

# Report on the activities of the Supervisory Board and assessment of the Annual Report 2015 of AS LHV Group for submission to the annual general meeting of the shareholders

16 March 2016

Changes were introduced in the staff of the Supervisory Board of AS LHV Group in April 2015. The general meeting of the shareholders removed, at his own request, Hannes Tamjärv, long-term member of the Supervisory Board, appointing Sten Tamkivi as the new member of the Supervisory Board. The Supervisory Board of AS LHV Group, consisting of Chairman of the Supervisory Board Rain Lõhmus and members of the Supervisory Board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi, discussed the following issues:

## 1. Activities in the financial year 2015

LHV posted a net profit of EUR 14.8 million in 2015. This constitutes a EUR 5.1 million increase from last year, with a 22% return on equity. Business volumes and profits were boosted in all core activities.

The net profit posted by the largest business unit - LHV Bank - amounted to EUR 9.9 million, having grown by EUR 3.8 million, year-over-year. Loans to customers increased by EUR 93 million and totalled EUR 405 million. EUR 167 million worth of new deposits were engaged during the year, with the total volume of deposits amounting to EUR 628 million by the end of the year.

LHV Bank focused mainly on gaining new customers and enhancing retail banking offers. In August, LHV Bank started operating its own ATM network. The ATMs were installed with the aim of maximising support to both private and business customers. In LHV's ATMs, incoming cash flows exceed outgoing cash flows, contrasting the rest of the Estonian market. This indicates that the Estonian retail banking is still under development, with both room and demand for further innovative solutions.

Having expanded its retail banking offers, LHV Bank also revealed its ambition of becoming the third largest home bank in Estonia. LHV Bank does not endeavour to serve as a mere copy of existing retail banks. Nonetheless, we can see a huge number of potential customers well suited to the offers of LHV Bank. By the end of 2015, the number of active customers had reached 80,000.

LHV Asset Management posted a net profit of EUR 4.7 million in 2015 - EUR 1.0 million more than last year. Total assets under management grew by EUR 66 million, totalling EUR 570 million. Return on equity was 53%, with LHV Asset Management returning EUR 4.5 million of capital to LHV Group.

The primary objective of LHV Asset Management is to maximise the long-term yield of fund shareholders. With their sights set on the goal, fund managers have kept their positions conservative, trying to avoid steep downswings in a fragile market. The chosen strategy has borne fruit. The 2nd-pillar pension funds managed by LHV Asset Management ranked first in terms of yield in all categories in 2015. LHV Asset Management also maintained its leader position in terms of 10-year yield of 2nd-pillar pension funds.

On 29 January 2016, LHV Asset Management entered into a contract of purchase and sale of shares with Danske Bank A/S Estonia Branch, under which LHV Asset Management purchased 100% of the shares of Danske Capital AS. Completion of the transaction requires the previous approval of the Financial Supervision Authority and the authorisation for concentration by the Competition Board. Danske Capital AS manages three mandatory pension funds and two voluntary pension funds with a volume of EUR 235.8 million and over 43,000 active customers. Upon completion of the transaction, LHV Asset Management's market share in mandatory pension funds will rise to nearly 30%.

Mokilizingas posted a net profit of EUR 1.1 million in 2015 - a EUR 0.5 million increase, year-over-year. The loan portfolio grew by EUR 8 million, totalling EUR 38 million. Mokilizingas' return on equity was 25%. Mokilizingas is the second largest hire-purchase provider on the Lithuanian market, and is

recognised for the good service and transparent pricing. In cooperation with a partner in the telecommunication sector, Mokilizingas also started offering hire-purchase services in Latvia. This is a fully controlled pilot project which allows to significantly enhance business activities, if successful.

In October 2015, LHV finally achieved one of its long-term goals, becoming a publicly traded company. The subordinated bonds to be redeemed by LHV in 2024 were listed on the NASDAQ Tallinn Stock Exchange. The public offering of subordinated bonds allowed LHV to engage EUR 15 million of subordinated capital from the markets. The transaction itself brought LHV nearly a thousand new investors. We also confirmed our plans of listing LHV's shares on the NASDAQ Tallinn Stock Exchange by the summer of 2016.

The Supervisory Board of the Group held 11 meetings in 2015. At these meetings, the Supervisory Board was provided with regular overviews of the results of operations and financial results, as well as the various new initiatives. The Supervisory Board adopted resolutions regarding amendment of policies, engagement of capital and subordinated loans, and the financial and activity plans for the upcoming year.

The Supervisory Board is quite pleased with the management and economic activities in 2015.

## **2. Annual Report 2015**

The Supervisory Board has examined the Annual Report 2015 prepared by the Management Board, and the auditor's report. In the opinion of the Supervisory Board, the Annual Report has been prepared in accordance with the generally accepted accounting principles, international standards and other acts regulating accounting.

The Supervisory Board is pleased with the work of the auditor in 2015.

## **3. Calling of the annual general meeting and submission of proposals regarding items on the agenda of the general meeting**

The Supervisory Board proposes to call the annual general meeting on 20 April 2016, with the following agenda:

1. Approval of the Annual Report 2015
2. Profit allocation for 2015
3. Overview of the economic results for the first quarter of 2016
4. Conditional increase of the Group's share capital
5. Approval of the dividend policy