0.7 per cent. were from other EU countries and 0.2 per cent. were from other countries; and
- as at 31 December 2020, 98.7 per cent. were classified as Estonian, 0.7 per cent. were from other EU countries and 0.6 per cent. were from other countries.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

## FINANCIAL ASSETS AT FVTPL AND AT AMORTISED COST

The Bank's portfolio of FVTPL financial assets principally comprises shares and fund units and foreign exchange forward contracts, also included debt securities until 31 December 2021. Since 31 December 2022 the Bank records debt securities at amortised cost. The securities are issued by both domestic and international issuers. The Bank invests in these securities both to generate returns (as interest, dividend and capital gains) and to provide an additional source of liquidity when needed.

### Structure of the Bank's financial assets at FVTPL and at amortised cost

The table below summarises the Bank's investments in debt and equity securities as at 31 December 2022, 2021 and 2020.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
		(€ thousand)	
<b>FVTPL financial assets</b>			
Shares and fund units .....	367	367	142
Debt securities .....	—	127,349	322,699
Foreign exchange forwards .....	40	4	89
<b>Total FVTPL financial assets .....</b>	<b>407</b>	<b>127,720</b>	<b>322,930</b>
<b>Financial assets at amortised cost</b>			
Debt securities .....	364,230	—	—
<b>Total financial assets at amortised cost</b>	<b>364,230</b>	<b>—</b>	<b>—</b>

As at 31 December 2021 and 2020, all of the Bank's FVTPL shares and fund units as well as debt securities are fair valued at level 1, meaning they are quoted in an active market. Foreign exchange forwards are fair valued at level 2, meaning they are valued using market observable inputs using a valuation model.

As at 31 December 2022, all of the Bank's FVTPL shares and fund units are fair valued at level 1. Foreign exchange forwards are fair valued at level 2. Debt securities are measured at amortised cost method.

## Interest repricing

The Bank's debt securities pay interest on either a semi-annual or annual basis.

The table below shows the Bank's debt securities by the recalculation dates of interest rates for each of 2022, 2021 and 2020.

	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total<sup>(1)</sup></b>
	<i>(€ thousand)</i>				
As at 31 December 2022.....	236,130	4,965	122,671	0	<b>363,766</b>
As at 31 December 2021.....	46,000	3,350	77,218	0	<b>126,568</b>
As at 31 December 2020.....	200,045	117,300	4,280	0	<b>321,625</b>

Note:

- (1) Excludes accrued interest which amounted to €555 thousand as at 31 December 2022, €781 thousand as at 31 December 2021 and €1,074 thousand as at 31 December 2020.

As at 31 December 2022, 64.9 per cent. of the Bank's debt securities repriced within three months, 1.4 per cent. repriced between three and 12 months, 33.7 per cent. repriced between one and five years and none repriced after five years.

## Maturity profile

The table below shows the Bank's debt securities by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2022, 2021 and 2020.

	<b>On demand</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total<sup>(1)</sup></b>
	<i>(€ thousand)</i>					
As at 31 December 2022 ...	—	236,130	4,966	123,225	—	<b>364,321</b>
As at 31 December 2021 ...	—	46,047	3,387	77,915	—	<b>127,349</b>
As at 31 December 2020 ...	—	200,448	117,716	4,534	—	<b>322,698</b>

Note:

- (1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's debt securities are well diversified by maturity with 64.8 per cent. (by future contractual undiscounted cash flows) falling due within three months, 1.4 per cent. falling due between three and 12 months, 33.8 per cent. falling due between one and five years and none falling due after five years, in each case as at 31 December 2022.

## Currency mix

The Bank's financial assets at fair value (which includes a small portfolio of equity securities held at FVTPL and at FVOCI) and financial assets at amortised cost are principally denominated in euro. As at:

- 31 December 2022, 100 per cent. of its financial assets at fair value and financial assets at amortised cost were denominated in euro and 0.1 per cent. were denominated in other currencies;
- 31 December 2021, 99.9 per cent. of its financial assets at fair value were denominated in euro and 0.1 per cent. were denominated in other currencies; and
- 31 December 2020, 100.0 per cent. of its financial assets at fair value were denominated in euro.

### **Geographical distribution**

In terms of the geographical distribution of the Bank's financial assets at fair value (which includes a small portfolio of equity securities held at FVTPL and at FVOCI) and financial assets at amortised cost:

- as at 31 December 2022, 64.8 per cent. were classified as Estonian and the balance was from other countries;
- as at 31 December 2021, 37.4 per cent. were classified as Estonian and the balance was from other countries; and
- as at 31 December 2020, 96.8 per cent. were classified as Estonian and the balance was from other countries.

### **CAPITAL ADEQUACY**

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Bank's management and are also governed by EU capital adequacy regulations which are directly applicable in Estonia which are largely based on capital adequacy standards under the Basel III framework. The Basel III framework strengthened the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee. The Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks;
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process ("**ICAAP**") performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures.

The goal of the Bank's capital management is to:

- ensure continuity of its business and generate returns for its shareholders;
- maintain a strong capital base to support the development of its business; and
- comply with the capital requirements established by supervision authorities.

The Bank follows the following general principles in its capital management:

- it must be adequately capitalised at all times, having the necessary capital to ensure economic preservation and to enable financing for new profitable growth opportunities;
- the main focus on capital management is on tier 1 own funds because only these can absorb losses;
- the Bank's capital is divided into (i) regulatory minimum capital and (ii) the Bank's capital buffer and to reach its long-term economic goals the Bank seeks to proportionately lower its regulatory minimum capital (through minimising risks and high transparency) whilst maintaining a sufficient and conservative capital reserve which will ensure economic preservation even in a severe negative scenario; and
- the risk appetite set by the Bank is an important input to capital management planning and goal setting as a higher risk appetite requires a higher capital buffer.

All EU credit institutions are required to maintain 4.5 per cent. of common equity tier 1 ("CET1") capital, 6.0 per cent. of tier 1 capital and 8.0 per cent. of both tier 1 and tier 2 capital. In addition, in Estonia additional capital conservation buffer of 2.5 per cent. (imposed by the Financial Supervisory Authority) applies. The Bank is also subject to a 1.5 per cent. O-SII buffer. The systemic risk buffer (imposed by the Estonian Central Bank) was reduced to zero due to the Coronavirus pandemic in May 2020. The countercyclical buffer currently stands at 1.0 per cent.. Additionally, the Bank is subject to Pillar 2 buffers resulting from the SREP process.

The table below shows an overview of the capital requirements applicable to the Bank following its SREP notification in December 2022.

	<b>CET1</b>	<b>Tier 1</b> (per cent.)	<b>CAD</b>
Base capital requirement .....	4.50	6.00	8.00
Pillar 2 capital charge .....	1.91	2.55	3.40
<b>Total SREP capital requirement .....</b>	<b>6.41</b>	<b>8.55</b>	<b>11.40</b>
Capital conservation buffer .....	2.50	2.50	2.50
Systemic importance buffer .....	2.00	2.00	2.00
Systemic risk buffer .....	—	—	—
Countercyclical buffer .....	1.00	1.00	1.00
<b>Total minimum regulatory requirement .....</b>	<b>11.91</b>	<b>14.05</b>	<b>16.90</b>
Additional internally determined buffers <sup>(1)</sup> .....	2.29	2.30	2.30
<b>Total internal capital target .....</b>	<b>14.20</b>	<b>16.35</b>	<b>19.20</b>

Notes:

(1) These are buffers determined by the supervisory board of LHV Group.

Each year, the Bank undertakes an ICAAP which identifies potential internal capital needs in addition to regulatory capital requirements. Capital adequacy and the use of regulatory capital are monitored by the Finance department. Compliance reports are submitted to the supervisory authorities in accordance with the applicable requirements. The Bank uses the standard method for calculating its capital requirements for credit and market risk, and the basis indicator approach for calculating its operational risk requirement.

The table below shows the Bank's capital base, capital requirements and capital adequacy calculations prepared in accordance with the common reporting framework initiated by the Committee of European banking Supervisors as at 31 December in each of 2022, 2021 and 2020.

<b>2022</b>	<b>2021</b>	<b>2020</b>
<i>(€ thousand, except percentages)</i>		

**Capital base**

Paid-in share capital	141,500	111,500	106,500
Legal reserves transferred from net profit	8,736	5,648	4,022
Accumulated profit/(deficit)	147,685	91,126	62,972
Intangible assets (subtracted)	(2,881)	(1,243)	(807)
Profit for accounting period (COREP)	43,966	61,761	32,514
Deductions	(759)	(4,028)	(4,223)
Tier 1 capital	338,247	264,764	200,978
<b>Additional Tier 1 capital</b>	<b>53,000</b>	38,000	38,000
<b>Total Tier 1 capital</b>	<b>391,247</b>	<b>302,764</b>	<b>238,978</b>
Subordinated debt	60,500	50,072	50,500
<b>Total Tier 2 capital</b>	<b>60,500</b>	<b>50,072</b>	<b>50,500</b>
<b>Net own funds for capital adequacy calculation</b>	<b>451,747</b>	<b>352,836</b>	<b>289,478</b>
<b>Capital requirements</b>			
Credit risk and counterparty risk .....	2,032,805	1,758,288	1,375,535
Market risk .....	10,135	6,779	1,672
Operational risk .....	173,468	125,729	95,104
<b>Total capital requirements .....</b>	<b>2,216,408</b>	<b>1,890,796</b>	<b>1,472,311</b>
Total capital ratio .....	20.38%	18.66%	19.66%
Tier 1 capital ratio .....	17.65%	16.01%	16.23%

The Bank is also subject to a Basel III leverage ratio requirement of 3.0 per cent. The Bank's leverage ratio was 6.27 per cent. as at 31 December 2022, 4.04 per cent. as at 31 December 2021 and 4.36 per cent. as at 31 December 2020. The Bank's leverage ratio for these periods has been calculated in accordance with the Basel III leverage ratio and disclosure requirements.

**COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank has contingent liabilities in respect of irrevocable commitments to extend credit that it has made, as well as in relation to letters of credit and guarantees issued by it.

The table below shows the Bank's commitments and contingent liabilities as at 31 December in each of 2022, 2021 and 2020.

	2022	2021	2020
		(€ thousand)	
Unused loan commitments .....	601,093	679,579	413,818
Performance guarantees <sup>(1)</sup> .....	30,174	19,919	15,217
Financial guarantees .....	52,577	49,409	36,492
Letters of credit .....	6,605	1,438	8
<b>Total .....</b>	<b>690,449</b>	<b>750,345</b>	<b>465,535</b>

Note:

- (1) These are contracts that provide compensation if another party fails to perform a contractual obligation. For further information see note 19 to the 2022 Financial Statements and note 19 to the 2021 Financial Statements. The Bank did not record any losses on performance guarantees in 2022, 2021 and 2020.

The Bank has a contingent tax liability reflecting the fact that the tax authorities in Estonia have the right to review a company's records for up to five years after the tax declaration has been submitted and may impose additional taxes, interest and fines if they discover any errors. No VAT or income tax audits have been undertaken on the Bank in the past three years.

**RELATED PARTY TRANSACTIONS**

The Bank's principal related party transactions are with its shareholders that have a significant impact on the Bank and the entities related to them, members of its management board and legal entities controlled by them, members of its supervisory board and close relatives of the persons mentioned above and entities

related to them. These transactions include transactions with related parties that generate interest income and expense, fee and commission income and other income for the Bank. Further information on the Bank's related party transactions is set out in note 20 to the 2022 Financial Statements and note 20 to the 2021 Financial Statements.



## MARKET ENVIRONMENT

*The information presented in this section has been extracted from publicly available sources and documents. The source of external information is always given if such information is used in this section. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as the European Commission or government publications none of it has been independently verified by the Issuer, the Arranger or the Dealers or any of their affiliates or the Issuer's advisers in connection with the Programme.*

*The Issuer does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, unless such duties arise out of generally binding regulations.*

### **Economies in which the Issuer operates**

The Issuer is a credit institution established under the laws of Estonia and is authorised to provide its products and services in Estonia, in the United Kingdom (through its branch in the United Kingdom) and, on a cross-border basis, in Latvia, Finland, Belgium, Germany, Austria, the Netherlands, Spain, Sweden, Lithuania and Denmark.

The Issuer considers Estonia and the United Kingdom to be its home markets. In Estonia the Issuer acts as a full-service bank, accepting deposits and providing loans, payment services and other common banking services to private and corporate clients. In the United Kingdom, the Issuer mainly provides payment services to financial intermediation customers. In Germany, Austria the Netherlands and Spain, the Issuer collects deposits through deposit intermediation platforms. The Issuer also provides acquiring services on a cross-border basis in all of the above-mentioned markets.

### **Estonian macroeconomic environment<sup>7</sup>**

LHV Bank is an Estonian bank primarily focused on lending to, and accepting deposits from, commercial and retail customers, principally those located or resident in Estonia. As a result, its revenue and results of operations are principally affected by economic and market conditions in Estonia.

The Estonian economy shrank by 1.3 per cent. in 2022. The economic difficulties that started mid-year intensified in the last quarter and drove the GDP for the year into a deeper decline than expected. In the last quarter, GDP dropped 4.1 per cent. compared to the same period in 2021. In 2022, half of the areas of economic activity managed to increase value added, however most of these areas have a small share of the economic structure. The greatest positive influence came from the hotel, restaurants and catering area of activity. The levels of economic activity in the logistics and construction sector and various business services also increased. Growth was slowed by low levels of activity in the real estate, retail, agriculture and energy sectors. One of the bulwarks of the economy, the manufacturing industry, remained on par with 2021 levels.

Preliminary estimates for the first quarter of 2023 show that the decline in economic activity and consequently in GDP might have bottomed out. Soft data from sentiment surveys indicates that overall confidence has increased in all covered sectors although it has only climbed to the lows of the 2008-2009 recession. Year on year decline in GDP in the first quarter is expected to stay at 4 per cent. (first estimate) which means that in quarterly terms the economy did not shrink further but remained constant at the beginning of the year.

The biggest challenge for the economy is still the rapid rise of consumer prices. Headline inflation in Estonia continues to be one of the highest in Europe reaching 13.5 per cent. in April 2023. While energy prices have certainly come down from peak levels, they have remained somewhat elevated and energy inflation has transmitted into all other goods and services. Increase in food prices has been the main driver of consumer inflation in the spring of 2023 and will likely remain so during the summer of 2023. On the other hand, most of the price increases happened during the first half of 2022 but will likely have an impact on yearly figures until the late summer of 2023. Compared to August 2022 (9 months), consumer prices have risen 4 per cent. and half of this increase came in April 2023, largely due to the end of government offered energy support measures.

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<sup>7</sup> Sources: Estonian Economy and Monetary Policy, 1/2023. Bank of Estonia. [https://haldus.eestipank.ee/sites/default/files/2023-03/rpm2023\\_1\\_eng.pdf](https://haldus.eestipank.ee/sites/default/files/2023-03/rpm2023_1_eng.pdf); Statistics Estonia. <https://andmed.stat.ee/et/stat>

The labour market has stayed very resilient with unemployment at 5.3 per cent. in the first quarter of 2023. Employers are expecting economic activity to increase in the second half of 2023 and are holding on to the qualified workforce on their payroll, even if it means some of the employees are under-utilised at some point. Registered unemployment increased to 8.1 per cent. in March 2023 but has decreased by 50 basis points since then due to seasonal effects. Compared to 2022, registered unemployment is nearly 1 percentage point higher reflecting mostly the addition of Ukrainian refugees to the registry.

Based on data released by the Estonian Statistical Office, Estonia's nominal GDP was €31.4 billion in 2021 and €36.2 billion in 2022. The Estonian Central Bank's forecast of nominal GDP for 2023 is €38.8 billion and €40.5 billion for 2024. Whilst real growth is expected to be negative in 2023 (-0.6 per cent.), the economy continues to grow in nominal terms (7.4 per cent.) which is helping businesses and households to better cope with the slowdown. Real growth is expected to recover in the second half of 2023 and to reach 2.6 per cent. in 2024. Inflation will remain elevated for the remainder of 2023 reaching 9 per cent. but will slow down towards the end of the year and stabilise at around 2-3 per cent. in 2024. There is still a lot of uncertainty about the forecasts made at this time as there has been a great deal of volatility in markets and the economic outlook remains unclear.

Prior to the changed geopolitical circumstances and their negative economic impact, the Estonian economy had already reached close to its limit of production capacity by the end of 2021. Any structural issues in the Estonian economy are expected to have less of an effect in the near future as inflation is still the main factor dictating and holding back economic growth. The tightening of monetary policy is also having an increased effect as high interest rates are impacting different business sectors due to tighter credit conditions. It is also decreasing the purchasing power of households as monthly loan payments have in most cases more than doubled and the levels of disposal income have decreased. Market expectations show that the European Central Bank will probably raise interest rates by another 50 basis points this year and then remain at a higher interest rate level for some time. EURIBOR levels are expected to go beyond 4 per cent.

### **Estonian banking market**

As of 31 December 2022 there were in total 13 banks operating in Estonia. Out of these four were branches of foreign credit institutions. The largest banks in Estonia are owned by Nordic financial groups (SEB and Swedbank) who together accounted for around two thirds of the market (64 per cent. of deposits and 56 per cent. of corporate lending as of 31 December 2022, according to adjusted Financial Supervision Authority ("FSA") data<sup>8</sup>). Accordingly, the Estonian banking sector is fairly concentrated.

LHV and Luminor are the third and fourth banks in terms of market share. LHV's market share has been growing over the years and amounted to 17 per cent. for deposits, 18 per cent. for corporate loans and 10 per cent. for household loans as of 31 December 2022, according to adjusted FSA data.

Client deposits play an important role in funding the Estonian banking sector. As at the end of 2022, deposits made up 80 per cent. of all liabilities of the banking sector<sup>9</sup>. Around 82 per cent. of the total deposits are demand deposits as rising interest rates have increased the motivation for depositors to enter into term deposits. The loan-to-deposit ratio stood at 89 per cent. for the Estonian banking sector on average, as at the end of 2022. Accordingly, the Estonian banking sector as a whole was able to fund its whole loan portfolio entirely based on client deposits.

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<sup>8</sup> Source: Financial Supervision Authority. This information has been adjusted for the Latvian and Lithuanian branch of Luminor (based on Luminor Q4 2021 Interim report). The values of the Estonian total market have been adjusted by deducting the assets and deposits of the Latvian and Lithuanian branch of Luminor in order to reflect more accurately the size of the Estonian market.

<sup>9</sup> Source: Bank of Estonia.

## THE ESTONIAN HOUSING MORTGAGE MARKET

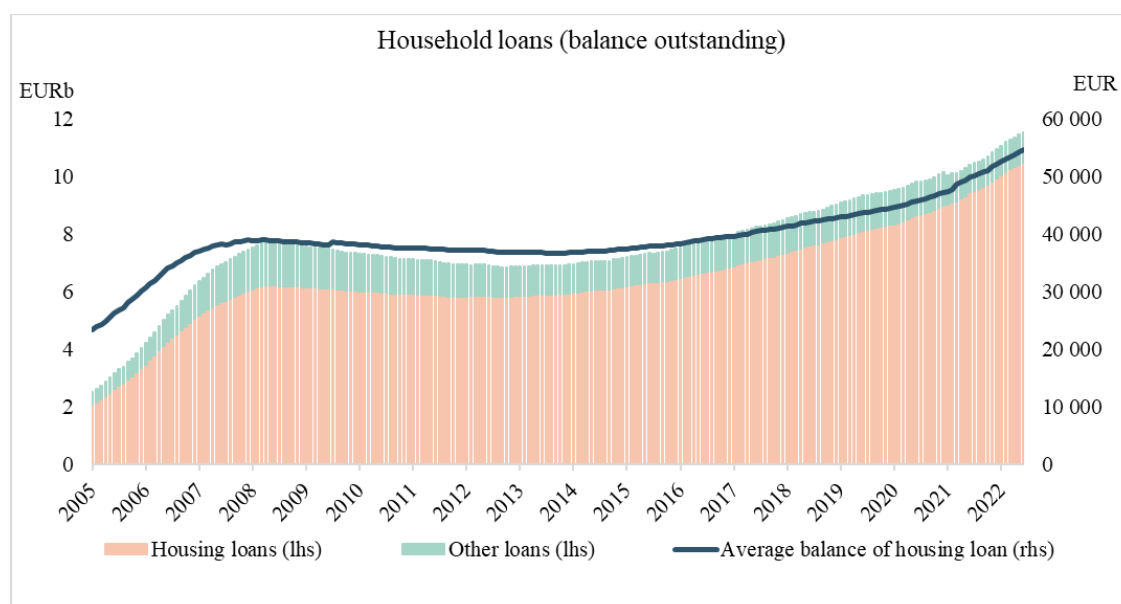
*The information provided below has been derived from publicly available information on the Estonian housing mortgage market.*

### Introduction

Banks make up by far the largest share of the residential mortgage market and origination in Estonia. Other commercial lenders account for a minor share. Mortgage loans are available for all types of sole family homes such as flats, houses and terraced houses.

Borrowers typically have a mortgage loan from a single bank. Loan-to-value ratios can range up to 85 per cent. (or up to 90 per cent. with a guarantee from a state institution providing housing loan guarantees to qualifying private individuals).

Housing loans make up 91 per cent. of total loans made to private individuals and amounted to around €10.5 billion as at 31 December 2022. Consumer credit and various other loans make up the remainder of the total loans to private individuals. The balance of outstanding loans made to private individuals declined slightly after the past economic recession but has recovered and has been growing at a steady pace in recent years. The average balance of a housing loan amounted to €54,586 as at 31 December 2022.



Source: <http://statistika.eestipank.ee/#/et/p/650/r/1172/1021>

The majority of the mortgage loans in Estonia have a variable base rate (such as 6-month EURIBOR). Loans based on fixed rates are also available but are less common. There are no specific limitations on interest chargeable on mortgage loans (except for default interest) under Estonian law but the general principles of equity under Estonian law still apply. Average interest rates have declined together with the overall reduction in the level of market interest rates and EURIBOR in particular. Margins, which are generally fixed for the life of a loan in Estonia, have been stable over the past few years.

### Mortgage Lenders in Estonia

The market of Estonian mortgage lenders is fairly concentrated, in line with the banking sector in Estonia in general. As at 31 December 2022, the largest share of the household loan market was held by Swedbank (43 per cent.) and SEB (28 per cent.), followed by Luminor\* (11 per cent.) and LHV (11 per cent.). Based on LHV's estimate<sup>10</sup>, LHV's market share of new mortgage sales made up around 15 per cent. of the total market in 2022. Based on the outstanding loan balance to private individuals, the market share of loans to private individuals as of 31 December 2022 was as follows:

<sup>10</sup> Source: Bank of Estonia (<https://statistika.eestipank.ee/#/et/p/650/r/1054/903>), LHV internal data

	<u>Market share</u>
SWEDBANK .....	43%
SEB .....	28%
LUMINOR .....	11%
LHV .....	11%
COOP .....	4%
OTHER .....	3%
<b>TOTAL .....</b>	<b>100%</b>

Source: [https://www.fi.ee/sites/default/files/FI\\_EFT\\_1\\_2023\\_est\\_korr.pdf](https://www.fi.ee/sites/default/files/FI_EFT_1_2023_est_korr.pdf)

## Material Legal Aspects of the Mortgage Loans

The below summary provides a brief overview of the material legal aspects of mortgage loans and does not purport to be a complete analysis of all legal considerations relating to mortgage loans. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### Establishment of a Mortgage

Real estate property located in Estonia can be pledged by way of a mortgage, which must be established under a mortgage agreement attested by a notary and which is registered with the Estonian Land Register. The entering into a mortgage agreement and registration of the mortgage in the Estonian Land Register is sufficient evidence regarding the establishment of the mortgage and no further certificates (either physical or electronic) are issued with respect to the mortgage under Estonian law. The Estonian Land Register is a public register and, subject to the payment of a processing fee, information regarding real estate properties and mortgages encumbering such real estate properties can be accessed publicly. An entry concerning the mortgage in the Estonian Land Register sets out: (i) the mortgagee; (ii) the monetary amount of the mortgage (sum of mortgage); and (iii) the agreement according to which the owner of the real estate property has consented to be subject to immediate compulsory enforcement (if applicable). Real estate property that may be subject to a mortgage comprises: (i) immovable, i.e. delimited part of land and (ii) right of superficies, which is defined as a transferable and inheritable real right which encumbers an immovable such that the person for whose benefit a right of superficies is constituted is entitled to own a construction permanently attached to the immovable for a specified term.

Under Estonian law, a mortgage usually encumbers a real estate property in its entirety. In the case of a real estate property co-owned by several owners, a legal share of a real estate property belonging to a co-owner may also be encumbered with a mortgage. A mortgage cannot be established only on a physical share of a real estate property or a part of the legal share of a co-owner.

A mortgage established under Estonian law on a residential real estate property extends to the parts and accessories of that property. A mortgage does not extend to the accessories of the real estate property which are not in the ownership of the owner of the real estate property. Furthermore, a mortgage does not extend to accessories and parts which before the seizure of the real estate property are transferred according to regular management or permanently severed from the real estate property. If real estate property encumbered with a mortgage is leased, the mortgage also extends to a claim under the lease which arises within the period between seizure of the real estate property or declaration of bankruptcy of the debtor and sale of the real estate property, or which arises within one year before seizure of the real estate property or declaration of bankruptcy of the debtor and is uncollected. If a real estate property encumbered with a mortgage is insured, the mortgage also extends to a claim for insurance proceeds.

A mortgage, to the extent of the amount of the mortgage, secures any claim and interest (including any fine for delay) for up to three years before sale of the real estate property in enforcement proceedings, expenses for the collection of the debt, including the costs of the enforcement proceeding and bailiff's fees, and the insurance premiums paid by the mortgagee on behalf of the owner of the immovable.

## **Enforcement Procedures**

### ***Introduction and general principles of Estonian law in respect of enforcement***

If a borrower fails to fulfil its obligations under a mortgage loan, the creditor may generally (i) seek general enforcement of its claims against the borrower and collection of the debt arising from the mortgage loan and (ii) seek enforcement of a mortgage (and other security, if any) securing the mortgage loan to be able to satisfy the claims arising from the mortgage loans for the account of proceeds from the enforcement of such mortgage (or other security).

General enforcement by a creditor of claims against a defaulting borrower under a mortgage loan typically requires under Estonian law that the creditor first obtains a judgment ordering the relevant claims to be satisfied (for example, for a debt to be paid) after which the actual enforcement may be carried out by a bailiff in a formal enforcement procedure against the assets of the borrower regulated by Estonian law.

In parallel or alternatively, a creditor holding a mortgage over real estate or a borrower or a third party as security for the borrower's obligations under a mortgage loan may initiate enforcement of the mortgage, which is carried out (outside of bankruptcy proceedings of the mortgagor) by way of sale of the mortgaged real estate at a compulsory auction conducted by a bailiff or by way of compulsory administration by a bailiff. This presupposes the existence of an enforcement agreement entered into the Estonian land register. If, after the collateral has been sold, there is still an outstanding debt left, the creditor has the right to bring a separate claim to the court.

### ***Enforcement of a claim against the debtor***

To enforce a claim against the debtor arising from a mortgage loan, the creditor must typically submit its claim to a court having jurisdiction over the mortgage loan. In such court proceedings, the creditor would need to prove its claim against the debtor in order to obtain a court ruling ordering the payment of the relevant claim. Upon such court ruling entering into force, the creditor may apply to a bailiff, who shall carry out enforcement proceedings with respect to the debtor and its assets. In enforcement proceedings, if the debtor fails to pay the debt voluntarily, the debtor's property is seized and sold to the extent necessary to satisfy the claim and the claim of the creditor shall be satisfied from the proceeds received from such sale.

The enforcement proceedings, including the seizure and sale of the debtor's property, are carried out by a bailiff in accordance with the Estonian Code of Enforcement Procedure. The Estonian Code of Enforcement Procedure provides, inter alia, a list of items of the debtor which cannot be seized and sold in enforcement proceedings, which mainly consist of property which is essential for the debtor to satisfy his or her needs or the seizure and sale of which would be contrary to law or good morals. The Estonian Code of Enforcement Procedure further provides a number of forms of income of the debtor which cannot be used to satisfy claims in enforcement proceedings, which mainly consists of benefits payable in accordance with laws.

### ***Enforcement of a mortgage***

The process of enforcement of mortgages depends on whether or not the mortgagor and the mortgagee have agreed in the notarised agreement that the mortgagor agrees to submit to immediate compulsory execution proceedings in order to satisfy the claims secured with the mortgage. Such agreement may be (and generally is) included in the agreement for the establishment of the mortgage but may be made later as well, including after the claims secured by the mortgage have fallen due. If such agreement has been made, the mortgagee may enforce the mortgage without obtaining a court ruling for enforcement. Otherwise the mortgagee would need to submit a claim to court to recognise its right to enforce the mortgage, on the basis of which the mortgagee could then turn to a bailiff to enforce the mortgage.

Where the mortgagor and the mortgagee have agreed in the notarised agreement on submission by the mortgagor to immediate compulsory execution proceedings in order to satisfy the claims secured by the mortgage or where the mortgagee has obtained a court ruling for the enforcement of the mortgage, the mortgagee may apply for initiation of formal enforcement proceedings pursuant to which a bailiff carries out the enforcement of the mortgage.

The enforcement of a mortgage is carried out by selling the mortgaged property at an auction or by subjecting the mortgaged property to compulsory administration. In the case of a compulsory auction, the mortgaged property is sold at an auction and the proceeds of the sale are applied towards the satisfaction of the secured obligations. In the case of a compulsory administration, the mortgaged property is administered by a bailiff and the proceeds of the management of the real estate (e.g. rental income) are applied towards the satisfaction of the secured obligations. In case the enforcement of a mortgage is carried out by way of selling the mortgaged property, the bailiff will seize the mortgaged property, by recording the property and its accessories and other objects to which a mortgage extends, prohibiting disposal thereof and applying for a notation concerning prohibition of the disposal of the property to be entered in the Estonian Land Register. The bailiff will announce the auction process in the Estonian Official Gazette and on at least one commonly used website for the sale of real estate at least 20 days in advance of the auction. After at least 20 days have passed from the announcement, the auction will be carried out by the bailiff and the proceeds of the auction will be applied towards the satisfaction of the secured obligations.

As an exception to the above-described process, at the request of the mortgagor and with the consent of the mortgagee, the bailiff may permit the mortgagor to sell the mortgaged property under the supervision of the bailiff. The bailiff may permit the mortgagor to sell the property also regardless of the consent of the mortgagee: (i) if an auction for the sale of the property has failed or it can be presumed that the property cannot be sold at an auction or the revenue expected to be received from the property at an auction would be significantly lower than the revenue expected to be received from the sale of the property organised by the mortgagor or (ii) if an auction has failed due failure by the winning bidder to pay the purchase price and a repeated auction is also unsuccessful.

#### ***Cost of enforcement***

If the enforcement process requires submitting a claim to court, a state fee would need to be paid to initiate the court proceedings. The amount of such state fee would depend on the amount of the claim. Furthermore, court proceedings often entail other legal costs such as lawyers' fees, which may not be compensated in full even if the court rules in favour of the party. If the court rules in favour of the other party, it is possible that the legal costs incurred by the other party may need to be compensated.

The enforcement procedure by a bailiff would entail the bailiff's fee and costs necessary for enforcement proceedings. In the case of a monetary claim, the bailiff's fee depends on the amount of the claim. The enforcement costs would be borne by the debtor and would be collected by the bailiff. The enforcement costs would be collected from the debtor by the bailiff on the basis of the decision on enforcement costs (such document is immediately enforceable).

#### ***Treatment of the mortgage and mortgagee in the mortgagor's bankruptcy proceedings***

Should the mortgagor be declared bankrupt, the mortgage ensures a priority position of the mortgagee with respect to the proceeds from the sale of the mortgaged real estate property.

In the mortgagor's bankruptcy proceedings, claims secured by the mortgage are satisfied as first priority claims for the account (and to the extent) of the money received from the sale of the mortgaged real estate property, from which the payments relating to the bankruptcy proceedings (as listed below) in proportion to the ratio of the amount of money received from the sale of the pledged object to the total amount of money received from the sale of the bankruptcy estate are deducted. The maximum amount which can be deducted from the money received from the sale of the mortgaged real estate property is capped at 15 per cent. of the amount of money received from the sale of the mortgaged real estate property, meaning that at least 85 per cent. of the money received from the sale of the mortgaged real estate property will be applied for the satisfaction of the claims of the pledgee. If a claim secured by the mortgage is not satisfied in full out of the money received from the sale of the mortgaged real estate property, the rest of the claim shall be satisfied together with all other accepted claims which were filed within the term specified by law.

The following are regarded as payments relating to the bankruptcy proceedings and have priority over and are satisfied before the claims secured by specific assets of the debtor:

- claims arising from the consequences of exclusion or recovery of assets;
- maintenance support paid to the debtor and his or her dependants;

- in bankruptcy proceedings regarding the estate, the expenses paid for the bequeather's funeral, maintenance of his or her family members, administration of the estate and making of the inventory of the obligations related to estate;
- consolidated obligations; and
- the costs of the bankruptcy proceedings.

Consolidated obligations are: (i) obligations arising from transactions and other acts performed by a trustee in the performance of his or her duties in the bankruptcy proceedings; (ii) expenses of administration of the bankruptcy estate by the trustee during the bankruptcy proceedings regarding the estate; (iii) obligations arising from contracts which the debtor has failed to perform, if the trustee has continued performance of the obligations or given notification that he or she intends to require performance of the contract; (iv) taxes relating to continuation of the business activities of the debtor; (v) obligations to compensate for the damage caused during the bankruptcy proceedings by an unlawful action of a debtor who is a legal person; (vi) other obligations deemed to be consolidated obligations pursuant to the Estonian Bankruptcy Act.

After the above listed claims have been satisfied, claims secured by the mortgage which have been accepted in the bankruptcy proceedings and were filed within the term specified by law, are satisfied before unsecured claims.

***Treatment of the mortgage and mortgagee in enforcement proceedings carried out with respect to the mortgagor's assets***

If the mortgaged real estate property is sold in enforcement proceedings conducted by other creditors through the bailiff on the basis of an execution document, the mortgagee may, before the distribution of proceeds, submit an application to the bailiff, in which the mortgagee applies for the preferred satisfaction of the mortgagee's claim from the proceeds of the sale of the mortgaged real estate property, regardless of whether or not the mortgagee's claim has fallen due. The bailiff must take the claim of the mortgagee into account upon distribution of the proceeds from the sale of the mortgaged real estate property and preparation of a distribution plan on the basis of the ranking of the mortgage as evident from the Estonian Land Register or a notarised mortgage agreement.

***Contesting of claims and reversal***

An insolvency administrator and all other creditors of the bankrupt grantor of a mortgage may in the course of the bankruptcy proceedings contest the claims submitted against the debtor. If contested, the dispute will be finally settled by the court who will determine whether such claim against the debtor exists and is sufficiently proven.

Furthermore, an insolvency administrator may submit a claim to the court for recovering a security interest granted by the debtor or security agreement concluded by the debtor. In recovery, the court will revoke transactions, subject to the grounds specified below, which were concluded by the debtor before the declaration of bankruptcy and which damage the interests of other creditors and which meets other criteria for revocation set out in the Estonian Bankruptcy Act.

In addition to general grounds applicable to all transactions, the Estonian Bankruptcy Act sets out specific grounds for revoking the grant of security. Under such provisions, a court will revoke the grant of a mortgage if the mortgage damages the interests of the creditors of the mortgagor and was granted:

- during the period from the appointment of the interim trustee or trusted practitioner until declaration of bankruptcy;
- in order to secure an obligation which had arisen within six months before the appointment of the interim trustee or trusted practitioner if the debtor was not required to grant the mortgage at the time when the obligation arose or if the debtor was insolvent at the time of granting the mortgage and the person in whose favour the mortgage was granted was or should have been aware of the insolvency;

- within two years before the appointment of the interim trustee or trusted practitioner if the security was granted in favour of a person connected with the debtor unless the person or the debtor proves that the debtor was solvent at the time of granting the mortgage.

Granting of a mortgage cannot be recovered if the mortgage was granted in order to secure a loan or any other credit agreement and after granting the security the debtor came into possession of the amount of money corresponding to the value of the mortgage pursuant to the secured agreement (except in case the mortgage was granted within two years before the appointment of the interim trustee or trusted practitioner in favour of a person connected with the debtor unless the person or the debtor proves that the debtor was solvent at the time of granting the mortgage).

In addition to reversal (recovery) of the transactions in bankruptcy proceedings, Estonian law also enables creditors to apply for reversal of certain transactions in pre-bankruptcy situation. The grounds for and procedure for relevant reversal of transactions are stipulated in the Estonian Code of Enforcement Procedure.

### ***Insolvency proceedings of natural persons***

In June 2022, the Estonian Natural Person Insolvency Act was adopted which governs the insolvency proceedings of natural persons. Under the referred act, a natural person may submit an application to the court to declare bankruptcy or to declare bankruptcy and initiate proceedings to release the debtor from their obligations or to initiate debt restructuring proceedings in respect of the debts of the natural person. The creditor of the natural person may also submit an application to the court against the debtor to declare bankruptcy or to initiate debt restructuring proceedings. After the submission of the application by the debtor or the creditor, the court discusses the prospects of paying the debts of the debtor and the trusted practitioner of the debtor with the aim of choosing the most appropriate type of procedure for overcoming the debtor's payment difficulties.

Following assessment of the application, the court shall:

- (i) declare the debtor's bankruptcy;
- (ii) declare the debtor's bankruptcy and initiate proceedings for release of the debtor from their obligations;
- (iii) initiate debt restructuring proceedings; or
- (iv) reject or terminate the proceedings.

Throughout insolvency proceedings, the debtor will be advised by a professional adviser (trusted practitioner).

The debt restructuring proceedings allow the debtor to apply for restructuring of their debts by way of either extending term of payment of the debts, allowing payment in instalments or reducing the total amount of the debts.

Upon appointment of the adviser of the debtor:

- (i) the calculation of default interest or a contractual penalty that increases over time shall be suspended until the restructuring plan is approved or the debt restructuring proceedings are completed. This does not apply to claims which the debtor does not request to be restructured or if the debtor is declared bankrupt;
- (ii) a creditor may not terminate the contract entered into with the debtor on the grounds of a breach of a financial obligation which occurred before the filing of the insolvency application or refuse to perform his or her obligations on that basis. An agreement according to which the creditor may terminate the contract upon filing for insolvency or approving the restructuring plan is void. If the continuation of the contract is unfair to the creditor and unnecessary for the debtor, in particular if the initiation of debt restructuring proceedings is unlikely or the continuation of the contract is not necessary for the debt restructuring proceedings, the court may, on the creditor's application, allow the creditor to terminate the contract;



- (iii) the court shall suspend any and all pending enforcement proceedings or other enforcement measures against the debtor's assets until declaration of bankruptcy, the approval of the restructuring plan or until the insolvency proceedings have ended; and
- (iv) the court may also suspend court proceedings in which a pecuniary claim is pending against the debtor; annul the measures for securing an action against the debtor, including the seizure of a payment account; prohibit creditors from exercising their rights arising from security interests provided by the debtor, *inter alia*, to sell the object of pledge or apply for the sale thereof; and apply other measures of preliminary legal protection, including measures securing a bankruptcy petition.

Nevertheless, a creditor may file an application to the court requesting, while taking into consideration the justified interests of the creditor, the continuation of the suspended enforcement proceedings and also to allow the creditor to exercise its rights arising from the security interests granted by the debtor, prior to the declaration of bankruptcy, approval of the reorganisation plan or termination of the proceedings.

When the debtor is unable to adhere to the terms and conditions of the restructuring plan, the restructuring proceedings will be terminated and all restructured claims will be restored in their initial amount.

### ***Consumer protection***

The Estonian Law of Obligations Act sets out a specific legal framework applicable to consumer credit contracts relating to residential immovable property, which includes consumer credit contracts secured by a mortgage or another comparable security. These provisions apply to consumer credit contracts entered into with a consumer residing in Estonia or in a Member State of the European Union or if the contract is essentially linked to the territory of Estonia for any other reason, regardless of the governing law of the contract.

Prior to conclusion of the consumer credit contract, the creditor must provide to a consumer certain specific information using the Standard European Consumer Credit Information form, give certain explanations and assess the consumer's creditworthiness. The creditor may enter into a consumer credit contract with the consumer only where the creditor is convinced that the consumer is creditworthy as a result of analysing the data constituting the basis for the assessment of creditworthiness in aggregate. Where the creditor and the consumer agree to change the amount of credit drawn down by the consumer or the upper credit limit, the creditor must update the information regarding the creditworthiness of the consumer and assess the creditworthiness each time before such change.

The Estonian Law of Obligations Act sets out a mandatory catalogue of information a consumer credit contract must include. If any information required to be provided to the consumer is missing from the appropriate documentation or is not provided in the form required by law, the contract is deemed void, unless the consumer receives the loan or starts utilising the credit.

A consumer credit contract is also deemed void, if the annual percentage rate payable by the consumer exceeds at the time of granting the credit the past six months' average annual rate of consumer credits granted by credit institutions to private individuals and last published by the Bank of Estonia (*Eesti Pank*) more than three times. If a consumer credit contract is void, the consumer must repay the amount received on the basis of the void consumer credit contract by the date by which the consumer had to repay the whole credit according to the void consumer credit contract with the interest equal to the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year.

A consumer may withdraw from a consumer credit contract within 14 days from the date of entering into the contract or receiving from the creditor all statutorily required information, whichever is later, without giving a reason. Upon withdrawal, the consumer must repay the outstanding credit and accrued interest no later than 30 days after submitting a withdrawal application, and the creditor is not entitled to any compensation from the consumer other than the non-returnable state charges paid by the creditor. Contract terms which restrict the withdrawal right, in particular agreements pursuant to which withdrawal is subject to payment of retainer or a contractual penalty, are void. A consumer has the right to repay the credit in part or in full before maturity, without being obliged to pay any interest or other charges for the period when the credit is not utilised.

If a consumer is late with payments, any penalty for late payment may not exceed the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year plus eight per cent. per year. This does not preclude or restrict the right of the creditor to demand compensation for damages in an amount which exceeds the penalty for late payment. Agreements for the payment of a retainer or contractual penalty from the consumer in the case of late payments are void.

If, on the basis of a consumer credit contract, a consumer has made a payment which is insufficient for the performance of all obligations which have fallen due, the payment shall cover: (i) firstly, the expenses incurred for collection of the debt; (ii) secondly, the principal sum owed; (iii) thirdly, interest; (iv) fourthly, other obligations. A creditor may not refuse insufficient payments.

Where credit is repayable in tranches, the creditor may cancel the consumer credit contract due to late payment only if the consumer is wholly or partly late with payment for at least three consecutive repayments and if the creditor has, without success, granted an additional term of at least two weeks to the consumer for the payment of the remaining amount together with notification that the creditor will cancel the contract upon failure to pay the tranches within the term and will claim for payment of the whole debt. In case of cancellation by the creditor, the total outstanding amount of all the payments made by the consumer for repayment of the credit and the payments made to cover the total cost of the credit will be respectively reduced by the interest and the costs calculated for the period when the credit is not used. The creditor may cancel the contract also in case of a fundamental breach by the consumer.

Agreements which derogate from the provisions of the Law of Obligations Act (*võlaõigusseadus*) to the detriment of the consumer are void.

The EFSA and Consumer Protection and Technical Regulatory Authority may, pursuant to the procedure provided by law, require a creditor who has breached the mandatory legal provisions to terminate such breach and refrain from future breach.

## CHARACTERISTICS OF THE QUALIFYING COVER POOL

### Introduction

The Issuer has been granted on 16 March 2020 an additional authorisation to issue covered bonds by the ECB, which has been notified to the Issuer by the EFSA. The additional authorisation has been issued with an unspecified term.

Assets in the Cover Pool function as collateral for the holders of the Covered Bonds. The ECBA sets out eligibility criteria applicable to assets that can be registered in the Cover Pool as well as sufficiency requirements in respect of Eligible Assets (i.e. overcollateralisation requirements). The ECBA requires the Issuer to continuously ensure that (a) the principal amount of all outstanding covered bonds of the same type and the interest payable thereon, the net liabilities arising from derivative instruments entered in the cover register, and operating expenses related to a covered bond portfolio, which consist of the estimated expenses related to management and administration in the case of liquidation of the covered bond portfolio, shall be covered by the cover pool at any time, (b) the nominal value of the cover pool shall exceed the liabilities covered by at least five per cent. and (c) in addition to meeting the above criteria, if the known redemption value of covered bonds is higher than their nominal value at the time of issue, the nominal value of the cover pool covering the covered bonds of the same type shall be at least equal to the redemption value of the covered bonds. Certain substitute assets are allowed as Eligible Assets under the ECBA but Mortgage Loans must always contribute at least 85 per cent of the nominal value of mortgage covered bonds. The Cover Pool must also include a liquidity buffer that must (a) cover the 180 day largest cumulative cash shortfall of the covered bonds portfolio and (b) amount to at least 2 per cent of the nominal value of the Cover Pool. For a more detailed overview of the requirements of the ECBA in relation to the cover pool, please see "*Overview of Estonian Regulation Regarding Covered Bonds*" below.

### Composition of the Cover Pool

The Issuer may change the assets in the Cover Pool and the composition of the Cover Pool may vary over time. However, the Cover Pool must always conform with the eligibility and collateralisation requirements set out in the ECBA. Information about the current composition of the Cover Pool shall be made available at least on a quarterly basis on the Issuer's web site <https://investor.lhv.ee/en/>. The contents of the Issuer's website do not form part of this Base Prospectus and investors should not rely on this website.

The Issuer will maintain a level of over-collateralisation such that the nominal value of the Cover Pool exceeds the nominal value of the liabilities being covered (composed of the nominal value of the covered bonds, accrued interest, net liabilities from derivative instruments and administrative expenses related to the potential separation of the covered bonds portfolio) by at least 5 per cent.

The main eligibility criteria that the Issuer will apply to the Cover Pool shall include (but shall not be limited to):

- Loan to be included in the cover pool must be issued to a private person;
- Loan must be collateralised with mortgage on residential real estate. As at the date of this Base Prospectus the Issuer only issues residential mortgage loans in Estonia and so the Cover Pool shall be composed of loans collateralised with Estonian residential mortgages.
- The mortgage securing the loan must amount to at least 110 per cent of the outstanding balance of the loan.
- The mortgage securing the loan must be a first ranking mortgage. A lower ranking mortgage is acceptable where the Issuer also owns all higher ranking mortgages on the same property (effective first rank).
- Payments under the loan are not overdue at the time of adding the loan to the Cover Pool.
- The currency of the loan must be euro. As at the date of this Base Prospectus, the Issuer does not issue residential mortgage loans in any other currency than euro.

- The eligible portion of the claims of the Issuer arising from a loan that may be used in collateralisation calculations in respect of the Covered Bonds shall be up to 70 per cent of the value of the property securing the loan (i.e. up to 70 per cent LTV). Nevertheless, the entire loan will be included in the Cover Pool.

The total value of the Cover Pool amounted to €461.9 million as of 31 March 2023, out of which residential mortgage loans comprised €447.9 million and liquid bonds made up €14 million. The weighted average current indexed LTV of these loans included in the Cover Pool equalled 45.2 per cent.

The LTV ratio is calculated taking into account the residential real estate collateralising the loan (i.e. only collateral which is relevant and eligible for the purpose of the Covered Bonds is taken into account). Where a loan is collateralised by additional security that is not eligible for the purpose of the Covered Bonds (such as a guarantee from Estonian governmental institution Kredex which provides mortgage loan guarantees for qualifying borrowers), such additional collateral is not taken into account in the calculation of the LTV ratio. In effect, if all collateral available for the Issuer were taken into account, the LTV ratios would be somewhat lower.

The Cover Pool does not contain asset-backed securities that do not comply with paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast). These asset-backed securities have never been included in the Bank's Cover Pool and the Bank does not intend to include such asset-backed securities in its Cover Pool in the future.

The Bank may grant grace periods to its customers, including for principal payments of mortgage loans. Loans for which grace period has been granted would be considered eligible for the Cover Pool, provided that they are not overdue (based on the amended repayment schedule granted to the customer) and comply with all other eligibility criteria.

### **Risk Management of the Cover Pool**

Based on the ECBA, the Issuer is required to conduct stress tests on the Cover Pool on at least a quarterly basis.

On 27 January 2023, the Ministry of Finance adopted the regulation of the procedure, methodology and purpose of Covered Bond Portfolio stress testing and covering the collateral shortfall as a results of stress testing.

This regulation is based on subsection 22 (3) of the ECBA and the authorised issuers are obliged to update their activities as set out in the regulation by 30 June 2023 and present reports to EFSA.

The regulation regulates more specifically the Issuer's stress test procedures to include an annual sensitivity analysis and quarterly stress tests, measuring the potential impact of the Covered Bond Portfolio, its collateral and risk factors affecting the Issuer and the potential impact of multi-risk factors on the Covered

Bond Portfolio and on the Issuer as a whole, i.e. the sensitivity of the Covered Bond Portfolio and the Issuer to risk factors.

The stress test scenarios shall be based on the EBA's worst-case stress test scenario and consider the specificities of the Issuer's risk profile. If some of the scenarios described in regulation are not relevant for Issuer's Cover Pool risks, then the reasons not to conduct these scenarios has to be explained to EFSA.

The main stress test scenarios shall cover the following risks;

- Interest rate risk scenarios;
- Foreign exchange risk scenarios;
- Real estate price shocks (fire sale conditions);
- Credit risks which take into account concentration risk, prepayments, defaults and deterioration of the credit of the cover assets;
- Early repayment risk and any other risks specific to the Cover Pool; and
- At least one stress test must be a combination of the above risk factors.

In case of any shortfall found as a result of the quarterly stress test, the Issuer must add assets to the Cover Pool so that the overcollateralisation requirements would still be met even assuming the stress scenario.

In addition to stress tests, the Issuer must conduct an annual sensitivity analysis which also needs to take into account the potential effect of the stress scenario on the eligibility of the assets in the Cover Pool (requirements relating to overdue loans and the LTV 70 per cent. criteria). The Issuer must have free eligible assets available to replenish the Cover Pool in case some assets become ineligible.

The Issuer must also submit the results of the sensitivity analysis to the EFSA within three months of the end of the Issuer's financial year. The Issuer's management regularly assesses the plans and results of the stress tests of the Covered Bond Portfolio. The results of stress testing are always considered when the Issuer defines and adapts its business plans and market strategies.

### **Periodic Information about the Cover Pool**

The Issuer has an obligation under the ECBA to publish in respect of the Covered Bonds certain information set out in the ECBA every quarter on its website relating to, *inter alia*, (i) the nominal value of outstanding covered bonds and of the Cover Pool; (ii) a list of all covered bonds under that covered bond programme with the International Securities Identification Numbers (ISINs), if any; (iii) the maturity structure of the covered bonds and the cover pool; (iv) the geographical distribution of the value of cover assets, at least to the accuracy of the country, based on the location of the property standing as security for a mortgage credit or commercial mortgage credit, and the location of the debtor or issuer in the case of other cover assets; (v) the type of property included in the cover pool, the total size and valuation method of the loans included in the cover pool; (vi) the distribution of substitute collateral, in terms of its value, between the types specified in subsection 20 (1) of the ECBA; (vii) the level of the liquidity buffer and information about the ratio between the total liquidity buffer and the payment obligations of the next 180 days; (viii) the percentage of the amount of substitute collateral, which has been in default for over 90 days or which the issuer estimates to be doubtful, in the Cover Pool; (ix) details in relation to market risk, including interest rate risk and currency risk, and credit and liquidity risks; (x) a list of the conditions suspending the maturity of a payment obligation; (xi) the amount of the main collateral, mandatory overcollateral and voluntary overcollateral; (xii) information about counterparties of derivative contracts; and (xiii) the methodology for calculating the ratio between credit and the value of the property standing as security for the credit.

Investors should note that periodically updated general information in relation to the Cover Pool can be found on the Group's website at the following address: <https://investor.lhv.ee/en/>. Information for the first three quarters of a year shall be disclosed within 20 days of the end of the respective quarter. Information about the fourth quarter shall be disclosed within two months of the end of the quarter. The disclosed information shall be available on the Issuer's website for at least the last five years.

## OVERVIEW OF ESTONIAN REGULATION REGARDING COVERED BONDS

The ECBA was first adopted on 13 February 2019 and came into effect on 1 March 2019. On 17 November 2021, various amendments introduced into the ECBA were adopted which came into effect on 10 December 2021. The main purpose of the amendments was to implement the requirements set out by Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 (the "**Covered Bond Directive**") into Estonian law.

The following is a brief summary of certain features of the ECBA as of the date of this Base Prospectus. The summary does not purport to be, and is not, a complete description of the Estonian legislative and regulatory framework for covered bonds. Please also refer to the subsection "Risks related to the covered bonds" in the section "*Risk Factors*". This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### General

The ECBA provides the regulatory regime for the issuing of covered bonds under the laws of Estonia, implementing the Covered Bond Directive. Among others, the ECBA, as amended, regulates the grant of additional authorisations to credit institutions for the issuing of covered bonds, the terms and conditions of issuance and collateralisation of covered bonds, the assignment of claims of credit institutions for the purpose of including assigned claims in the cover pool of covered bonds and the separation of a covered bond portfolio from the other assets of the a credit institution, and state supervision over, and responsibility for, covered bonds. Under the ECBA, issuers are allowed to issue two types of covered bonds – mortgage-covered bonds and mixed pool-covered bonds. The Covered Bonds that the Issuer may issue under this Base Prospectus would be mortgage-covered bonds and the Issuer does not plan to issue mixed pool-covered bonds. Therefore, the summary below does not describe the requirements of the ECBA in relation to mixed pool-covered bonds.

The ECBA is based on the "on-balance sheet" model of covered bonds, meaning that the covered bond portfolio (including the cover pool, consisting of the cover assets and possibly certain derivative instruments, as described in more detail below) remains under the ownership of the issuer and on its balance sheet until the satisfaction of all of the claims under the covered bonds (including in case of a default of the issuer). In the event that the issuer is declared bankrupt or upon occurrence of certain other events (which have been listed under "*Separation of the covered bond portfolio*" below), the covered bond portfolio will be separated from the issuer. The separated covered bond portfolio will remain in the ownership of the issuer (except where the covered bond portfolio is transferred as a whole) and will form an independent pool of designated assets by operation of the ECBA. Following the separation of the covered bond portfolio, the cover pool and the proceeds received from it may be used only to satisfy the claims of the holders of the respective type of covered bonds and of the counterparties to the derivative instruments entered in the corresponding cover register and to cover the expenses related to the management of the covered bond portfolio. The separated covered bond portfolio will not be part of the issuer's bankruptcy estate and a moratorium shall not extend to the covered bond portfolio. The separation of the covered bond portfolio will not release the issuer from its obligations under the covered bonds and the owners of the covered bonds will, following such separation have dual recourse in relation to the claims arising from the covered bonds, against the issuer and against the separated cover pool.

Under the ECBA, an issuer may opt to establish a cover bond programme. A covered bond programme allows an issue or a series of issues of covered bonds the structural features and terms and conditions of which are the same or substantially similar and which are determined by legislation and relevant contractual terms and conditions, in accordance with the decision to approve the covered bond programme given to the issuer, subject to the requirements provided for in the ECBA.

### Authorisation

The ECBA provides that to issue covered bonds, an issuer needs to have a credit institution's authorisation (issued in accordance with the Estonian Credit Institutions Act) and an additional authorisation to issue covered bonds (issued in accordance with the ECBA).

The Issuer has been granted on 16 March 2020 an additional authorisation to issue covered bonds by the ECB, which has been notified to the Issuer by the EFSA.

The additional authorisation is issued for an unspecified term and shall expire:

- in the event of expiry of the main credit institution's authorisation – when the main authorisation expires;
- in the event of voluntary discontinuation of the issuance of covered bonds – when the authorisation for the voluntary discontinuation is received from the EFSA; or
- in the event of revocation of the additional authorisation – when the additional authorisation is revoked.

In order to apply for the additional authorisation, members of the management board of the issuer must submit to the EFSA a written application and supplementary documents listed in the ECBA. The EFSA make a decision to grant or refuse to grant the additional authorisation within three months after receipt of all the necessary documents and information that meet requirements, but not later than within six months after receipt of the application for the additional authorisation.

The EFSA shall refuse to grant the additional authorisation to the applicant if:

- the applicant does not have the capacity to ensure the existence of sufficient internal capital for the purposes of the of the Credit Institutions Act to cover all risks arising from the activities described in the additions to the business plan that are not subject to the requirements for self-funding;
- the applicant does not meet the requirements for issuers provided for in ECBA or legislation issued on the basis thereof;
- the applicant does not have the necessary resources and experience for issuance of covered bonds and administration of a covered bond portfolio; or
- on other grounds stipulated in the ECBA.

Upon deciding whether to grant or refuse to grant the additional authorisation, the EFSA shall consider, among other things, the following:

- the level of the organisational and technical administration of the applicant's activities; and
- the professional preparation and experience of persons involved in the management of the covered bond portfolio, and the clarity of their rights, obligations and responsibilities.

The ECBA also includes a list of circumstances that serve as grounds for revocation of the additional authorisation. Such circumstances include, *inter alia*, where:

- it has become evident that, when applying for the additional authorisation, the applicant has submitted misleading or false information or documents to the EFSA;
- the issuer has repeatedly or materially breached the provisions of the ECBA;
- the issuer has, by its activities, prevented the EFSA from exercising supervision under the ECBA;
- the issuer is unable to meet the liabilities it has assumed in connection with covered bonds or, for any other reason, its activities significantly impair the interests of investors or other clients or adversely affect the regular functioning of the securities market;
- the issuer has failed to comply with a precept of the EFSA within the term or in the manner prescribed; or
- the issuer has not issued any new covered bonds within five years after the receipt of the additional authorisation or after the redemption of all previously issued covered bonds.

## Cover register

Under the ECBA, the issuer is obliged to maintain a cover register, that contains information on the cover assets securing the covered bonds. The cover assets entered in the cover register for the same type of covered bonds constitute a cover pool. One and the same type of covered bonds, their cover pool, and the derivative instruments entered in the cover register constitute a covered bond portfolio. The cover register consists of the main register and sub-registers. In addition to the cases provided by the ECBA, a sub-register must be created in order to ensure that the cover pool and derivative instruments related to a specific covered bond portfolio will be properly recorded. When creating sub-registers, the issuer must take into account the size of the covered bond portfolio, the complexity of its structure and other relevant indicators.

Under the ECBA, information published about the entry of a claim securing covered bonds in the cover register shall include at least:

- the name and registry code of the issuer of the covered bonds;
- information that enables the identification of the claim entered in the cover register as a cover asset of the covered bonds without publishing the data of single debtors and the third parties concerned; and
- information about how the entry of the claim in the cover register as a cover asset of the covered bonds affects the rights and obligations of the debtors and the third parties concerned.

The entry of a claim serving as coverage for covered bonds in the cover register or its deletion from the cover register does not require the consent of the debtor or the third party concerned and the issuer generally does not have an obligation to inform the debtor or the third party concerned of the entry of the claim in the cover register. However, under the ECBA, the issuer shall incur an obligation to notify the debtor of entry of a claim in the cover register if the issuer estimates that it is objectively likely that the separation of a covered bond portfolio will take place. In this case, the issuer notifies the debtor of entry of the claim in the cover register before the separation of the covered bond portfolio. If it is mandatory to notify the debtor of entry of a claim securing covered bonds in the cover register, the issuer shall publish the information on its website and also in the Estonian Official Gazette (in Estonian: *Ametlikud Teadaanded*) or in at least one daily national newspaper. Additionally, such information must be published, in addition to Estonia, in other EEA countries where the immovable property securing a mortgage credit is located or where the debtor of the claim is registered. The debtor of a claim and the counterparty to a derivative instrument entered in the cover register may at any time, and an interested party may in a justified case, request information as to whether the claim or derivative instrument that is related thereto has been entered in the cover register. The obligation to provide the information lies with the issuer, the cover pool administrator and the bankruptcy trustee for the covered bond portfolio.

## Disclosure of information relating to covered bonds

The ECBA requires an issuer of covered bonds to disclose information about covered bond portfolios once a quarter. Information about the first three quarters of a year shall be disclosed within 20 days of the end of the respective quarter. Information about the fourth quarter shall be disclosed within two months of the end of the quarter. The disclosed information must be available on the issuer's website for at least the last five years.

The following information must be disclosed:

- (i) the nominal value of outstanding covered bonds and of the cover pool;
- (ii) a list of all covered bonds under that covered bond programme with the International Securities Identification Numbers (ISINs), if any;
- (iii) the maturity structure of the covered bonds and the cover pool;
- (iv) the geographical distribution of the value of cover assets, at least to the accuracy of the country, based on the location of the property standing as security for a mortgage-backed credit or commercial mortgage credit, and the location of the debtor or issuer in the case of other cover assets;



- (v) the type of property included in the cover pool, the total size and valuation method of the loans included in the cover pool;
- (vi) the distribution of substitute cover assets, in terms of their value, between the different types of eligible substitute cover assets;
- (vii) the level of the liquidity buffer and information about the ratio between the total liquidity buffer and the payment obligations of the next 180 days;
- (viii) the percentage of the amount of substitute cover assets, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool;
- (ix) details in relation to market risk, including interest rate risk and currency risk, and credit and liquidity risks;
- (x) a list of the conditions suspending the maturity of a payment obligation;
- (xi) the amount of main collateral, mandatory overcollateral and voluntary overcollateral;
- (xii) information about counterparties of derivative contracts; and
- (xiii) the methodology for calculating the ratio between credit and the value of the property standing as security for the credit.

In addition, the percentage of the amount of mortgage-backed credits, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool, shall be disclosed regarding the primary cover assets for mortgage-covered bonds.

#### **Eligible cover pool assets**

Under the ECBA, Eligible Assets consist of primary cover assets and substitute cover assets. Primary cover assets must constitute at least 85 per cent. of the principal cover pool of a covered bond portfolio. Regarding the requirements of the ECBA for substitute cover assets, please see "*Substitute cover assets*" below.

In accordance with the ECBA, primary cover assets of mortgage-covered bonds may only consist of the issuer's claims that arise from a credit issued to a natural person against a mortgage established on a residential property located in the territory of a Contracting State of the EEA Agreement which comply with the conditions provided for in the ECBA.

For the purposes of the ECBA, a residential property is property referred to in Article 4 (1) (75) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

Claims arising from a mortgage-backed credit issued to a natural person against a residential property located in the territory of a Contracting State of the EEA Agreement other than Estonia may be used as coverage for mortgage-covered bonds only if the mortgage securing the mortgage-backed credit or other right of security provide the creditor with protection that is equivalent to the protection provided by a mortgage established under Estonian legislation. It is assumed that cover assets meeting the conditions laid down in Article 208 (2) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council provide the creditor with protection that is equivalent to the protection provided by a mortgage established under Estonian legislation.

The following may not be entered into the cover register:

- a mortgage-backed credit which is in default at the time that the credit is entered in the cover register.
- a mortgage-backed credit in the case of which the issuer's claim arising from the credit or the mortgage securing the claim is encumbered, or in the case of which the issuer's claim arising from the credit, the mortgage securing the claim or the property on which the mortgage has been established is subject to a restraint on disposition.

Pursuant to the ECBA (as amended), if the recipient of a mortgage credit defaults on its obligations after the credit has been entered in the cover register, the following portion of the credit that has fallen into default may be taken into account upon calculation of the value of the cover pool:

- 100 per cent of the value of the credit entered in the cover register if the credit has been in default for less than 90 days;
- 70 per cent of the value of the credit entered in the cover register if the credit has been in default for at least 90 days and the ratio of the credit to the value of the property securing the mortgage credit is less than 50 per cent;
- 40 per cent of the value of the credit entered in the cover register if the credit has been in default for at least 90 days and the ratio of the credit to the value of the property securing the mortgage credit is more than 50 per cent; or
- 0 per cent of the value of the credit entered in the cover register if the credit has been in delay for at least 180 days.

The valuation of the property standing as security for a mortgage-backed credit entered in the cover register which is located in Estonia must be done by a valuator meeting the requirements provided for in the Estonian Creditors and Credit Intermediaries Act in compliance with the requirements provided for in the Estonian Creditors and Credit Intermediaries Act. The valuation of the property standing as security for a mortgage-backed credit entered in the cover register which is located in the territory of a Contracting State of the EEA Agreement other than Estonia must be done by a valuator who holds a relevant professional qualification in the relevant Contracting State of the EEA Agreement, in accordance with the legislation, relevant standards and good practices in force in the relevant Contracting State of the EEA Agreement and the following conditions are met:

- the methodology and rules of procedure applied ensured an objective and impartial valuation; and
- the valuation or the result thereof was documented in a format that can be reproduced in writing and in such a way as to enable the identification of, *inter alia*, the identity of the valuator or the issuer's structural unit conducting the valuation, the methodology and rules of procedure applied in the valuation, and the source data used for making the valuation.

Where the mortgage established on an immovable property secures claims arising from different credit agreements, the claims arising from these credits may serve as coverage for mortgage-covered bonds only if the credit has been issued to one and the same person under the credit agreements and all the credits have been issued in the same currency. In this case, when calculating the ratio of credit to value of the property securing the mortgage-backed credit, the claims arising from all credit agreements shall be deemed to be claims arising from one credit agreement and the claims shall be added together.

The claims of the issuer arising from a mortgage-backed credit may be used as coverage for mortgage-covered bonds in an amount of up to 70 per cent. of the value of the property securing the mortgage-backed credit. Nevertheless, all the issuer's claims arising from the mortgage-backed credit entered in the cover register are included in the cover pool.

To include a claim of the issuer arising from a mortgage-backed credit as coverage for mortgage-covered bonds, the mortgage securing the claim must account to (i.e. the sum of the mortgage must be) at least 110 per cent. of the issued credit. The sum of mortgage may exceed the value of the property securing the credit.

Under the ECBA, a property standing as security for a mortgage-backed credit and entered in the cover register must, until the recipient of the credit has met all the obligations owed to the issuer, be insured under the terms and conditions normally used to insure similar properties in the Contracting State of the EEA Agreement in such a way as to ensure that all relevant risks are insured. As an exception, an undeveloped residential property does not need to be insured. If the property is a residential building, apartment building or apartment under construction, the insurance obligation arises at the moment when the building being constructed becomes a construction with an interior space that is separated from the external environment by a roof and other parts of the building envelope. In the absence of an insurance agreement meeting the conditions described above, the issuer must remove the claims arising from the mortgage-backed credit from the cover register unless an insurance agreement meeting the described requirements is entered within

30 business days from the moment the issuer became aware of the absence of the insurance agreement. A mortgage-backed credit may be included in the cover register only if the market value of the property standing as security for the credit has been appraised by an appraiser meeting the requirements provided for in section the Creditors and Credit Intermediaries Act, in accordance with the requirements laid down and the regulation adopted under the said act.

The value of a property standing as security for a mortgage-backed credit entered in the cover register must be reviewed at least once a year and reappraised, if necessary. Furthermore, under the ECBA, the value of a property standing as security for a mortgage-backed credit entered in the cover register shall be additionally reviewed and reappraised, if necessary:

- (i) in the event of a significant change in market conditions;
- (ii) if the information available to the issuer indicates that a significant decline has occurred or is occurring in the national or local real estate market, including if it concerns only one specific property type, residential building type or other narrower category of properties;
- (iii) in the event that more frequent review of the value of a property standing as security for a mortgage credit entered in the cover register has been prescribed in the terms and conditions of covered bonds;
- (iv) in the event that this is demanded by the EFSA; or
- (v) in the event that this is demanded by the cover pool monitor or the cover pool administrator and there is reasonable doubt that the issuer has not performed its obligation to ensure that the value of a property standing as security for a mortgage-backed credit entered in the cover register is reviewed at least once a year and reappraised, if necessary or the issuer has not performed its obligations in subsections (i) – (iii) above.

In the cases listed in subsections (i) and (ii) above, the value of a property standing as security for a mortgage-backed credit entered in the cover register may be reappraised by indexed appraisal. When entering a mortgage-backed credit in the cover register, the value of a property standing as security is determined on the basis of the latest appraisal or reappraisal, which may not be older than 12 months.

### **Requirements relating to liquidity**

In order to ensure the liquidity of the covered bond portfolio where there is a separation of the covered bond portfolio from the issuer, the issuer must maintain a liquidity buffer. The liquidity buffer is a part of the cover pool and is considered in the calculation of the principal cover pool and the mandatory complementary cover pool. The liquidity buffer must be entered in a separate sub-register of the cover register.

Under the ECBA, the liquidity buffer may comprise only the following cover assets:

- level 1 and level 2A assets specified in Articles 10 and 11 of Commission Delegated Regulation (EU) No. 2015/61 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions, except the issuer's own covered bonds; or
- short-term exposures and short-term deposits meeting the characteristics specified in Article 129(1)(c) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that they do not constitute more than 15 per cent. of the sum of the main collateral and the mandatory overcollateral; or
- short-term exposures to credit institutions that qualify for credit quality step 1 or 2, or short-term deposits to credit institutions that qualify for credit quality step 1, 2 or 3, in accordance with the provisions of point (c) of Article 129(1) of Regulation (EU) No 575/2013.

A cover asset included in the liquidity buffer must meet the following conditions:

- it shall not be in default or, in the estimation of the credit institution, doubtful;

- in the case of a deposit, it shall be ensured that the funds deposited will be fully available without delay upon the separation of the covered bond portfolio; and
- securities shall be kept in a separate securities account of the issuer or in a manner allowing the securities included in the liquidity buffer to be kept unblocked in case of bankruptcy of the issuer.

To calculate the minimum level of the liquidity buffer, the difference between the payments to be made in order to meet all the liabilities arising from the covered bonds and derivative instruments entered in the cover register, on the one hand, and the cash flow to be received from the cover pool, on the other hand, shall be calculated on a daily basis for each of the following 180 days (hereinafter referred to as the daily difference). Thereafter the sum of the accumulated daily differences shall be calculated for each of the following 180 days, and the highest negative result shall be covered at all times by cover assets eligible to be included in the liquidity buffer. Amounts received on the basis of derivative contracts shall not be taken into account upon calculating the daily difference if the amounts arise from the financial assets pledged by the counterparty of the derivative contract for the benefit of the issuer of covered bonds.

### **Substitute cover assets**

In addition to the primary cover assets, under the ECBA, the following cover assets may be included in a cover pool as substitute cover assets:

- (i) claims on, or guaranteed by, central banks within the European System of Central Banks, or central governments, public sector entities, regional governments or local authorities of the Member States of the European Union;
- (ii) claims on, or guaranteed by third-country central governments and central banks, multilateral development banks and international organisations, that qualify for credit quality step 1 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council;
- (iii) claims on, or guaranteed by, public sector entities of third countries, regional governments of third countries or local authorities of third countries, for which a risk weight has been assigned the same way as for claims on credit institutions and investment firms or central governments and central banks in accordance with Article 115 (1) or (2) and Article 116 (1), (2) or (4) of Regulation (EC) No. 575/2013 (EU) of the European Parliament and of the Council and which qualify for the credit quality step 1 according to the risk weight so assigned;
- (iv) claims specified in items (ii) and (iii) above, which qualify for at least the credit quality step 2 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that such claims do not exceed 20 per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover;
- (v) claims on credit institutions and investment firms, which qualify for the credit quality step 1 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that such claims do not exceed 15 per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover;
- (vi) claims on credit institutions and investment firms, which qualify for credit quality step 2 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that they do not exceed ten per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover;
- (vii) the surplus of net claims arising from the derivative instruments included in a covered bond portfolio that meet the requirements provided for in the ECBA;
- (viii) the surplus of net claims arising from the derivative instruments included in a covered bond portfolio which qualify as a minimum for credit quality step 3 in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, provided that they do not exceed eight per cent of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover and provided that the requirements provided for in subsection (iii) above are observed

## Derivatives

In order to hedge risks arising from covered bonds, under the ECBA an issuer has the right to use derivative instruments and to enter them in the cover register, provided that all of the following conditions are met:

- (i) the derivative instrument transaction has been made on the basis of a framework agreement that is usual for this sector, is sufficiently documented, and only allows set-off for claims arising from derivative instruments entered in the cover register;
- (ii) the counterparty to the transaction is a person who meets the eligibility requirements of the regulation established by a regulation of the minister responsible for the area;
- (iii) the terms and conditions of the framework agreement or transaction ensure that, in the event of the issuer's insolvency, if it does not lead to the insolvency of the covered bond portfolio related to the particular derivative instrument, the counterparty to the transaction is not entitled to prematurely terminate the transaction or framework agreement;
- (iv) the sole purpose of the transaction is to hedge the issuer's risks arising from the specific type of covered bonds;
- (v) the counterparty to the transaction has given consent to the inclusion of the derivative instrument in the cover register (whereas such consent is presumed if a framework agreement between the parties provides or if the issuer has otherwise informed the counterparty to the derivative instrument that the framework agreement is concluded for the purpose of hedging the risks arising from the specific covered bond portfolio);
- (vi) the derivative instrument transactions are not subject to the clearing obligation in accordance with Regulation (EU) No. 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories;
- (vii) the cover pool of covered bonds is not used as a cover asset for securing obligations arising from a derivative instrument contract; and
- (viii) if the creditworthiness of the counterparty to a derivative instrument transaction has fallen to a significant extent, the counterparty to the transaction shall provide, pursuant to the derivative contract, an additional collateral or the issuer shall arrange replacement of the counterparty to the transaction.

In the event that the issuer has the right to require the counterparty to a derivative instrument to provide security on the basis of a claim arising from the derivative instrument, the security shall be comprised of claims that qualify as substitute cover assets (please see "*Substitute Cover Assets*" above) and shall be entered in a separate sub-register of the cover register.

In the event that the cash flow to be received by the issuer from a derivative instrument entered in the cover register exceeds the payments to be made to meet the liabilities arising from the derivative instrument and if an extraordinary termination of the transaction results in a positive cash flow for the issuer, the lower of the following amounts shall be treated as the net claim:

- the positive cash flow resulting for the issuer from the extraordinary termination of the transaction; or
- the cash flow to be received by the issuer from the derivative instrument, less the payments to be made to meet the liabilities arising from the derivative instrument.

In event that the payments to be made to meet the issuer's liabilities arising from a derivative instrument entered in the cover register exceed the cash flow to be received from the derivative instrument or an extraordinary termination of the transaction results in a negative cash flow for the issuer, the lower of the following amounts shall be treated as the net liability:

- the negative cash flow resulting for the issuer from the extraordinary termination of the transaction; or

- the payments to be made to meet the liabilities arising from the derivative instrument, less the cash flow to be received by the issuer from the derivative instrument.

The issuer shall subtract the net liabilities from the net claims arising from the derivative instruments included in a covered bond portfolio and, depending on the result, shall treat the negative result as the surplus of net liabilities and the positive result as the surplus of net claims.

### **Separation of the covered bond portfolio**

The ECBA prescribes that upon the occurrence of the following events, the covered bond portfolio shall be considered separated from the issuer:

- (i) the issuer is declared bankrupt;
- (ii) a moratorium is declared in respect of the issuer;
- (iii) the additional authorisation or main authorisation of the issuer expires;
- (iv) a court ruling providing for compulsory dissolution of the issuer takes effect;
- (v) the authorisation for voluntary dissolution of the credit institution or discontinuation of the issuance of covered bonds is received from the EFSA; or
- (vi) a decision of the EFSA for the separation of the covered bond portfolio takes effect.

The EFSA may resolve the separation of a covered bond portfolio prior to the occurrence of an event specified above, if:

- the issuer is breaching or is likely to materially breach the requirements of the ECBA or other legislation regarding the activities of a credit institution in the near future; or
- the issuer is likely to become insolvent in the near future.

After the separation of the covered bond portfolio, an independent pool of designated assets is formed, in which the cover pool and the proceeds received from it can be used only to satisfy the claims of the holders of the respective type of covered bonds and of the counterparties to the derivative instrument entered in the corresponding cover register and to cover the expenses related to the management of the covered bond portfolio. Upon the separation of the covered bond portfolio:

- the right to manage the covered bond portfolios and the right to participate, instead of the issuer, in court proceedings concerning a covered bond portfolio shall transfer to the cover pool administrator; and
- the issuer shall lose the right to undertake any transactions with the assets included in a covered bond portfolio.

The separation of a covered bond portfolio does not affect the rights and obligations arising from covered bonds or from the derivative instruments and the cover pool entered in the cover register, and the payment obligations attached to covered bonds are not subject to automatic acceleration upon the separation of the covered bond portfolio, except as otherwise provided by the ECBA. The claims of the holders of covered bonds and of the counterparties to the derivative instruments entered in the cover register shall be satisfied at the expense of the cover pool and proceeds received from it, in accordance with the terms and conditions of the covered bonds and derivative instruments.

### **Appointment of cover pool administrator**

In the event that: (i) the issuer is declared bankrupt; (ii) the covered bond portfolio is separated; (iii) the compulsory dissolution of an issuer is decided by a court; (iv) the EFSA revokes the issuer's credit institution's authorisation or the additional authorisation for issuing covered bonds; (v) the EFSA authorises the voluntary dissolution of the issuer as a credit institution or voluntary discontinuation of the issuance of covered bonds by the issuer; or (vi) the EFSA establishes a moratorium over the issuer, the court shall, on the proposal of the EFSA, appoint a cover pool administrator in respect of the covered bond portfolios in

the ruling on bankruptcy, the ruling on the separation of the covered bond portfolio or the ruling on the compulsory dissolution. The court shall appoint a cover pool administrator without delay, but not later than within three days after receipt of the petition from the EFSA (other than where the issuer is declared bankrupt or the compulsory dissolution of an issuer is decided by a court, in which case the cover pool administrator is appointed immediately upon the making of the court ruling to declare the issuer bankrupt or decide on its compulsory dissolution).

Where urgent transactions need to be made to manage the covered bond portfolio, until the cover pool administrator is appointed, the administrator's rights and obligations are carried out by the cover pool monitor (other than in case the issuer is declared bankrupt or the compulsory dissolution of an issuer is decided by a court, in which case the cover pool administrator is appointed immediately upon the making of the court ruling to declare the issuer bankrupt or decide on its compulsory dissolution).

In the event of the appointment of a cover pool administrator, the right to manage and dispose of a covered bond portfolio shall transfer to such cover pool administrator. The cover pool administrator shall represent the issuer in the management and disposal of covered bond portfolios, including meeting the liabilities arising from covered bonds and from the derivative instruments entered in the cover register, in the acceptance of satisfaction of claims included in the cover pool, in the enforcement of mortgages and other rights of security, and in legal disputes.

The cover pool administrator must manage the covered bond portfolio with the necessary diligence, considering its nature, and in a manner ensuring that the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met in the best possible way. To this end, the cover pool administrator has the right to transfer and encumber the cover pool, enter into derivative instruments at the expense of the cover pool, and perform other necessary operations. The cover pool administrator has the right to use the cover pool and the proceeds received from it to cover the expenses necessary for the management of covered bond portfolios.

Upon his or her appointment, the cover pool administrator shall promptly, but not later than within two weeks, ascertain whether the cover pool and proceeds received from it are sufficient to meet the issuer's liabilities arising from covered bonds and from the derivative instruments entered in the cover register and to pay the expenses of management of the covered bond portfolio. In the event that the covered bond portfolio appears to be insolvent, the cover pool administrator shall promptly notify the EFSA thereof.

In order to perform his or her duties, the cover pool administrator may use the assistance of the issuer's employees and the issuer's tools, compensating the issuer for the expenses entailed by their use. The issuer shall deliver the contracts and other documents related to covered bonds and the cover pool to the cover pool administrator and shall provide the cover pool administrator with access to the information systems used for the management of covered bond portfolios.

In the management of covered bond portfolios, the cover pool administrator must observe the mandatory requirements concerning the management of covered bond portfolios and the satisfaction of claims, as established for issuers by the Credit Institutions Act and the ECBA, including the requirements for banking secrecy and for processing of personal data imposed on credit institutions.

#### **Assignment and acquisition of claims for formation of cover pool**

Under the ECBA, a credit institution shall have the right to assign its claim against a debtor for the formation of the cover pool of covered bonds to a credit institution of an EEA country or to a special purpose entity located in an EEA country that has been established for the formation of the cover pool of covered bonds. The provisions of the Estonian Law of Obligations Act shall apply to the assignment of a claim, transfer of a collateral and an accessory obligation related to a collateral securing a claim with the specifications provided for in the ECBA.

Assignment of a claim for the purpose of forming the cover pool of covered bonds shall not require the consent of the debtor. If the debtor performs their obligation to the credit institution that assigned the claim, the credit institution that assigned the claim shall ensure that the proceeds received as a result of the performance of the obligation are separated from the other assets of the credit institution that assigned the claim and immediately deliver the proceeds received as a result of the performance of the obligation to the new creditor.

The assets delivered to the new creditor as described above shall not be part of the assets of the credit institution that assigned the claim in the bankruptcy proceedings, liquidation proceedings, enforcement proceedings or resolution proceedings of the credit institution that assigned the claim and a moratorium shall not extend to them. If the credit institution that assigned the claim has not delivered to the new creditor the proceeds received as a result of the performance of the obligation as described above before the declaration of bankruptcy or a moratorium, entry into force of a court ruling providing for compulsory dissolution, adoption of a decision on voluntary dissolution, introduction of resolution tools or commencement of enforcement proceedings in respect of the credit institution, such assets shall not be part of the assets of the credit institution that assigned the claim in its bankruptcy proceedings, liquidation proceedings, resolution proceedings or enforcement proceedings and a moratorium shall not extend to them. The credit institution that assigned the claim is required to notify the debtor of the assignment of the claim. The debtor may be notified of the assignment of a claim, publishing the information on the website of the credit institution that assigned the claim and on the website of the credit institution or the special purpose entity that acquired the claim or in at least one daily national newspaper. The debtor may be notified of the assignment of a claim before or after the assignment of the claim, but this must be done no later than before the declaration of bankruptcy or a moratorium, introduction of resolution tools, entry into force of a court ruling providing for compulsory dissolution or adoption of a decision on voluntary dissolution in respect of the credit institution that assigned the claim.

Information published about the assignment of a claim for the purpose of forming the cover pool of covered bonds shall include:

- the name and registry code of the person who acquired the claim;
- the name of the credit institution that assigned the claim;
- information that enables the identification of assigned claims without publishing the data of single debtors and the third parties concerned; and
- information about how the assignment of the claim affects the rights and obligations of the debtors and the third parties concerned.

The credit institution that assigned a claim must also simultaneously submit the information specified above to the Financial Supervision Authority. The Financial Supervision Authority may publish the submitted information on its website.

After the assignment of a claim to a new creditor, a debtor, who is a consumer, or a third party concerned shall have all the rights arising from the laws and regulations governing consumer protection in their home country, taking into account the specifications provided for in the ECBA.

If a credit institution assigns a claim for the purpose of forming the cover pool, the right to exercise in respect of the claim the rights arising from a present or future enforcement instrument shall transfer to the acquirer of the claim:

- as of the assignment of the claim assigned for the purpose of forming the cover pool if no entry must be made in a public register for the transfer of the collateral securing the claim assigned for the purpose of forming the cover pool; or
- after an entry has been made in a public register if an entry must be made in a public register for the transfer of the collateral securing the claim assigned for the purpose of forming the cover pool.

Additionally, a debtor or a third party concerned shall not set off their claims related to the cover pool, which have not fallen due before the events provided for in the ECBA, as of the time when the debtor or the third party concerned became or had to become aware of:

- the entry of a claim serving as a cover asset of a covered bond in the cover register; or
- the assignment of a claim to a new creditor for the purpose of forming the cover pool of covered bonds as described above if the claim assigned for the purpose of forming the cover pool of covered bonds has been included in the cover pool of covered bonds by the new creditor.



## **Enforcement proceedings concerning cover pools**

A cover pool can be made subject to a claim for payment, seized or be made subject to a restraint on disposition only for the purpose of performance of the obligations that arise from covered bonds and from derivative instruments related to covered bonds. Under the ECBA, a claim assigned by a credit institution to a new creditor for the purpose of forming the cover pool can only be made subject to a claim for payment, seized or be made subject to a restraint on disposition if the claim has not been included in the cover pool of covered bonds by the new creditor. A claim for payment, seizure or restraint on disposition can be imposed only on the cover pool as a whole and only for the amount of the claim raised by a creditor of the covered bond portfolio. The issuer or the cover pool administrator shall keep accounts and records of claims for payment, seizures and restraints on disposition.

The imposition of a claim for payment, seizure or other restraint on disposition on a cover asset or cover pool for reasons not related to covered bonds does not result in the revocation of the additional authorisation or the appointment of a cover pool administrator if the issuer meets all the other requirements arising from the ECBA and there are no other grounds for revoking the additional authorisation or for appointing a cover pool administrator. If, in the aforementioned case, the value of the cover pool would fall below the statutory level, the issuer shall immediately replace the cover asset that is subject to a claim for payment, seizure or restraint on disposition with another cover asset of the same value.

## **Transfer of a covered bond portfolio in its entirety**

In the event that the covered bond portfolio is separated from the issuer, the cover pool administrator may, upon the permission of the EFSA, transfer the separated covered bond portfolio in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds or to a credit institution of a Contracting State of the EEA Agreement which is permitted to issue, in the country where it is established, covered bonds meeting the conditions provided for in Directive (EU) 2019/2162 the European Parliament and of the Council. Upon such transfer, all rights and obligations related to the covered bond portfolio being transferred, including responsibility for the obligations arising before the transfer of the rights and obligations, shall be transferred to the acquirer. The proceeds received from the transfer of the covered bond portfolio in its entirety shall be used to cover the expenses of management of the covered bond portfolio. The funds remaining after all expenses are covered shall be included by the cover pool administrator in the issuer's bankruptcy estate or other assets. If any payment is made in respect of the claims included in the cover pool to the issuer after the transfer of the covered bond portfolio, such payment is deemed to be made in favour of the covered bond portfolio and accordingly the issuer shall immediately transfer the relevant amount to the acquirer.

In the event that a covered bond portfolio is transferred in its entirety, the transfer of the rights and obligations included in the covered bond portfolio shall not require the consent of the holders of covered bonds, other parties to contracts, creditors or other interested parties. The acquirer is obliged to, within a reasonable time after the acquisition of the covered bond portfolio, inform the holders of the covered bonds, debtors of the claims constituting the cover pool, the counterparties to derivative instruments related to the cover pool and the third parties concerned of all the circumstances necessary for the exercise and performance of the respective rights and obligations.

A covered bond portfolio may be transferred in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds if both the following conditions are met:

- the acquirer meets all the requirements established for issuers by the Credit Institutions Act, the ECBA and other legislation and has not breached these requirements repeatedly or materially during the last 5 years; and
- the acquirer has the capacity to ensure the existence of sufficient internal capital within the meaning of the Estonian Credit Institutions Act to cover all risks arising from the acquisition of the covered bond portfolio that are not subject to own funds requirements.

A covered bond portfolio may be transferred in its entirety to an acquirer being a credit institution established in another Contracting State of the EEA Agreement if all of the following conditions are met:

- the acquirer meets all the requirements imposed on credit institutions and issuers of covered bonds by the law of the country where the acquirer is established, and the acquirer has not breached these requirements repeatedly or materially during the last 5 years;
- the law of the country where the acquirer is established guarantees the coverage of the covered bonds included in the covered bond portfolio to be transferred and of the related derivative instruments entered in the cover register, as well as the rights of the holders of the covered bonds and of the counterparties to the derivative instruments entered in the cover register at a level that is at least equivalent to that guaranteed by Estonian law;
- the law of the country where the acquirer is established guarantees the rights of the debtors of the claims standing as security for the covered bonds at a level that is at least equivalent to that guaranteed by Estonian law, and the transfer will not render the performance of the obligations more expensive or difficult for the debtor of any such claim;
- the law of the country where the acquirer is established allows the acquirer to acquire the covered bond portfolio; and
- the acquirer has all the necessary authorisations and approvals for the acquisition of the covered bond portfolio that are required for the transaction according to the law of the country where the acquirer is established.

In order to obtain permission for the transfer of a covered bond portfolio, the acquirer shall, not later than on the 20<sup>th</sup> day after the conclusion of the contract for the transfer of the covered bond portfolio in its entirety, submit to the EFSA a written application and the supplementary documents and information required under the ECBA.

The EFSA may refuse to grant permission for the transfer of a covered bond portfolio if:

- the above described requirements for the acquirer of a covered bond portfolio are not met; or
- there are other circumstances damaging to the legitimate interests of the holders of covered bonds and of the counterparties to the derivative instruments entered in the cover register.

### **Insolvency of a separated covered bond portfolio**

A separated covered bond portfolio is insolvent if one of the following circumstances occurs:

- it is not possible to satisfy the legitimate claim of at least one holder of covered bonds or counterparty to a derivative instrument entered in the cover register at the expense of the cover pool or the proceeds received from it, and this impossibility is not temporary due to the economic situation of the covered bond portfolio; or
- the present value of the cover pool does not cover the present value of the liabilities arising from covered bonds and from the derivative instruments entered in the cover register and the expenses of management of the covered bond portfolio.

The provisions of the Bankruptcy Act concerning a bankrupt debtor and their bankruptcy proceedings shall apply to an insolvent separated covered bond portfolio, subject to the specification provided in the ECBA.

Only the EFSA has the right to file a bankruptcy petition in respect of a separated covered bond portfolio. Upon the submission of a bankruptcy petition by the EFSA, the court will review the bankruptcy petition promptly but not later than on the following business day and decide on the declaration of bankruptcy on the basis of evidence annexed to the bankruptcy petition. On the basis of the bankruptcy ruling, the covered bond portfolio concerned shall become a separate bankruptcy estate of the issuer.

In the bankruptcy proceedings of a separated covered bond portfolio only the holders of covered bonds, the counterparties to the derivative instruments entered in the cover register who have a claim arising from failure to perform an obligation in accordance section 48 of the Estonian Bankruptcy Act, and other persons whose claims may be satisfied at the expense of the cover pool or proceeds received from it according to law, can be creditors in bankruptcy proceedings concerning a covered bond portfolio. Claims arising from

derivative instruments and covered bonds shall have the same ranking and shall be satisfied before the claims of other creditors.

Upon the bankruptcy of a covered bond portfolio, the court shall appoint the bankruptcy trustee for the covered bond portfolio on the basis of the proposal of the EFSA. In addition to the general duties, rights and obligations the bankruptcy trustee has under the Estonian Bankruptcy Act, the bankruptcy trustee shall:

- submit to the EFSA, without delay, the information requested by the latter and allow the EFSA to examine the documentation related to the bankruptcy proceedings concerning the covered bond portfolio; and
- if necessary, or if so prescribed by the legislation of the other Contracting State of the EEA Agreement, notify the registrar of the commercial register, land register or other relevant register of the Contracting State of the EEA Agreement where a cover asset is located about the bankruptcy ruling concerning the covered bond portfolio.

In addition to the appointment of a bankruptcy trustee, a bankruptcy committee shall be formed for the insolvent covered bond portfolio. The bankruptcy committee shall have five members, three of which shall be appointed by the EFSA.

In the event that a claim included in the cover pool of the bankrupt covered bond portfolio is satisfied with respect to the issuer, such satisfaction shall be deemed to be satisfaction in favour of the bankruptcy estate of the covered bond portfolio in bankruptcy proceedings. The issuer or its bankruptcy trustee shall transfer the proceeds of the satisfaction immediately to the bankruptcy trustee of the covered bond portfolio.

Bankruptcy proceedings concerning a covered bond portfolio may not be terminated by a compromise, (which is a special court-supervised proceeding generally available under the Estonian Bankruptcy Act, allowing termination of bankruptcy proceedings upon reaching a settlement agreement approved by a majority of the creditors whose claims form at least two-thirds of the total amount of all defended claims in the bankruptcy proceedings). To the extent that it is not possible to satisfy claims arising from covered bonds and from the derivative instruments entered in the cover register in the bankruptcy proceedings concerning the covered bond portfolio, a creditor shall have the right to file claims against the issuer in the general procedure, including in bankruptcy proceedings.

### **Liquidation of a separated covered bond portfolio**

A separated covered bond portfolio shall be liquidated once all the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met. Within 20 business days from the date of meeting all the liabilities arising from covered bonds and from the derivative instruments entered in the cover register, the cover pool administrator is obliged to submit to the EFSA the last reports required by the ECBA, disclose all information required under the ECBA and publish a notice regarding the liquidation of the covered bond portfolio in the Estonian Official Gazette (in Estonian: *Ametlikud Teadaanded*). After the fulfilment of the above listed obligations by the cover pool administrator, the EFSA shall within 10 business days file a petition for release of the administrator from office with a court.

From the date of entry into force of the court ruling on the release of the cover pool administrator from office, the provisions of the ECBA shall no longer apply to the portion of the cover pool that remains after the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met and the expenses of management of the covered bond portfolio are paid. The person whose term of office as the cover pool administrator has ended shall, insofar as possible, assist in the inclusion of the assets referred to in the first sentence of this subsection in the issuer's bankruptcy estate or other assets.

### **State supervision**

Supervision over the issuance of covered bonds under the ECBA consists of state supervision by the EFSA and supervision by an independent cover pool monitor, which is appointed by the issuer.

The EFSA's role in relation to the ECBA consists of supervision over the activities of issuers of covered bonds and cover pool administrators. Such supervision includes the issuing of additional authorisations to credit institutions for the issuing of covered bonds (which is a prerequisite for a credit institution to issue covered bonds under the ECBA) and the revocation of such authorisations, applying to court for the

appointment of a new cover pool monitor, deciding the separation of the covered bond portfolio from the issuer, applying to court for the appointment of a cover pool administrator and for the release of a cover pool administrator from its office, approving and refusing transfers of covered bond portfolios in their entirety, filing bankruptcy petitions in respect of separated covered bond portfolios and appointing members to the bankruptcy committee for covered bond portfolios.

For the purpose of performing its supervision activities, the EFSA has the right to request reports, information, documents and oral or written explanations concerning facts relevant to the exercise of supervision. Furthermore, the EFSA has the right to require, for the purpose of performing supervision activities, issuers, cover pool monitors and cover pool administrators to submit all information and documents necessary for verification of the compliance of covered bond portfolios with requirements. In addition to the above and the rights the EFSA has for carrying out supervision under other laws of Estonia, the EFSA has the right to issue precepts to issuers requiring:

- (i) the inclusion of cover assets in a cover register;
- (ii) the entry of cover assets meeting the conditions provided for in the ECBA in the liquidity buffer sub-register;
- (iii) the removal of non-compliant cover assets or derivative instruments from the cover register;
- (iv) the correction of incorrect entries in the cover register;
- (v) the reappraisal of a property standing as security for a mortgage-backed credit or a commercial mortgage-backed credit in accordance with the methodology specified by the EFSA;
- (vi) the conduct of a stress test of the covered bond portfolio in accordance with the methodology specified by the EFSA;
- (vii) the replacement of a cover pool monitor;
- (viii) the provision of information to the cover pool monitor and allowing it to access documents and information systems;
- (ix) the calculation of the present value of the covered bonds or the cover assets in accordance with the methodology specified by the EFSA; and
- (x) bringing the internal rules into compliance with law.

In the event of failure to comply with an administrative act issued in accordance with the ECBA, the EFSA has the right to impose penalty payments until the failure to comply is cured. Furthermore, in case of certain breaches of the requirements of the ECBA, the EFSA has the right to impose fines in the amount of up to EUR 1,200 in case of a breach by a natural person and fines in the amount of up to EUR 400,000 in case of breach by a legal person.

In addition to the above, in the case of certain breaches of the ECBA or a failure by the issuer to duly and timely fulfil a precept issued by the EFSA, the EFSA may revoke the issuer's additional authorisation for the issuing of covered bonds, which would also result in the separation of the covered bond portfolio.

### **Cover pool monitor**

For the performance of the duties provided for in the ECBA, the issuer must appoint an independent cover pool monitor. The cover pool monitor must be an auditing company which ensures that the tasks of the cover pool monitor are only fulfilled by a sworn auditor with who is trustworthy and has an impeccable business reputation, adequate knowledge and experience. The cover pool monitor may not be an auditing company who audits or has audited the annual reports of the issuer within the year preceding its appointment as the cover pool monitor.

Pursuant to the ECBA, the statutory duties of a monitor are to verify:

- (i) the compliance of stress testing of a covered bond portfolio and the changes introduced to the covered bond portfolio as a result of stress testing to requirements;

- (ii) the existence of a sufficient cover pool and its compliance with requirements;
- (iii) the compliance of the maintenance of the cover register with requirements;
- (iv) the compliance of the appraisal of immovable properties encumbered with a mortgage securing credit and included in the cover pool with requirements;
- (v) the compliance of the issuer's risk management and reporting with requirements;
- (vi) the compliance of the terms and conditions of covered bonds with requirements; and
- (vii) the existence of an updated plan for separation of the covered bond portfolio and its compliance with the ECBA.

The monitor has the right to determine the scope and duration of the verification on each occasion. The monitor may carry out an on-the-spot verification at the place of establishment or place of business of the issuer, notifying the issuer at least two business days in advance. The issuer must allow the monitor to examine documents and information systems and shall provide the monitor with the information to the extent necessary for the performance of the monitor's duties.

The monitor must inform the issuer of any deficiencies found during verification in a format that can be reproduced in writing and shall set a reasonable deadline for elimination of the deficiencies. The monitor must notify the EFSA of the deficiencies that are not fully eliminated by the deadline set. The monitor must further notify the EFSA, promptly and in a format that can be reproduced in writing, of any circumstances or decisions that have come to the knowledge to the monitor and that result or may result in:

- a material breach of the legislation regulating the activities of the issuer;
- a material breach of the conditions under which the additional authorisation was granted; or
- a situation, or the risk of a situation arising, in which the issuer is unable to perform its liabilities arising from covered bonds and from the derivative instruments entered in the cover register.

The monitor must draw up a summary of verification activities that gives an overview of performance of its duties, the deficiencies found and the measures taken to eliminate them. The period covered by the summary of verification activities must correspond to the issuer's financial year. The summary of verification activities is to be submitted to the issuer and the EFSA within three months after the end of the issuer's financial year.

The appointment of the cover pool monitor is decided by issuer's general meeting. A monitor shall be appointed for a term of at least one year. The term of office of a monitor shall terminate:

- when a cover pool administrator is appointed;
- when the covered bond portfolio is declared bankrupt;
- when the monitor is removed by the general meeting;
- when the monitor resigns of his or her own accord; or
- when the monitor's term of appointment ends.

In the event of the voluntary resignation of the monitor, the monitor must notify the issuer and the EFSA thereof at least 30 days in advance. In the event of removal of the monitor by the general meeting, the issuer must notify the EFSA about the planned removal 10 days before the relevant resolution is adopted, unless prior notification is not possible for good reason.

A court shall, in the proceedings initiated on the basis of a petition of the EFSA, appoint a new monitor if:

- the general meeting of the issuer has not appointed a new monitor or there is reason to believe that a new monitor cannot be appointed before the termination of the term of office of the then current monitor; or

- the then current monitor does not meet the requirements established by law or there are deficiencies in the performance of his or her duties.

The term of office of a monitor appointed by a court shall continue until the general meeting appoints a new monitor.

As at the date of this Base Prospectus, the Issuer has appointed Ernst & Young Baltic AS pursuant to the Asset Monitor Agreement as a cover pool monitor in respect of the Programme to perform tests in respect of the Covered Bond Portfolio in compliance with the requirements of the ECBA.

## EU BENCHMARKS REGULATION

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain benchmarks.

Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmarks Regulation (the "**ESMA Benchmarks Register**") are set out below.

<b>Benchmark</b>	<b>Administrator</b>	<b>Administrator appears on ESMA Benchmarks Register?</b>
NIBOR	Norske Finansielle Referanser	Yes
STIBOR	Swedish Financial Benchmark Facility	Yes
EURIBOR	European Money Markets Institute	Yes
CIBOR	Danish Financial Benchmark Facility ApS	Yes

## **TAXATION**

The following is a general description of certain tax considerations relating to the Covered Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds, whether in those countries or elsewhere. Prospective purchasers of Covered Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Covered Bonds and receiving payments of interest, principal and/or other amounts under the Covered Bonds and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### **Taxation of interest in Estonia**

#### *Estonian Resident Covered Bondholders*

In accordance with Article 17(1) of the Income Tax Act of Estonia (*tulumaksuseadus*), as amended (the "ITA"), income tax at the rate of 20 per cent. is charged on interest received by individuals who are resident in Estonia. Furthermore, income tax payable in respect of interest payments to be made to Estonian residents is to be withheld by the Issuer. The Issuer will not withhold income tax if the Estonian resident Covered Bondholder, who is an individual, has notified the Issuer that the interest was received on financial assets acquired for money held in an investment account as specified in Article 17<sup>2</sup> of the ITA.

Resident legal entities are not subject to income tax upon receiving interest income. Under the Estonian corporate income tax system such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

#### *Non-resident Covered Bondholders*

The Issuer is not subject to withholding any income tax on interest payments to non-residents (including whether the non-resident is a legal entity or an individual, or if the legal entity has a permanent establishment in Estonia).

The income earned by non-resident Covered Bondholders is not subject to taxation in Estonia but may be subject to taxation in their country of residence.

#### *Definitive Covered Bonds*

Covered Bondholders should be aware that, if Definitive Covered Bonds are issued, holders of any Definitive Covered Bonds that are not held through Euroclear or Clearstream, Luxembourg, who are individuals (i.e. not legal entities), will be required to present evidence of non-Estonian tax residency or other evidence as required by the Issuer, to the relevant Paying Agent, in order to receive payments of interest free of Estonian withholding tax (which, as at the date of this Base Prospectus, is charged at a rate of 20 per cent.).

### **Taxation of capital gains in Estonia**

#### *Estonian Resident Covered Bondholders*

The income earned by resident individuals from the sale or exchange of Covered Bonds is taxed as gain from the transfer of property which is subject to income tax at the rate of 20 per cent. A Covered Bondholder has to declare the gain received and pay the income tax on its annual income tax return. The gain or loss derived from the transfer of Covered Bonds is the difference between the acquisition cost and the sale price of the Covered Bonds. A resident individual has the right to deduct any loss suffered upon the transfer of securities during a period of taxation from the gains derived from the transfer of securities during the same period of taxation. If the amount of loss suffered upon transfer of the Covered Bonds during a period of taxation exceeds the amount of gains derived by a taxpayer from the transfer of the Covered Bonds during the same taxation period, the amount by which the loss exceeds the gains may be deducted from the gains derived from the transfer of the Covered Bonds during subsequent taxation periods.



Moreover, under Article 37(1) of the ITA, a resident individual has the right to deduct certified expenses directly related to the sale or exchange of Covered Bonds from the resident's gain or to add such expenses to the resident's loss.

Upon using an investment account specified in Article 17<sup>2</sup> of the ITA for the purposes of making transactions with the Covered Bonds and depositing the proceeds from the transfer of Covered Bonds in the investment account, individual Covered Bondholders may postpone the taxation of their income derived from the sale or exchange of the Covered Bonds. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e. the amount withdrawn from the investment account which exceeds the amount that had been previously paid in the said account).

Resident legal entities are not subject to income tax upon receiving interest income. Under the Estonian corporate income tax system such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

#### *Non-resident Covered Bondholders*

Gains received from the sale or exchange of Covered Bonds is not subject to income tax in Estonia by non-resident Covered Bondholders (i.e. non-resident legal persons who do not have a registered permanent establishment in Estonia, and/or individuals).

The gains received by non-resident Covered Bondholders may be subject to taxation in their country of residence.

#### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia, a "**participating Member State**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "**established**" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

#### **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions including the Republic of Estonia have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that

it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date of publication of final regulations defining the term "foreign passthru payment".<sup>11</sup> Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds.

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<sup>11</sup> On December 14, 2018 the Treasury and the IRS issued Proposed Regulations that substantially reduce the burden under FATCA and chapter 3 by eliminating withholding on the payments of gross proceeds and certain Insurance premiums, deferring withholding on foreign Pass-thru payments, and introducing other relief measures.

## SUBSCRIPTION AND SALE

Covered Bonds may be sold from time to time by the Issuer to any one or more of Barclays Bank Ireland PLC, Citigroup Global Markets Europe AG Citigroup Global Markets Limited, Landesbank Baden-Württemberg, Nordea Bank Abp, Swedbank AB (publ) and UniCredit Bank AG (the "**Dealers**"). The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 1 June 2022 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as "**Non-Syndicated**" and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as "**Syndicated**", the obligations of those Dealers to subscribe the relevant Covered Bonds will be joint and several and the names and addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilisation Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds.

### United States of America

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Covered Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Covered Bonds comprising the relevant Tranche within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Covered Bonds during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Covered Bonds comprising any Tranche, any offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### Prohibition of Sales to EEA Retail Investors

Unless the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or are the subject of the offering contemplated by a

Drawdown Prospectus) in relation thereto to any retail investor in the EEA (including Estonia). For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
- (b) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## **United Kingdom**

### ***Prohibition of Sales to UK Retail Investors***

Unless the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or are the subject of the offering contemplated by a Drawdown Prospectus) in relation thereto to any retail investor in the UK. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or
- (b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

### ***Other regulatory restrictions***

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) No deposit-taking: in relation to any Covered Bonds having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) Financial promotion: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and

- (c) General compliance: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

## Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidance of Japan.

## Republic of Italy

The offering of the Covered Bonds has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Dealer has represented and agreed that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time) and any other applicable laws and regulations; and
- (b) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

## Belgium

Other than in respect of Covered Bonds for which "*Prohibition of Sales to Belgian Consumers*" is specified as "Not Applicable" in the relevant Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

## General

Each Dealer has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Covered Bonds or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they

purchase, offer, sell or deliver Covered Bonds or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "**General**" above.

Neither the Issuer or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Covered Bonds) or in a supplement to this Base Prospectus.

## GENERAL INFORMATION

### Authorisation

1. The update of the Programme was authorised by the Supervisory Council of the Issuer given on 13 May 2021. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds relating to them.

### Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its subsidiaries.

### Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries since 31 December 2022 nor has there been any significant change in the financial position or performance of the Issuer or the Issuer and its subsidiaries since 31 March 2023.

### Auditors

4. KPMG Baltics OÜ has audited the consolidated financial statements of the AS LHV Pank for the years ended 31 December 2022 and 31 December 2021 (each incorporated into this Base Prospectus by reference) and issued an unqualified auditor's report from the audits thereof.

KPMG Baltics OÜ has audited the consolidated financial statements of the LHV Group for the years ended 31 December 2022 and 31 December 2021 (each incorporated into this Base Prospectus by reference) and issued an unqualified auditor's report from the audits thereof.

KPMG Baltics OÜ is a member of the Estonian Auditors Association.

### Listing Agent

5. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Covered Bonds and is not itself seeking admission of the Covered Bonds to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Regulation.

### Documents on Display

6. Electronic copies of the following documents (together with English translations thereof) may be obtained from during normal business hours at the offices of AS LHV Pank or at <https://investor.lhv.ee/en/covered-bonds/>, for 12 months from the date of this Base Prospectus:
  - (a) the articles of association and trade register extract of the Issuer (as the same may be updated from time to time);
  - (b) the audited consolidated financial statements of AS LHV Pank and the LHV Group for the years ended 31 December 2022 and 2021;
  - (c) the condensed consolidated interim financial statements of AS LHV Pank and the LHV Group for the three month period ended 31 March 2023;
  - (d) the Agency Agreement;
  - (e) the Deed of Covenant;
  - (f) the Programme Manual (which contains the forms of the Covered Bonds in global and definitive form); and
  - (g) the Issuer-ICSDs Agreement.

For the avoidance of doubt, unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus.

#### **Clearing of the Covered Bonds**

7. The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code, International Securities Identification Number (ISIN), Financial Instrument Short Name (FISN) and Classification of Financial Instruments (CFI) code (as applicable) in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information.

#### **Issue Price and Yield**

8. Covered Bonds may be issued at any price. The issue price of each Tranche of Covered Bonds to be issued under the Programme will be determined by the Issuer in consultation with the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Covered Bonds or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Covered Bonds, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.
9. The yield of each Tranche of Covered Bonds set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

#### **Dealers transacting with the Issuer**

10. Certain of the Dealers and/or their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates may have a lending relationship with the Issuer and may, in such cases, routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds and Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

#### **The Legal Entity Identifier**

11. The Legal Entity Identifier (LEI) code of the Issuer is 529900GJOSVHI055QR67.

#### **Issuer website**

12. The Issuer's website is <https://www.lhv.ee/en/>. Unless specifically incorporated by reference into this Base Prospectus, information contained on the website or any website directly or indirectly linked to this website has not been verified and does not form part of this Base Prospectus.



**Validity of Base Prospectus and Base Prospectus supplements**

13. For the avoidance of doubt, the Issuer shall have no obligation to supplement this Base Prospectus after the end of its 12-month validity period.

## **REGISTERED OFFICE OF THE ISSUER**

### **AS LHV Pank**

Tartu mnt 2,  
10145 Tallinn,  
Estonia  
Telephone +372 6800 400

## **DEALERS**

### **Barclays Bank Ireland PLC**

One Molesworth Street  
Dublin 2  
D02 RF29  
Ireland

### **Citigroup Global Markets Europe AG**

Reuterweg 16  
60323 Frankfurt am Main  
Germany

### **Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
England

### **Landesbank Baden-Württemberg**

Am Hauptbahnhof 2  
70173 Stuttgart  
Germany

### **Nordea Bank Abp**

Satamaradankatu 5  
FI-00020 Nordea  
Finland

### **Swedbank AB (publ)**

SE-105 34 Stockholm  
Sweden

### **UniCredit Bank AG**

Arabellastraße 12  
81925 Munich  
Germany

## **FISCAL AND PAYING AGENT**

### **Citibank, N.A., London Branch**

Citigroup Centre  
Canary Wharf  
London E14 5LB  
United Kingdom

## **REGISTRAR**

### **Citibank Europe Plc**

1 North Wall Quay  
Dublin 1  
Ireland

## LEGAL ADVISERS

*To the Issuer*

*as to English law:*

**Allen & Overy LLP**  
One Bishops Square  
London  
E1 6AD  
United Kingdom

*as to Estonian law:*

**Advokaadibüroo COBALT OÜ**  
Pärnu mnt 15,  
10141 Tallinn  
Estonia

*To the Dealers as to English law:*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

## AUDITORS TO THE ISSUER

**KPMG Baltics OÜ**  
Narva maantee 5  
10117 Tallinn  
Estonia

## LISTING AGENT

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Ireland