

PROSPECTUS



(incorporated with limited liability in the Republic of Estonia)
EUR 100,000,000 8.750 per cent. Fixed/Floating Rate Notes due October 2027

The issue price of the EUR 100,000,000 8.750 per cent. Fixed/Floating Rate Notes due October 2027 (the "**Notes**") of AS LHV Group (the "**Issuer**") is 100.000 per cent. of their principal amount.

Unless previously redeemed, purchased or cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date (as defined in "*Terms and Conditions of the Notes—Interest*") falling on, or nearest to, 3 October 2027. The Notes are subject to redemption in whole, but not in part, at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Estonia. The Notes may also be redeemed at the option of the Issuer (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)), in whole, but not in part, on 3 October 2026 (the "**Reset Date**"), at their principal amount together with accrued interest). Subject to Condition 4(i) (*Conditions to Redemption or Repurchase*), the Issuer may, at its option, redeem all (but not some only) of the Notes in the event of a change in certain Estonian regulatory capital requirements, at their outstanding aggregate principal amount together with interest (accrued to but excluding the date of redemption). See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest on their principal amount from and including 3 October 2023 (the "**Closing Date**") to and excluding the Reset Date at a fixed rate of 8.750 per cent. per annum and thereafter at a rate of interest equal to EURIBOR plus the applicable Margin as provided in Condition 3 (*Interest*). Interest will be payable annually in arrear on 3 October in each year from and including 3 October 2024 to and including the Reset Date. Thereafter interest will be payable quarterly in arrear on 3 January 2027, 3 April 2027, 3 July 2027 and 3 October 2027.

Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Republic of Estonia to the extent described under "*Terms and Conditions of the Notes—Taxation*".

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") for the purpose of giving information with regard to the issue of the Notes. The Central Bank has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**"). Such approval should not be considered as an endorsement of the Issuer or the quality of any Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes. There can be no assurance that any such admission to trading will be obtained. Application has been made to Euronext Dublin for the Notes to be admitted to the official list and trading on its regulated market (the "**Regulated Market**"). The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and the Council on markets in financial instruments (as amended, "**MiFID II**"). The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Sole Bookrunner (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other state securities laws.

The Notes are in bearer form and in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around the Closing Date with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000 each and with interest coupons attached. See "*Summary of Provisions Relating to The Notes in Global Form*".

The Issuer has been rated Baa3 by Moody's Investors Service (Nordics) AB ("**Moody's**") and the Notes are expected to be rated Baa3 by Moody's. Moody's is established in the European Economic Area (the "**EEA**") and registered under Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**EU CRA Regulation**"). Moody's is not established in the United Kingdom (the "**UK**") and has not applied for registration under Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**"). Accordingly, the ratings issued by Moody's have been endorsed by Moody's Investors Service Limited in accordance with the UK CRA and have not been withdrawn. Moody's Investors Service Limited is established in the UK and registered under the UK CRA Regulation.

From and including the Reset Date, amounts payable under the Notes are calculated by reference to the Euro Interbank Offered Rate ("**EURIBOR**"), which is provided by the European Money Markets Institute (the "**Administrator**"). As at the date of this Prospectus, the Administrator 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**").

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.

Sole Bookrunner

MORGAN STANLEY

The date of this Prospectus is 29 September 2023

IMPORTANT NOTICES

Responsibility for this Prospectus

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

Other relevant information

Any information sourced from third parties contained in this 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.

The Issuer has confirmed to Morgan Stanley Europe SE (the "**Sole Bookrunner**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue of the Notes) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Sole Bookrunner.

Unauthorised information

Neither the Sole Bookrunner nor any of its affiliates have authorised the whole or any part of this 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 Prospectus or any responsibility for the acts or omissions of the Issuer or any other person (other than the Sole Bookrunner) in connection with the issue and offering of the Notes. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

Restrictions on distribution

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes and should not be considered as a recommendation by the Issuer or the Sole Bookrunner that any recipient of this Prospectus should subscribe for or purchase any Notes. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Sole Bookrunner to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes 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 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 (as amended, "**MiFID II**") or; (ii) a customer within the meaning of Directive 2016/97/EU (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 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes 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 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 UK 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 UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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

Certain definitions

In this 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, "**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.

In this 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 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.

Stabilisation

In connection with the issue of the Notes, Morgan Stanley Europe SE (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes 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 Notes 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 Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or person(s) acting on behalf of the 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 AS LHV Group and its subsidiaries (the “**Group**”) and incorporated by reference in this Prospectus are:

- the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 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 the International Financial Reporting Standards as adopted in the European Union (the “**EU**”) (“**IFRS**”). The Interim Financial Statements have been prepared in accordance with international financial reporting standard IAS 34 “*Interim Financial Reporting*”, as adopted in the EU.

The Issuer's financial year ends on 31 December and references in this Prospectus to “**2022**” and “**2021**” are to the 12-month periods ending on 31 December in both years.

Auditors and unaudited information

The Annual Financial Statements have been audited by KPMG Baltics OÜ, independent auditors (“**KPMG**”), in accordance with International Standards on Auditing, who have issued an unqualified report on the 2022 Financial Statements and the 2021 Financial Statements, respectively.

The Interim Financial Statements have not been subject to any audit or review by independent auditors. Certain other financial information in this Prospectus identified as such is unaudited financial information which has been extracted without material adjustment from the accounting records of the Group which form the underlying basis of the Financial Statements.

Certain non-IFRS financial information

This Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group 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 Group's historical financial results based on IFRS. The non-IFRS measures relate to the reporting periods presented in this Prospectus and are not meant to be predictive of future results. They are not defined under, or presented in accordance with, IFRS. Management uses APMs because the Issuer believes that these measures are commonly used by lenders, investors and analysts. The Issuer'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 Group'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 Prospectus has been expressed in euro. The Group's functional currency is euro and the Group prepares its financial statements in euro.

Third party and market share data

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

Statistical information relating to Estonia included in this 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 and Resolution Authority ("EFSA"). 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 Issuer to investors who have purchased the Notes.

In some cases, independently determined industry data is not available. In these cases, any market share data included in this Prospectus is referred to as having been estimated. All such estimates have been made by the Issuer using its own information and other market information which is publicly available. The Issuer believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group 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 Issuer's knowledge of the markets within which it operates, the Issuer 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 Issuer's own information.

No incorporation of website information

The Issuer's website is www.lhv.ee. Unless specifically incorporated by reference into this Prospectus, information on this website or any other website mentioned in this Prospectus or any website directly or indirectly linked to these websites (including, but not limited to, investor.lhv.ee and fp.lhv.ee) has not been verified, is not incorporated by reference into, and does not form part of, this Prospectus, and investors should not rely on it.

Rounding

Certain data in this Prospectus has been rounded. As a result of such rounding, the totals of data presented in tables in this 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

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this overview.

The Issuer:	AS LHV Group
Sole Bookrunner:	Morgan Stanley Europe SE
The Notes:	EUR 100,000,000 8.750 per cent. Fixed/Floating Rate Notes due October 2027.
Issue Price:	100.000 per cent. of the principal amount of the Notes.
Issue Date:	Expected to be on or about 3 October 2023.
Interest:	The Notes will bear interest on their outstanding principal amount from and including the Closing Date to, but excluding, the Reset Date at a fixed rate of 8.750 per cent. per annum and thereafter at a rate of interest equal to EURIBOR plus the applicable Margin as provided in Condition 3 (<i>Interest</i>).
Status:	The Notes are senior, unsecured, unsubordinated, direct, general and unconditional obligations of the Issuer which will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Interest Payment Dates:	Interest on the Notes will be payable annually in arrear on 3 October in each year from and including 3 October 2024 to and including the Reset Date. Thereafter, interest will be payable quarterly in arrear on 3 January 2027, 3 April 2027, 3 July 2027 and 3 October 2027.
Form and Denomination:	<p>The Notes will be issued in bearer form in the denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000, each with interest coupons attached.</p> <p>The Notes will initially be in the form of a Temporary Global Note, without interest coupons, which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of EUR 100,000 each and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000 and with interest coupons attached.</p>

The Temporary Global Note and the Permanent Global Note will be issued in new global note form.

Waiver of Set-Off:

No holder of Notes shall be entitled to exercise any right of set-off, netting or counterclaim against moneys owed by the Issuer in respect of such Notes.

Final Redemption:

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 3 October 2027.

Optional Redemption:

The Issuer may, at its option, redeem the Notes (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) in whole, but not in part on the Reset Date, at their outstanding principal amount together with accrued interest, as described under Condition 4(c) (*Redemption at the option of the Issuer*).

Early Redemption:

Upon the occurrence of a Withholding Tax Event, the Issuer (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) may, at its option, redeem the Notes in whole but not in part at any time at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption as described in Condition 4(b) (*Redemption for tax reasons*).

Upon the occurrence of a MREL Disqualification Event, the Issuer (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) may, at its option, redeem all (but not some only) of the Notes at their outstanding aggregate principal amount together with interest (accrued to but excluding the date of redemption) as described in Condition 4(e) (*Early Redemption as a result of an MREL Disqualification Event*).

Clean-up Call:

If at any time the outstanding principal amount of the Notes is 20 per cent. or less of the aggregate principal amount of Notes originally issued (which shall include, for these purposes, any further Notes issued pursuant to Condition 12 (*Further Issues*)), the Issuer may redeem all (but not some only) of the remaining outstanding Notes at any time at their principal amount together with interest accrued (if any) to (but excluding) the date fixed for redemption.

Substitution and Variation:

The Issuer may substitute or vary the terms of all (but not some only) of the Notes as provided in Condition 13 (*Substitution and Variation*) (including changing the governing law of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*)) without any requirement for the consent or approval of Noteholders.

Taxation:

All payments of interest only in respect of the Notes 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 thereof 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 Noteholders 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 6 (*Taxation*).

Events of Default:

The Notes provide for events of default in certain circumstances, but do not contain a cross-default or cross-acceleration provision.

Rating:

The Issuer has been rated Baa3 by Moody's and the Notes are expected to be rated Baa3 by Moody's. Moody's is established in the EEA and registered under EU CRA Regulation. Moody's is not established in the UK and has not applied for registration under the UK CRA Regulation. Accordingly, the ratings issued by Moody's have been endorsed by Moody's Investors Service Limited in accordance with the UK CRA Regulation and have not been withdrawn. Moody's Investors Service Limited is established in the UK and registered under the UK CRA Regulation.

Governing Law:

The Notes, the Agency Agreement and the Subscription Agreement will be governed by English law except for Conditions 2 (*Status*) and 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*) which shall be governed by Estonian law.

Listing and Trading:

Application has been made to Euronext Dublin for the Notes to be admitted to the official list and to trading on the Regulated Market.

Clearing Systems:

Euroclear and Clearstream, Luxembourg.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the UK and Italy, see "*Subscription and Sale*".

Risk Factors:

Investing in the Notes involves risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" below.

Financial Information:

See "*Description of the Issuer—Selected Financial Information*".

Use of Proceeds:

The net proceeds of the issue will be used by the Issuer for general corporate purposes.

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the industries in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Prospectus and their personal circumstances.

RISKS RELATING TO THE GROUP

The availability of Group operating cash flow may be limited.

The Issuer conducts its operations principally through, and derives all of its revenue and cash flow from, its subsidiaries and it does not anticipate that this will change in the near future. The Issuer itself does not own significant assets other than its investments in subsidiaries. Therefore, in order to be able to make payments in respect of the Notes, pay dividends to its shareholders and meet its other obligations, the Issuer is dependent on the receipt of dividends, principal and interest payments or other payments from its subsidiaries, which in turn, in the case of AS LHV Pank ("**LHV Pank**"), may be influenced by the need to comply with applicable capital adequacy ratios. In 2022 and 2021, the Issuer paid out dividends to its shareholders of €11.9 million and €8.4 million, respectively, and received dividends of €5.1 million and €6.5 million from AS LHV Varahaldus ("**LHV Asset Management**") and €3.9 million and €3.9 million from LHV Pank. Approximately €2.2 million and €1.5 million of the dividend amount received from its subsidiaries was used to cover the negative net interest income and operating expenses of the Issuer on a solo level in 2022 and 2021 respectively.

The Issuer may have to commit additional investments into its existing subsidiaries or any new businesses that it may launch in the future. For example, in 2021 the Issuer established a new subsidiary LHV Bank Limited ("**LHV Bank**") in the UK which received a banking licence in the UK in 2023. The Issuer will have to commit appropriate capital to cover the costs of starting up and expanding the subsidiary's business as envisaged in its business plan.

Under Estonian law, a company may only pay dividends or make other distributions if its current profits and retained earnings are sufficient for such distribution. Therefore, the Group's financial position and the Issuer's ability to make payments in respect of the Notes remains dependent on its subsidiaries' profit and financial position which, in turn, will depend on the future performance of the subsidiary concerned which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond its control. In addition, any such subsidiary may be subject to restrictions on the making of such distributions contained in applicable laws and regulations or in contractual agreements entered into by it.

There can be no assurance that the Group's subsidiaries will generate sufficient cash flow from operations or that alternative sources of financing will be available at any time in an amount sufficient to enable these subsidiaries to service their indebtedness, fund their other liquidity needs and make payments to the Issuer to enable it to service its indebtedness, including the Notes.

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

The Issuer and most of its subsidiaries operate principally in Estonia and the vast majority of the Group's assets and business are located in Estonia. Whilst the Group also has a banking subsidiary in the UK, LHV Bank, the business of LHV Bank is still a very small part of the Group overall. As a result, the Group is predominantly affected by general economic and geopolitical conditions in Estonia, changes in which are outside the Group'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 Europe.

For a discussion of economic trends impacting the Group in Estonia, see "*Financial Review—Principal factors affecting results of operations—Economic conditions*".

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 its slowdown due to the pandemic caused by the severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) ("**COVID-19**"). 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 GDP decreasing by 1.3 per cent.. Estonian consumer price inflation has been amongst the highest in Europe, which may have an impact on the ability of the Group's customers to service their debts. Rising interest rates and tightening financing conditions are also having an adverse impact upon the economy and could impact the creditworthiness of the Group's borrowers. Any further deterioration in the Estonian economy could have a direct negative impact on the financial position and profitability of the Group.

The Group 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 Belarussian economies have decreased. The negative effects stemming from the trade embargo have had a moderate effect on individual companies but have not had a significant impact 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 30 June 2023, less than 0.1 per cent. of the deposits raised by LHV Pank were from Russian and Belarussian residents. As at 30 June 2023, 1.7 per cent. of the loans issued by LHV Pank have been to businesses that are directly involved in transactions with Russian counterparties.

Pursuant to EU sanctions, LHV Pank 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). LHV Pank has put restrictions and monitoring in place for Russian and Belarussian customers whose deposits exceed the €100,000 limit and who cannot therefore receive additional funds to their accounts. In addition, LHV Pank also carries out regular screening and monitoring of deposits below the threshold. In any event, LHV Pank only accepts payments from Russian or Belarussian banks in exceptional cases and most payments to and from those countries are prohibited.

As at the date of this Prospectus, the effect of the conflict is unclear, and the Group continues to monitor the impact of the conflict on the operations of the Group, the Group'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 Group.

The Group 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 in the Group's business, principally in its lending activities. In particular, the Group is exposed to the risk that its counterparties may not meet their obligations in respect of loans advanced by the Group 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 Group, 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 Group's assets and require an increase in its allowances for credit losses of loans and other credit exposures.

As at 31 December 2022, the Group's loans and advances to customers amounted to €3,208.6 million, compared to €2,677.2 million as at 31 December 2021. The Group'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) ("**Stage 3 loans**") were €7.5 million as at 31 December 2022 compared to €16.0 million as at 31 December 2021. Allowance for impairments in respect of the Group's loans and advances to customers amounted to 0.6 per cent. and 0.7 per cent. of the value of its loan portfolio as at 31 December 2022 and 31 December 2021, respectively.

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

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

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

The Group's loans and advances to customers accounted for 52.3 per cent. of its total assets as at 31 December 2022, compared to 39.1 per cent. of its total assets as at 31 December 2021. As at 31 December 2022, 98.5 per cent. of the Group'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, the comparative percentage was 99.1 per cent.

The only other materially significant class of assets on the Group's statement of financial position is the amounts due from the Estonian Central Bank, which represented 39.0 per cent. of the Group's total assets as at 31 December 2022 compared to 56.6 per cent. of its total assets as at 31 December 2021.

The Group's deposits from customers and loans received were €5,486.7 million, equal to 96.0 per cent. of its total liabilities, as at 31 December 2022 and €6,354.2 million, or 97.5 per cent. of its total liabilities, as at 31 December 2021. As at 31 December 2022, 76.5 per cent. of the Group's deposits from customers and loans received was classified as Estonian risk meaning that the depositors are Estonian entities. As at 31 December 2021, the comparative percentage was 62.9 per cent.

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

The Group has significant customer and sector concentrations.

The Group'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 Group's loans and advances before allowances for credit losses to the real estate sector accounted for 24.6 per cent. of its total loans and advances to customers before allowances for credit losses. As at 31 December 2021, the comparative percentage was 24.4 per cent.

In addition, loans and advances to individuals accounted for 38.7 per cent. of the Group's total loans and advances to customers as at 31 December 2022 compared to 37.5 per cent. as at 31 December 2021.

A small number of the Group's loans and advances to customers carry a large risk exposure, meaning that the Group's exposure under each loan exceeded 10 per cent. of its net own funds (broadly equal to its capital). As at 31 December 2022 and 31 December 2021, the Group had large exposure loans outstanding to five customers and these loans aggregated 57 per cent. and 76 per cent. of the Group's net own funds, respectively.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large exposure counterparties, or any factors which negatively impact the real estate or retail sectors in Estonia to which the Group has significant exposures, could result in the Group having to make significant additional allowances for credit losses and/or experiencing significantly reduced interest income, each of which could have a material adverse effect on the Group.

The sector specific factors referred to above might include:

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

The Group also has some very large customers contributing a large proportion of deposits. These customers are predominantly serviced by LHV Pank's financial intermediaries unit and their deposits are backed with liquidity buffers, instead of using the deposits for long-term lending. Nevertheless, the share of the Group's 20 largest depositors was 16.6 per cent. as at 31 December 2022 compared to 37.6 per cent. as at 31 December 2021. As at 31 December 2022, there were two customers whose deposits exceeded 1 per cent. of the Group's total deposits from customers and their deposits aggregated €241 million. As at 31 December 2021, there were thirteen customers whose deposits exceeded 1 per cent. of the Group's total deposits from customers and loans received and their deposits aggregated €1,963 million.

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

The Group is subject to the risk that liquidity may not always be readily available.

Liquidity risk is the risk that the Group 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 Group's case, demand deposits), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

The Group's assets have, on average, a longer maturity than its funding sources. The Group 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 and 2021, demand and term deposits from customers amounted to 89.3 per cent. and 91.4 per cent., respectively, of the Group's total deposits from customers and loans received.

The availability of deposits is subject to fluctuation due to factors outside the Group'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 Group to increase the return paid on its deposits to ensure that it retains sufficient deposits. As part of its liquidity risk management strategy, the Group 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 Group could face unplanned liquidity outflows which have not been taken into account in its liquidity contingency plans and funding plans.

On a future undiscounted cash flow basis, as at 31 December 2022, 84.3 per cent. of the Group's deposits from customers and loans received did not have a fixed maturity. As at the same date and on the same basis, only 12.8 per cent. of the Group'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 88.8 per cent. and 10.4 per cent., respectively, as at 31 December 2021. The Group 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 to deposits from its core customers in Estonia and the UK, the Group has also raised term deposits from the Raisin deposit intermediation platform. The Raisin platform enables the Group to raise term deposit funding from outside its geographic home markets (from outside of Estonia for LHV Pank and from non-core customers in the UK for LHV Bank). However, the availability of these platform deposits could be more volatile than the Group's core customer deposits in the event of any market or idiosyncratic stress. Furthermore, as these term deposits mature, it is not certain that they can be rolled over and the Group may be required to raise other types of funding to replace any of these deposits which are not rolled over.

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

In addition to deposits, the Group has raised funding from capital markets through the issuance of covered bonds, unsecured bonds and other financial instruments. The Group 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 its business operations, performance or financial position. Access to, and the cost of, financing raised by the Group through money and capital markets are affected, among other things, by general interest rate levels, the situation on the financial markets, downturns in the performance of market participants and the Group's own capital adequacy and credit ratings.

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group 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 Group 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 Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, such as 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 insolvency.

The Group 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 Group 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, 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 Group 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 Group 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 LHV 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 Group's ability to raise new funding and on its business generally.

The Group is exposed to reputational risks related to its operations and industry.

The Group, through the activities of its member companies, is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group'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 Group's borrowers becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected. The Group is also exposed to adverse publicity relating to the financial services industry as a whole or individual institutions which are perceived to be similar to the Group. Financial scandals unrelated to the Group 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 Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group which could have a material adverse effect on the Group.

The Group could be adversely affected by market risks.

The Group 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. In relation to interest rates, there is a pricing gap between the Group's interest-rate sensitive assets and liabilities which exposes the Group to fluctuations in interest rates. For example, an increase in interest rates generally may decrease the value of the Group's fixed-rate loans and securities and may increase the Group's funding costs. Further, a decrease in the level of interest rates may decrease the revenue that the Group earns from its floating rate loans, securities and other assets. At the same time, the Group'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 to the risk management section of the 2022 Financial Statements which references stress tests conducted in relation to the Group's sensitivity to change in interest rates as at 31 December 2022 and 31 December 2021. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the European Central Bank (the "ECB") and the Bank of England, political factors and domestic and international economic conditions.

The Group 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 Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set out in the Group's internal risk management documents. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See subsection 3.1 to the risk management section of the 2022 Financial Statements which shows the Group's open foreign currency positions as at 31 December 2022 and 31 December 2021.

The Group also has a portfolio of debt and equity financial assets held at fair value which are exposed to the effect of changes in market prices on their fair value. However, in 2022 the majority of the investments classified as debt securities held at fair value were reclassified as investment securities measured as amortised cost. See subsection 3.2 to the risk management section of the 2022 Financial Statements which illustrates the Group's sensitivity to a 2 per cent. change in interest rates for securities with maturity over one year and 0.5 per cent. with maturity up to one year, a 5 per cent. change in the value of its mandatory pension fund units 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.

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

Adverse movements in interest and foreign exchange rates may also adversely impact the revenue and financial condition of the Group's depositors, borrowers and other counterparties which, in turn, may impact the Group's deposit base and the quality of its credit exposures to certain borrowers and other counterparties. Ultimately, there can be no assurance that the Group 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 Group is exposed to a range of operational risks. In particular, the Group is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice.

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 Group's counterparties or vendors). The Group 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 Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Group's employees could engage in misrepresentation, misconduct or improper practices that could expose the Group 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 Group 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 Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result or to fines or other regulatory sanctions, and could damage the Group's reputation.

The Group is dependent on its IT systems and any disruption to these systems, including as a result of cyber-attack, could materially disrupt the Group's business.

The Group 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 Group's business and operating data. The proper functioning of the Group'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 Group'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 Group's control, including natural disasters, extended power outages, and computer viruses and other external electronic attacks. The proper functioning of the Group'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 Group to claims for losses and regulatory fines and penalties. There can be no assurance that the Group's IT safeguards will be fully effective in the event of a disaster and or that they will protect the Group from all losses that could occur.

The threat to the security of the Group's information and customer data from security breaches and cyber-attacks presents a real and growing risk to its 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 Group, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

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

There can be no assurance that the Group's risk management 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 Group's risk management systems. Some of the Group'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 of 2008 to 2010, 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 Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group 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 Group'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 Group's internal compliance systems might not be fully effective in all circumstances.

The Group'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 Group is subject to oversight by regulatory authorities, including regular examination activity and annual supervisory review visits in relation to the Group's

banking entities, performs regular internal audits and employs an external auditing firm to review its internal auditing function as required by applicable regulations, the Group 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 2022, the EFSA conducted an on-site inspection to assess the compliance of LHV Pank's financial intermediaries business line control systems. The supervisory proceedings identified deficiencies regarding the assessment and management of money laundering and terrorist financing risks, as well as in the solutions for the onboarding and monitoring of clients to faultlessly fulfil the due diligence measures set for LHV Pank. In August 2023, the EFSA issued a precept to LHV Pank as a result of these supervisory proceedings and a fine of €900,000 for misdemeanour. LHV Pank has since eliminated a large part of the shortcomings identified by the EFSA and continues to improve the risk control system of the financial intermediaries business line.

In the case of actual or alleged non-compliance with applicable regulations, the Group 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 Group.

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

The financial services industry in which the Group operates is highly regulated and the Group'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 of 2008 to 2010, financial services regulation has changed materially and will continue to develop in the future. The regulatory requirements that the Group must comply with when conducting its business and operations or which the Group 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 with respect to 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, as amended from time to time;
- the prudential framework for insurance undertakings, for example Directive 2009/138/EC on the taking-up and pursuit of the business on Insurance and Reinsurance (Solvency II) and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC, as amended from time to time;
- regulation on pension and pension funds, including the Estonian Funded Pensions Act and Investment Funds Act;

- 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.

From 1 January 2023 onwards, AS LHV Group and its subsidiary LHV Pank are being directly supervised by the ECB. 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*".

In addition, the Group's UK subsidiary, LHV Bank, must also comply with UK laws and regulations when conducting its business and operations.

The Group has sought to comply with all of the 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 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 Group'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 Group has not acted in compliance with all applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or requirements to cease carrying on all or part of its business.

The pension funds management sector in Estonia has been subject to frequent regulatory changes and these, and any further changes, may adversely affect the Group's pensions business.

In recent years, the fees related to compulsory pension funds have been the subject of several reforms, each decreasing the fund management or other fees relating to compulsory pension funds. In December 2018, the Estonian Parliament reduced the management fee thresholds of compulsory pension funds.

In 2020, further reforms were passed which, from the start of 2021, enable Estonian citizens to opt out of the mandatory pension system, pay the 20 per cent. income tax on the amount they receive and remain solely reliant on state pension. It is possible to re-join the mandatory pension system after 10 years. Estonian citizens can also decide to remain in the system but use a personal pension investment account instead of funds. LHV Asset Management estimates that approximately one quarter of LHV pension fund clients have exited the system since these reforms were introduced, according to LHV's internal assessment.

Any further regulatory changes relating to the pension funds management sector may affect the Group's ability to effectively manage its pension funds and may have a negative impact on the revenues and profits that the Group earns from its pension fund management business.

The Group may need to raise eligible liabilities and capital 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, the 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 Group's operations, including the Group's procedures, rules and reporting systems, as well as to the calculation systems of the capital requirements applicable to the Group.

Currently, the Group 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 Group, the combined buffer requirement is comprised of:

- the other systemically important institution ("O-SII") buffer, which as at the date of this 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 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 Group as at the date of this Prospectus equalled 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, the minimum requirement for own funds and eligible liabilities ("MREL") obliges banks and banking groups to have sufficient own funds and unsecured long-term liabilities that can be used to cover losses under the crisis resolution plan. The preferred resolution strategy for the Issuer is the "single point of entry" strategy, with the Issuer being the resolution entity of the Group. For the Group, the EFSA has set the MREL target at 24.57 per cent. of the total risk exposure amount ("MREL-TREA") and 5.91 per cent. of the leverage ratio exposure measure ("MREL-LRE"). The targets will have to be met by 1 January 2024. The intermediate MREL target for the Group that had to be met by 1 January 2022 is 19.08 per cent. of the total risk exposure amount and 5.91 per cent. of the leverage ratio exposure measure. The MREL-TREA requirement for the Group was raised by the EFSA in September 2022 and there is no certainty that it will not be increased further in the future. Since the Issuer and its subsidiary AS LHV Pank are being directly supervised by the ECB from 1 January 2023 and are therefore subject to the SRM Regulation, the determination of applicable minimum requirement for own funds and eligible liabilities for the Group now falls within the competence of the Resolution Board (as further explained under the risk factor "*The Issuer may be subject to statutory resolution*").

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

The Group is likely to need to obtain additional capital and eligible liabilities in the future to support the future growth of its business. Such capital and funding, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's or any of the Group's banking entities' capital and MREL ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group or any of the Group's banking entities may need to adjust their business practices, including reducing the risk and leverage of certain activities or limiting asset growth. If either the Group or any of the Group's banking entities are unable to maintain satisfactory capital adequacy and MREL ratios, the Issuer's 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 Group.

The Group is exposed to risks related to money laundering activities and sanctions violations.

In general, the risk that financial institutions 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 for the Group is high. If financial market conditions, both globally and regionally, deteriorate, there is a risk that incidents involving money laundering may increase and this may affect the Group's ability to monitor, detect and respond to such incidents.

Additionally, one of the core business areas of the Group 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 time 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, financial institutions are required to comply with a number of international sanctions regimes, including those of the EU, 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 the Group. 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 Group and may, as a result, have a material adverse effect on the Group.

The Group 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.

Advance payments of CIT are made at a rate of 14 per cent. and, from 1 January 2025, the respective rate will increase to 18 per cent. according to the Act to amend Income Tax Act and Military Service Act adopted on 19 June 2023. 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 flow-through 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). Estonian credit institutions cannot account for losses that have arisen prior to the 19 previous quarters. Estonian credit institutions have the right to set-off the CIT payable from dividend distributions 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. Furthermore, from 1 January 2025, the standard CIT rate for dividend and equity capital distributions will increase from the current rate of 20 per cent. to 22 per cent. and the reduced CIT rate of 14 per cent. applied to regular dividend payments will be abolished. The increase in the applicable CIT tax rate will reduce the own funds of the credit institutions and will tighten the ability to issue loans. The advance CIT has a more significant impact on credit institutions in an active growth phase, such as LHV Pank, as it reduces the own funds of the institution.

Any other changes in Estonian tax regulations or in the interpretation of such regulations, may also have material adverse effect on the Group. It cannot be ruled out that new or additional taxes that may affect the Group may be implemented in the future. For instance, other Baltic countries have recently taken steps for the imposition of a banking tax. While no official proposals have been made and no legislative initiative has been taken in Estonia for the introduction of a banking tax, no assurance can be given that such similar tax will not be introduced in Estonia any time in the future.

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

The Issuer currently has a long-term issuer rating of Baa3 with a stable outlook from Moody's and the Notes are expected to be rated Baa3 by Moody's. This credit rating is an important factor in determining the Issuer's cost of borrowings.

There is no assurance that the Issuer'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 Issuer's credit rating, or a negative change in its outlook, may:

- limit the Issuer's ability to raise funding;
- increase the Issuer's cost of borrowing; and

- limit the Issuer's ability to raise capital.

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

Moody's notes three factors which, if they materialise, could lead to a future downgrade of the Issuer's rating:

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

In addition, the credit rating assigned to the Issuer may not reflect the potential impact of all risks related to an investment in the Notes, the market, additional factors discussed in this Prospectus and other factors that may affect the value of the Notes. 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 Group 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 Group'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 operational and management personnel. The market for such personnel in Estonia is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses. Amongst others, regulatory restrictions, such as the limits on certain types of remuneration paid by credit institutions and investment firms could adversely affect the Group'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 Group.

The Group 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 Group from implementing its strategies and the Group may not be able to replace any such lost personnel easily or quickly. The Group 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 Group operates in a highly competitive market which may adversely affect its results of operations if it is unable to compete effectively.

The Group operates in a highly competitive market. In relation to its banking activities, 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 Group 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 Group and may result in price pressure on the products and services offered by the Group. In addition, the Group is competing in the market of customer deposits in order to raise the funding that is required for supporting its lending business. In tightening monetary conditions, it is possible that competition in the deposits market will increase.

The majority of LHV Asset Management's business is related to second and third pillar pension funds. While the number of market participants in the local pension market is limited to five fund managers, the competition between market players is strong. While voluntary third pillar funds are the most tax efficient solution for long-term investing, they are also indirectly competing with all other investment opportunities.

If the Group 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 Group is subject to legal risks.

The Group'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 Group 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 Group. Consequently, the Group 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 Group.

In the ordinary course of its business, Group companies are exposed to a significant risk of claims, disputes and legal proceedings. In many cases, the Group 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 a Group company is a defendant, in addition to the cost of defending the claim the Group may be required to pay significant damages and the dispute could also negatively affect the Group's reputation.

RISKS RELATING TO THE NOTES

Modification and waivers.

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

Furthermore, the Conditions of the Notes provide that the Notes, the Conditions of the Notes and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error 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 Notes. Additionally, the Issuer may, subject to Condition 3(g) (*Benchmark Replacement*), vary or amend the Conditions and/or the Agency Agreement to give effect to certain amendments without any requirement for the consent or approval of Noteholders, see "*Regulation and reform of "benchmarks" could adversely affect the Notes*". The Issuer cannot foresee, as at the date of this Prospectus, what such changes may entail, however, any changes made will be binding on Noteholders.

Credit risk.

An investment in the Notes is subject to credit risk, which means that the Issuer may fail to meet its obligations arising from the Notes duly and in a timely manner. The Issuer's ability to meet its obligations arising from the Notes and the ability of the holders of the Notes to receive payments arising from the Notes depends on the financial position and the results of operations of the Issuer and its subsidiaries, which are subject to other risks described in this Prospectus. The Notes are not bank deposits in the Issuer and are not guaranteed by the Deposit Guarantee Fund (in Estonian: *Tagatisfond*).

No ownership rights.

An investment in the Notes 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 Notes represent an unsecured debt obligation of the Issuer, granting the Noteholders only such rights as set forth in the Conditions. The value of the Notes might be affected by the actions of the shareholder of the Issuer over which the investors do not have control.

There may be no active trading market for the Notes.

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

If a market does develop for the Notes, it may not be very liquid. Therefore, no liquidity of any market in the Notes can be assured; nor the ability of the holders of the Notes to sell their Notes or the prices at which they would be able to sell their Notes. Additionally, given the relatively small size of the issuance, large holdings by one or more investors could also impact secondary market liquidity.

If the Notes 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 Notes will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of the Notes, 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 Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Exchange rates and exchange controls.

The Issuer will predominantly pay principal and interest on the Notes in Euro (the "**Specified Currency**"). This presents certain risks relating to currency conversions if a holder of the Notes 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 Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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 Notes may receive less interest or principal than expected, or no interest or principal.

Fixed/Floating Rate Notes and interest rate risks.

The Notes bear interest at a fixed rate to, but excluding, the Reset Date.

During that time, Noteholders are exposed to the risk that the price of such Notes may fall because of changes in the market yield. While the nominal interest rate (i.e. the coupon) of the Notes is fixed until (but excluding) the Reset Date, the market yield typically changes on a daily basis. As the market yield changes, the price of the Notes changes in the opposite direction. If the market yield increases, the price of the Notes falls. If the market yield falls, the price of the Notes increases. Noteholders should be aware that movements of the market yield can adversely affect the price of the Notes and can lead to losses for the Noteholders.

Noteholders should also be aware that the market yield has two components, namely the risk-free rate and the credit spread. The credit spread is reflective of the yield that investors require in addition to the yield on a risk-free investment of equal tenor as a compensation for the risks inherent in the Notes. The credit spread changes over time and can decrease as well as increase for a large number of different reasons.

The market yield of the Notes can change due to changes in the credit spread, the risk-free rate, or both.

If the Notes are not called by the Reset Date, the Notes will bear interest at a floating rate from, and including, the Reset Date to, but excluding, the Maturity Date. The floating rate applicable to the Notes from (and including) the Reset Date is based on two components, namely 3-month EURIBOR and the Margin. The floating rate (i.e. the coupon) is payable quarterly, and will be set immediately prior to any floating Interest Period to the then prevailing 3-month EURIBOR rate plus the Margin.

Noteholders should be aware that the floating rate interest income is subject to changes to 3-month EURIBOR and therefore cannot be anticipated. Hence, Noteholders are not able to determine a definite yield of the Notes at the time of purchase, so that their return on investment cannot be compared with that of investments in simple fixed rate (i.e. fixed rate coupons only) instruments.

Since the Margin is fixed at the Issue Date, Noteholders are subject to the risk that the Margin does not reflect the spread that investors require in addition to 3-month EURIBOR as a compensation for the risks inherent in the Notes (market spread). The market spread typically changes on a daily basis. As the market spread changes, the price of the Notes changes in the opposite direction. A decrease in the market spread has a positive impact on the price of the Notes; an increase in the market spread has a negative impact on the price of the Notes. However, the price of the Notes is subject to changes in the market spread, changes in 3-month EURIBOR or both. Noteholders should be aware that movements in the market spread can adversely affect the price of the Notes and can lead to losses for the Noteholders.

In addition, Noteholders are exposed to reinvestment risk with respect to proceeds from coupon payments or early redemptions by the Issuer. If the market yield (or market spread respectively) declines, and if Noteholders want to invest such proceeds in comparable transactions, Noteholders will only be able to reinvest such proceeds in comparable transactions at the then prevailing lower market yields (or market spreads respectively).

The Notes may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes 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 Notes in accordance with the Conditions, and subject to compliance with certain regulatory conditions and approval by the Resolution Authority.

The Issuer may also be entitled to redeem in whole (but not in part) the Notes if an MREL Disqualification Event occurs.

In addition, on the date falling one year prior to maturity, or at any time if the outstanding aggregate principal amount of the Notes is 20 per cent. or less of the principal amount originally issued (which shall include, for these purposes, any further Notes issued pursuant to Condition 12 (*Further Issues*)), the Issuer may elect (pursuant to Condition 4(d)) to redeem the Notes. The Issuer may choose to redeem the Notes (subject to certain regulatory conditions and approvals) at times when prevailing interest rates may be relatively low. In such circumstances a holder of the Notes may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes and may only be able to do so at a significantly lower rate. The exercise of any optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may, or is perceived to be able to, elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

No rights of set-off, netting or counterclaim.

Holders of Notes shall not be entitled to exercise any right of set-off, netting or counterclaim against moneys owed by the Issuer in respect of such Notes. Therefore, such Noteholders will not be entitled (subject to applicable law) to set off the Issuer's obligations under such Notes against obligations owed by them to the Issuer.

Regulation and reform of "benchmarks" could adversely affect the Notes.

Interest rates and indices which are deemed to be "benchmarks", such as EURIBOR, are the subject of ongoing national, international and other regulatory guidance and proposals for reform, with further changes anticipated. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.

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. The EU Benchmarks Regulation could have a material impact on any Notes linked to a "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 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".

There is also a risk that certain benchmarks may continue to be administered but may in time become obsolete. On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("€STR") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the EU Benchmarks Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the EURIBOR benchmark or any other benchmark or changes in the manner of administration of any benchmark or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Notes linked to such benchmark. 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 Notes, the return on the Notes and the trading market for securities (including the Notes) based on the same benchmark.

The Conditions of the Notes 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 Floating Rate of Interest could be determined by an Independent Adviser or the Issuer or set by reference to 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. However, any such adjustment may not be successful in eliminating economic prejudice or benefit and the Notes may still perform differently than they would if the Original Reference Rate had remained in place. In certain circumstances, the ultimate fallback rate of interest for the purposes of calculation of the Floating Rate of Interest for a particular Interest Period may result in the Floating Rate of Interest for the immediately preceding Interest Period being used (unless such immediately preceding Interest Period ended prior to the Reset Date, in which case the Floating Rate of Interest shall be the last observable Screen Rate as determined by the Agent Bank plus the Margin). This may result in the effective application of a fixed rate for the Notes based on the last Floating Rate of Interest or the last observable Screen Rate. In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates and the involvement of an Independent Adviser, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time. No Successor Rate or Alternative Reference Rate will be adopted to the extent that it (1) could reasonably be expected to prejudice the qualification of the Notes being MREL Eligible Liabilities (for the purposes of, and in accordance with, the Applicable Banking Regulations) or (2) could reasonably be expected to result in the Resolution Authority treating a future Interest Payment Date as the effective maturity of such Notes, rather than the Maturity Date for the purposes of qualification as eligible liabilities and/or loss absorbing capacity of the Issuer.

Any such consequences could have a material adverse effect on the value of and return on the Notes. 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 the Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes. Investors should consider these matters and consult their own independent advisers when making their investment decision with respect to the Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. 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 Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Minimum Denomination.

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Credit Rating.

The Issuer has been rated Baa3 and the Notes will be rated by Moody's. The 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 Notes. A credit 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. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. In general, European regulated investors are restricted under the EU CRA Regulation from using a rating for regulatory purposes in the EEA, unless such ratings are not issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies unless (1) the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU CRA Regulation 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 list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances.

If the status of the rating agency rating the Notes changes for the purposes of the EU CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Notes may have a different regulatory treatment, which may impact the value of the Notes and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

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 the Notes) of a failing financial institution and/or to convert certain debt claims (which could include the Notes) 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 resolution action is taken.

Pursuant to Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*), each Noteholder acknowledges and accepts that any liability of the Issuer arising under the Notes may be subject to the exercise of Bail-in and Loss Absorption Powers by the Relevant Resolution Authority. The exercise of any such power or any suggestion of such exercise could materially adversely affect the value of any Notes subject to the BRRD and could lead to the Noteholders losing some or all of their investment in the Notes. Prospective investors in the Notes should consult their own advisers as to the consequences of the implementation of the BRRD.

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. The SRM Regulation establishes a single European resolution board (consisting of representatives from the European Central Bank ("**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 LHV Pank 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 banking groups and 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, early intervention measures or any powers pursuant to the BRRD and the SRM Regulation with respect to the Issuer, or any suggestion of such exercise will likely materially adversely affect the price or value of an investment in Notes and/or the ability of the Issuer to satisfy its obligations under such Notes and could lead to the holders of the Notes losing some or all of their investment in the Notes.

The Estonian resolution legislation implementing the BRRD Directive.

The BRRD is implemented in Estonia by the FCPRA. Under the FCPRA, the resolution authority is the EFSA. While the primary authority for taking of resolution-related decisions in respect of the Group is vested with the Resolution Board, the national resolution authority remains responsible for implementing the decisions taken by the Resolution Board, in particular for exercising control over the relevant entities and ensuring the compliance with appropriate safeguards provided for in the BRRD. For this purpose, the FCPRA provides for certain measures to the EFSA, including, for instance, the right to appoint a special manager to the Issuer or to exercise control over the Issuer through exercise of shareholder rights and management and disposal of the Issuer's assets. More broadly, the FCPRA includes all the resolution powers and measures stipulated in the BRRD, 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. In addition, the FCPRA sets forth that all credit institutions must at all times meet the MREL requirement as determined by the Relevant Resolution Authority.

While the FCPRA also transposes the general principles and safeguards regulated under the BRRD, including the so-called NCWO safeguard (i.e. the principle stating that no creditor of the institution subject to resolution shall incur greater losses than would have been incurred if the institution had been wound up under insolvency proceedings), there operation of this principle in various circumstances is not entirely clear on the basis of the manner of transposition of this principle into the FCPRA, in particular, in cases where write-down and conversion powers are used independently outside of resolution proceedings.

If the debt bail-in and loss absorption tool and the statutory write-down and conversion power become applicable to the Issuer, the Notes 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 Noteholders 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 (for example 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 Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

The Notes may be subjected in the future to the bail-in and loss absorption resolution tool by the Relevant Resolution Authority and to the mandatory burden sharing measures for the provision of precautionary capital support which may result into their write-down in full.

Under the BRRD (and the FCPRA which transposes the BRRD into Estonian law), powers have been granted to the Relevant Resolution Authority which include the bail-in and loss absorption tool through which an institution subjected to resolution may be recapitalised either by way of write-down or conversion of liabilities (including

the Notes) into ordinary shares. The bail-in and loss absorption tool may be imposed either as a sole resolution measure or in combination with the rest of the resolution tools that may be imposed by the Relevant Resolution Authority in case of the resolution of a failing credit institution.

The Notes may be subjected to the said bail-in and loss absorption tool. So, if the Group is subjected to resolution measures in the future, then the value of such Notes may be written down (up to zero) as a result of the imposition of the bail-in and loss absorption tool. Furthermore, the Notes may be subject to modifications or the disapplication of provisions in the Conditions of the Notes, including alteration of the principal amount or any interest payable on the Notes, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period.

Pursuant to Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*), each Noteholder acknowledges and accepts that any liability of the Issuer arising under the Notes may be subject to the exercise of Bail-in and Loss Absorption Powers by the Relevant Resolution Authority.

Changes in laws or administrative practices could entail risks.

The Conditions of the Notes are based on the laws of England in effect as at the date of issue of the relevant Notes. 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 Prospectus. Furthermore, the Issuer and the Group operate in a heavily regulated environment and has to comply with extensive regulations in the Republic of Estonia. 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 Prospectus.

Recognition of choice of court agreements and enforcement of foreign judgments in Estonia.

In accordance with Condition 16 (*Governing Law and Jurisdiction*), the courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes). In accordance with Condition 16(d) (*Rights of the Noteholders to take proceedings outside England*), notwithstanding Condition 16(b) (*English courts*), any Noteholder may take proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, Noteholders 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 United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "**Withdrawal Agreement**"), the provisions regarding the 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 Noteholders 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 Notes 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 Notes, 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 Notes 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 Notes 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 Noteholders of their claims against the Issuer arising from the Notes.

Under certain circumstances, the Issuer's ability to redeem the Notes may be limited.

The rules under the CRD prescribe certain conditions for the granting of permission by the Resolution Authority to a request by the Issuer to redeem or repurchase the Notes. The Issuer may redeem or repurchase the Notes only if such redemption or repurchase is in accordance with applicable provisions of the Applicable Banking Regulations, and, where necessary, has been granted the approval of or permission from the Resolution Authority (to the extent such approval is then required under the Applicable Banking Regulations).

The Notes will be structurally subordinated to the claims of creditors of the Issuer's principal subsidiary.

Some of the Issuer's subsidiaries have incurred indebtedness, and in the future will continue to incur indebtedness, in order to finance their respective operations. A significant proportion of the Group's indebtedness has been incurred by LHV Pank. In the event of the insolvency of LHV Pank, or one or more of the Issuer's other subsidiaries, the claims of their respective secured and unsecured creditors, including trade creditors, banks and other lenders, will have priority with respect to LHV Pank's (or such other subsidiary's) assets over any claims that the Issuer or the creditors of the Issuer, as applicable, may have with respect to such assets. Accordingly, if the Issuer became insolvent at the same time, claims of the Noteholders against the Issuer in respect of the Notes would be structurally subordinated to the claims of all such creditors of LHV Pank or such other subsidiary. The

Conditions of the Notes do not restrict the amount of indebtedness that the Group may incur, including indebtedness of LHV Pank or the Issuer's other subsidiaries.

The Issuer is not prohibited from issuing further debt, which may rank pari passu with or senior to the Notes.

There is no restriction on the amount of debt or on the amount of securities that the Issuer may issue that rank *pari passu* with or senior to the Notes. The issue of any such debt or securities may reduce the amount recoverable by Noteholders in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer.

Remedies in case of default on the Notes are severely limited.

The Notes contain limited enforcement events relating to (a) non-payment by the Issuer of any amounts due and (b) the winding-up, insolvency or bankruptcy of the Issuer, whether in Estonia or elsewhere.

In such circumstances, as described in more detail in Condition 7 (*Events of Default*), a Noteholder may institute proceedings for the winding-up or dissolution of the Issuer, in each case, in Estonia and not elsewhere, and prove or claim in the winding-up, insolvency or bankruptcy of the Issuer.

In each case, however, the holder of such Notes may claim payment in respect of such Notes only in the winding-up, insolvency or bankruptcy of the Issuer.

The Issuer could, in certain circumstances, substitute or vary the terms of the Notes.

In certain circumstances (such as if a Withholding Tax Event or MREL Disqualification Event has occurred and is continuing, or in order to ensure the effectiveness of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*)), the Issuer may, in accordance with Applicable Banking Regulations and without the consent or approval of the Noteholders, substitute or vary the terms of such Notes (including changing the governing law of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*)) to ensure that, if applicable, they continue to qualify as eligible liabilities, in accordance with the Conditions, or in order to ensure the effectiveness of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*).

While the Issuer cannot make changes to the terms of such Notes that, in its reasonable opinion, are materially less favourable to a holder of such Notes, the governing law of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*) may be changed in order to ensure the effectiveness and enforceability of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*).

There can be no assurance as to whether any of these changes will negatively affect any particular Noteholder. In addition, the tax and stamp duty consequences of holding such varied Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the Notes prior to such substitution or variation.

The Issuer's gross-up obligation under the Notes is limited.

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Notes applies only to payments of interest due and paid under such Notes and not to payments of principal (which term, for these purposes, includes any premium, final redemption amount, early redemption amount, optional redemption amount and any other amount (other than interest) which may from time to time be payable in respect of such Notes).

As such, the Issuer would not be required to pay any additional amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, such Noteholders would, upon repayment or redemption of such Notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, Noteholders may receive less than the full amount due under such Notes, and the market value of such Notes may be adversely affected as a result.

The qualification of the Notes as "eligible liabilities" is subject to uncertainty.

The Notes are intended to be "eligible liabilities" (or any equivalent or successor term) ("**MREL Eligible Liabilities**") which are available to count towards the Issuer's and/or the Group's eligible liabilities and/or loss

absorbing capacity. However, there remains some uncertainty regarding the final substance of the applicable MREL regulations and how those regulations are to be interpreted and applied and the Issuer cannot provide any assurance that the Notes will be (or thereafter remain) MREL Eligible Liabilities.

The Issuer may be entitled to redeem the Notes in whole (but not in part) if a MREL Disqualification Event occurs.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The EUR 100,000,000 8.750 per cent. Fixed/Floating Rate Notes due October 2027 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 12 (*Further Issues*) and forming a single series therewith) of AS LHV Group (the "**Issuer**") will be issued on 3 October 2023 (the "**Issue Date**"). The Notes are the subject of a fiscal agency agreement dated 3 October 2023 (as amended or supplemented from time to time, 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 Notes) and 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 Notes) and Citibank, N.A., London Branch as agent bank (the "**Agent Bank**", which expression includes any successor agent bank appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and the deed of covenant dated 3 October 2023 (the "**Deed of Covenant**") and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (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 available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 with Coupons attached at the time of issue. No definitive Notes will be issued with a denomination above EUR 199,000. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Notes, and the Coupons will pass by delivery. The Noteholder, or Couponholder shall (except as otherwise required by law) be treated as the absolute owner of such Note or Coupon 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 any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Noteholder or Couponholder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. **Status**

- (a) The Notes and obligations in relation to any related Coupons resulting therefrom constitute senior, unsecured, unsubordinated, direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) No Noteholder shall be entitled to exercise any right of set-off, netting or counterclaim against moneys owed by the Issuer in respect of such Notes. If any amounts owed by the Issuer to any Noteholder in connection with the Notes is discharged by set-off, netting or counterclaim such Noteholder shall, where permitted by applicable law, immediately pay an amount equal to the amount discharged to the Issuer (or, in the event of its winding-up, the liquidator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount discharged on behalf and for the benefit of the Issuer (or the liquidator of the Issuer) and accordingly not deem any such discharge to have taken place.
- (c) The rights of Noteholders 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 Notes only as a result of the operation of such laws or regulations.

3. Interest

- (a) *Interest Payment Dates:* The Notes bear interest on their outstanding principal amount from and including the Issue Date, payable annually in arrear on 3 October in each year from and including 3 October 2024 to and including 3 October 2026 (the "**Reset Date**") (each, a "**Fixed Interest Payment Date**"). Thereafter interest will be payable quarterly in arrear on 3 January 2027, 3 April 2027, 3 July 2027 and 3 October 2027 (together with each Fixed Interest Payment Date, each an "**Interest Payment Date**"). If any Interest Payment Date (other than a Fixed Interest Payment Date) would otherwise fall on a day which is not a Business Day it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

The amount of interest payable on each Fixed Interest Payment Date shall be EUR 87.50 in respect of each Note of EUR 1,000 (the "**Calculation Amount**"). If interest is required to be paid in respect of a Note for a period other than an Interest Period and such period ends prior to or on the Reset Date, such interest shall be calculated by applying the Fixed Rate of Interest to the Calculation Amount, multiplying such sum by the Fixed Day Count Fraction and rounding the resultant figure to the nearest cent, (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Business Day**" means a day which is both a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and a TARGET Settlement Day.

"**Fixed Day Count Fraction**" means, in respect of any period, the actual number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls;

"**Interest Period**" means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date; and

"**Regular Period**" means each period from (and including) the Issue Date or any Fixed Interest Payment Date to (but excluding) the next Interest Payment Date.

Whenever it is necessary to calculate an amount of interest in respect of the Notes for a period beginning on or after the Reset Date, such interest shall be calculated in accordance with Condition 3(d) (*Determination of Floating Rate of Interest and Interest Amount*) below.

- (b) *Interest Accrual:* Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day have been paid and (b) the day which is five days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).
- (c) *Interest Rate:* The rate of interest payable in respect of each Interest Period ending prior to the Reset Date shall be 8.750 per cent. per annum (the "**Fixed Rate of Interest**"). Thereafter, the rate of interest payable from time to time in respect of the Notes (the "**Floating Rate of Interest**") will be determined by the Agent Bank on the following basis:
- (i) on each Interest Determination Date, the Agent Bank will determine the Screen Rate at approximately 11.00 a.m. (Brussels time) on that Interest Determination Date. If the Screen Rate is unavailable, the Issuer will request the principal Euro-zone office of each of the Reference Banks to provide the Agent Bank with the rate at which deposits in euro are offered by it to prime banks in the Euro-zone interbank market for three

months at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question and for a Representative Amount;

- (ii) the Floating Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin or, if the Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin; and
- (iii) if fewer than two rates are provided as requested, the Floating Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Issuer and communicated to the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of such Interest Period for loans in euro to leading European banks for a period of three months commencing on the first day of such Interest Period and for a Representative Amount, plus the Margin. If the Floating Rate of Interest cannot be determined in accordance with the above provisions, the Floating Rate of Interest shall be determined as at the last preceding Interest Determination Date (unless such Interest Determination Date was in respect of an Interest Period ending prior to the Reset Date, in which case the Floating Rate of Interest shall be the last observable Screen Rate as determined by the Agent Bank plus the Margin).

Where:

"Interest Determination Date" means the second TARGET Settlement Day before the commencement of the Interest Period for which the rate will apply.

"Margin" means 5.176 per cent. per annum.

"Reference Banks" means the principal Euro-zone office of each of four major banks engaged in the Euro-zone interbank market selected by the Issuer on the advice of an investment bank of international repute.

"Representative Amount" means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time.

"Screen Rate" means the offered rate for three month deposits in euro which appears on the Reuters page EURIBOR01 (or such replacement page or pages on that service which displays the information).

- (d) *Determination of Floating Rate of Interest and Interest Amount:* In respect of each Interest Period starting on or after the Reset Date, the Agent Bank shall, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the euro amount (the **"Interest Amount"**) payable in respect of interest on each Note for the relevant Interest Period. The Interest Amount shall be determined by applying the Floating Rate of Interest to the Calculation Amount, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount.
- (e) *Publication of Floating Rate of Interest and Interest Amount:* The Agent Bank shall cause the Floating Rate of Interest and the Interest Amount for each Interest Period starting on or after the Reset Date and the relative Interest Payment Date to be notified to the Issuer and the Paying Agents (by no later than the first day of each Interest Period) and to be published in accordance with Condition 14 (*Notices*) as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Issuer will in turn deliver or procure to be delivered any such notices to any stock exchange or other relevant authority on which the Notes are at the relevant time listed if and to the extent required by applicable law and or listing rules.

The Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. The Agent Bank shall not be obliged to publish each Interest Amount but instead may publish only the Interest Amount per Calculation Amount.

- (f) *Notifications, etc. to be final:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 (*Interest*), whether by the Reference Banks (or any of them) or the Agent Bank, will (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, or the Noteholders or the Couponholders shall attach to the Reference Banks (or any of them) or the Agent Bank in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition 3 (*Interest*).
- (g) *Benchmark Replacement:* Notwithstanding the provisions above in this Condition 3 (*Interest*), if the Issuer (in consultation, to the extent practicable, with the Agent Bank) determines that a Benchmark Event has occurred when any Floating Rate of Interest (or the relevant component part thereof) remains to be determined by reference to the Original 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 starting on or after the Reset Date (the "**IA Determination Cut-off Date**") for purposes of determining the Floating Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 3(g) (*Benchmark Replacement*));
 - (ii) if the Issuer is unable to appoint an Independent Adviser prior to the IA 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 Agent Bank) 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 Floating Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 3(g) (*Benchmark Replacement*)); provided, however, that if this subparagraph (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 starting on or after the Reset Date in accordance with this sub-paragraph (ii), the Floating Rate of Interest applicable to such Interest Period shall be equal to the Floating Rate of Interest last determined in relation to the Notes in respect of a preceding Interest Period (unless such Interest Period ended prior to the Reset Date, in which case the Floating Rate of Interest shall be the last observable Screen Rate as determined by the Agent Bank plus the Margin);
 - (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 used in place of the Original Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 3(g) (*Benchmark Replacement*));
 - (iv) If a Successor Rate or Alternative Reference Rate is determined in accordance with Condition 3(g)(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 Reference Rate (as the case may be) for each subsequent determination of the Floating Rate of Interest (or the relevant component(s) thereof) by reference to such Successor Rate or Alternative Reference 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 Agent Bank, specify changes to the Business Day, business day convention, day count fraction, Interest Determination Date, Interest Payment Date, screen page, and/or the definition of Screen Rate or the Adjustment Spread applicable to the Notes (and, in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Notes for all future Interest Periods starting on or after the Reset Date (as applicable) (subject to the subsequent operation of this Condition 3(g) (*Benchmark Replacement*)). An Independent Adviser appointed pursuant to this Condition 3(g) (*Benchmark Replacement*) shall (in the absence of bad faith, gross negligence and wilful misconduct) have no liability whatsoever to the Issuer, the Fiscal Agent, the Agent Bank or Noteholders for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 3(g) (*Benchmark Replacement*). No Noteholder 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 Agent Bank, the Fiscal Agent and the Noteholders.
- (vii) Notwithstanding any other provision of this Condition 3(g) (*Benchmark Replacement*), no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the terms of the Notes will be made pursuant to this Condition 3(g) (*Benchmark Replacement*), if and to the extent that, in the determination of the Issuer (i) the same could reasonably be expected to prejudice the qualification of the Notes being MREL Eligible Liabilities (for the purposes of, and in accordance with, the Applicable Banking Regulations) or (ii) the same could reasonably be expected to result in the Resolution Authority treating a future Interest Payment Date as the effective maturity of such Notes, rather than the Maturity Date for the purposes of qualification as eligible liabilities and/or loss absorbing capacity of the Issuer.

For the purposes of this Condition 3(g) (*Benchmark Replacement*):

"**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 Original Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of bonds denominated in euro 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 Original Reference Rate;

"Benchmark Event" means:

- (i) the Original Reference Rate has ceased to be published on the 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 Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Original 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 Original 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 Original 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 Agent Bank or the Issuer to calculate any payments due to be made to any Noteholder 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 Screen Rate (provided that if, following one or more Benchmark Events, the Screen 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 Original Reference Rate (for the avoidance of doubt, whether or not such Original Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body.

- (h) *Agent Bank*: The Issuer shall procure that, so long as any of the Notes remains outstanding (as defined in the Agency Agreement), there is at all times an Agent Bank for the purposes of the Notes and the Issuer may terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Floating Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall appoint the Euro-zone office of another major bank engaged in the Euro-zone interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed. Notwithstanding any other provision of this Condition 3 (*Interest*), if in the Agent Bank's opinion there is any uncertainty in making any determination or calculation under this Condition 3 (*Interest*), the Agent Bank shall promptly notify the Issuer and the Issuer shall direct the Agent Bank in writing what action to adopt. If the Agent Bank is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason it shall notify the Issuer thereof and the Agent Bank shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

4. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on or nearest to 3 October 2027 (the "**Maturity Date**"), subject as provided in Condition 5 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued (if any) to the date fixed for redemption, if a Withholding Tax Event occurs provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (solely for the purposes of making such documents available to Noteholders either at the Fiscal Agent's specified office for inspection, or by providing electronic copies by email):

- (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 4(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 4(b) (*Redemption for tax reasons*).

Where:

"**Change in Tax Law**" means any:

- (i) amendment to, clarification of, or change in, the laws or regulations of any Taxing Jurisdiction; or
- (ii) governmental action in the Taxing Jurisdiction;
- (iii) amendment to, clarification of, or change in, the official position or the interpretation of such law, treaty (or regulations thereunder) or governmental action or any interpretation, decision or pronouncement that provides for a position with respect to such law, treaty (or regulations thereunder) or governmental action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body in the Taxing Jurisdiction, irrespective of the manner in which such amendment, change, action, pronouncement, interpretation or decision is made known;

"**Relevant Jurisdiction**" means the jurisdiction in which the Issuer is incorporated at the relevant time;

"**Taxing Jurisdiction**" means the Relevant Jurisdiction or any political subdivision thereof or any authority or agency therein or thereof having power to tax or any other jurisdiction or any political subdivision thereof or any authority or agency therein or thereof, having power to tax in which the Issuer is treated as having a permanent establishment, under the income tax laws of such jurisdiction; and

"**Withholding Tax Event**" shall occur if the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 (*Taxation*) as a result of any Change in Tax Law, which change or amendment becomes effective on or after the Issue Date, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

- (c) *Redemption at the option of the Issuer*: The Notes may be redeemed at the option of the Issuer (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) in whole, but not in part on the Interest Payment Date falling on 3 October 2026 (the "**Reset Date**"), at their outstanding aggregate principal amount together with interest (accrued to but excluding the date of redemption), on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption).
- (d) *Clean-up Call*: If, at any time, the outstanding aggregate principal amount of the Notes is 20 per cent. or less of the aggregate principal amount of the Notes originally issued (which shall include, for these purposes, any further Notes issued pursuant to Condition 12 (*Further Issues*) and consolidated with the Notes as part of the same Series shall be deemed to have been originally issued), the Issuer may (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)) redeem all (but not some only) of the remaining outstanding Notes at any time upon giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall specify the date for redemption and shall be irrevocable), at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption.
- (e) *Early Redemption as a result of an MREL Disqualification Event*: upon the occurrence of an MREL Disqualification Event (subject to Condition 4(i) (*Conditions to Redemption or Repurchase*)), the Issuer may, at its option having given not less than 30 days' nor more than 60

days' notice to the Noteholders (which notice shall be irrevocable), redeem all (but not some only) of the Notes at their outstanding aggregate principal amount together with interest (accrued to but excluding the date of redemption, subject to these Conditions).

Where:

"Applicable Banking Regulations" means at any time the laws, regulations, delegated or implementing acts, regulatory or implementing technical standards, rules, requirements, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity then in effect in Estonia including, without limitation to the generality of the foregoing, CRD, the SRM Regulation, BRRD, the Creditor Hierarchy Directive and those regulations, requirements, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liability and/or loss absorbing capacity and/or the implementation of the Creditor Hierarchy Directive adopted by the Competent Authority, the Resolution Authority or any other national or European authority from time to time, and then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer);

"Bail-in and Loss Absorption Powers" means any loss absorption, write-down, conversion, transfer, modification, moratorium, suspension or similar resolution related power existing from time to time under, and exercised in compliance with, the SRM Regulation, or any laws, regulations, rules or requirements in effect in the Republic of Estonia, relating to (i) the transposition of the BRRD and (ii) the instruments, rules and standards created thereunder, as applicable, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period);

"BRRD" means Directive 2014/59/EU as the same may be amended or replaced from time to time, including without limitation, by the Creditor Hierarchy Directive and Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC;

"Competent Authority" means any authority having primary responsibility for the prudential supervision of the Issuer at the relevant time;

"CRD" means the legislative package consisting of the CRD Directive, the CRR and any CRD Implementing Measures;

"CRD Directive" means Directive 2013/36/EU, as the same may be amended or replaced from time to time, including without limitation as amended by Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019;

"CRD Implementing Measures" means any regulatory capital rules or regulations, or other requirements, which are applicable to the Issuer and which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the regulatory capital of the Issuer (on a solo or consolidated basis, as the case may be) to the extent required by the CRD Directive or the CRR, including for the avoidance of doubt any regulatory technical standards released by the European Banking Authority (or any successor or replacement thereof);

"Creditor Hierarchy Directive" means Directive 2017/2399/EU or any equivalent legislation that supersedes or replaces it;

"CRR" means Regulation 575/2013, as the same may be amended or replaced from time to time, including without limitation as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019) or similar laws in Estonia;

"Group" means the Issuer and its consolidated Subsidiaries, taken as a whole;

"MREL Disqualification Event" means the whole or any part of the outstanding aggregate principal amount of the Notes at any time is not included in, ceases or (in the opinion of the Issuer) will cease to count towards the Issuer's or the Group's eligible liabilities and/or loss absorbing capacity (in each case for the purposes of, and in accordance with, the relevant Applicable Banking Regulations); *provided that* an MREL Disqualification Event shall not occur if such whole or part of the outstanding aggregate principal amount of the Notes is not included in, ceases or (in the opinion of the Issuer) will cease to count towards such eligible liabilities and/or loss absorbing capacity due to the remaining maturity of such Notes being less than the minimum period prescribed by the relevant Applicable Banking Regulations;

"MREL Eligible Liabilities" means "eligible liabilities" (or any equivalent or successor term) which are available to count towards the Issuer's and/or the Group's eligible liabilities and/or loss absorbing capacity;

"Resolution Authority" means the resolution authority with the ability to exercise any Bail-in and Loss Absorption Powers in relation to the Issuer and/or the Group;

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

"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.
- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 4(a) (*Scheduled redemption*) to 4(e) (*Early Redemption as a result of an MREL Disqualification Event*) above.
- (g) *Purchase:* The Issuer or any of its Subsidiaries may purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith, and *provided that* any such purchases will be made in accordance with the Applicable Banking Regulations and subject to the prior approval of or permission from the Competent Authority and/or the Resolution Authority (in each case to the extent such approval is then required under the Applicable Banking Regulations). Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

Any refusal by the Competent Authority and/or the Resolution Authority (if required) to grant its approval or permission as described above will not constitute an event of default under the Notes.

- (h) *Cancellation:* All Notes 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) *Conditions to Redemption or Repurchase:* other than in the case of a redemption at maturity in accordance with Condition 4(a) (*Scheduled redemption*), the Issuer may redeem or repurchase the Notes (and give notice thereof to the Noteholders) only if such redemption or repurchase is in accordance with the Applicable Banking Regulations (if applicable) and it has been granted the permission of the Resolution Authority (if required based on the Applicable Banking Regulations).

Any refusal by the Resolution Authority (if required) to grant its approval or permission as described above will not constitute an event of default under the Notes.

6. Taxation

All payments of interest in respect of the Notes 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 thereof 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, in respect of interest but not principal, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders 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 Note or Coupon presented for payment:

- (a) by or on behalf of a Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Estonia other than the mere holding of the Note or Coupon; or
- (b) more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London 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 Noteholders.

Any reference in these Conditions to interest shall be deemed to include any additional amounts in respect of interest which may be payable under this Condition 6 (*Taxation*).

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.

7. Events of Default

- (a) If any of the following events occurs:
 - (i) *Non-payment*: the Issuer fails to pay any amount of principal due in respect of the Notes for more than seven business days or fails to pay any amount of interest due in respect of the Notes for more than ten business days; or
 - (ii) *Winding-up, etc.*: if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution,

any Noteholder may,
 - (x) (in the case of (i) above) institute proceedings for the winding-up or dissolution of the Issuer, in each case, in Estonia and not elsewhere, and prove or claim in the winding-up or dissolution of the Issuer; and/or
 - (y) (in the case of (ii) above) prove or claim in the winding up or dissolution of the Issuer, whether in Estonia or elsewhere and instituted by the Issuer itself or by a third party,but (in either case) such Noteholder may claim payment in respect of the Note only in the winding up or dissolution of the Issuer.
- (b) In any of the events or circumstances described in Condition 7(a)(ii) (*Winding-up, etc.*) above, any Noteholder may, by notice to the Issuer, declare such Note to be due and payable, and such Note shall accordingly become due and payable at its outstanding principal amount together with accrued interest to the date of payment but subject to such Noteholder only being able to claim payment in respect of the Note in the winding up or dissolution of the Issuer.

- (c) Any Noteholder may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to Conditions 7(a) and 7(b) any obligation for the payment of any principal or interest in respect of the Notes) *provided that* the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it, except with the prior approval of the Competent Authority and/or the Resolution Authority (if such approval is then required under the Applicable Banking Regulations).
- (d) No remedy against the Issuer, other than as provided in Conditions 7(a), 7(b) and 7(c) above, shall be available to the Noteholders, whether for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Notes. For the avoidance of doubt, any exercise of the Bail-in and Loss Absorption Powers by the Resolution Authority shall not constitute an event of default and shall not give rise to any remedy against the Issuer.

8. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

9. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, 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 Notes or Coupons must be surrendered before replacements will be issued.

10. Paying Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents and the Agent Bank 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 Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Agent Bank and to appoint a successor fiscal agent or agent bank and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a paying agent and an agent bank.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders

11. Meetings of Noteholders; Modification

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings (including by way of conference call or by use of a videoconference platform) of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-fifth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes held or represented; *provided, however, that* any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any

payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders or Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than three-quarters in aggregate principal amount of the Notes for the time being outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Issuer may, without the consent of any of the Noteholders or Couponholders, at any time: (i) agree with the Fiscal Agent: (A) any modification (except for any modification that relates to a Reserved Matter) of the Notes, the Coupons, the Agency Agreement or the Deed of Covenant which is, in the opinion of the Issuer, not prejudicial to the interests of the Noteholders; or (B) any modification of the Notes, the Coupons, the Agency Agreement or the Deed of Covenant which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error. Any modification or waiver of these Conditions will be effected in accordance with Applicable Banking Regulations.

In addition, pursuant to Condition 3(g) (*Benchmark Replacement*), certain changes may be made to the interest calculation provisions of the Notes in the circumstances and as otherwise set out in such Condition, without the requirement for consent of the Noteholders.

12. **Further Issues**

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

13. **Substitution and Variation**

If at any time an MREL Disqualification Event or Withholding Tax Event occurs, or to ensure the effectiveness or enforceability of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*), the Issuer may, subject to the Applicable Banking Regulations (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent (in accordance with the Agency Agreement) and the Noteholders (which notice shall be irrevocable), at any time either:

- (a) substitute all (but not some only) of the Notes for new Notes, which are Qualifying Securities; or
- (b) vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Securities,

provided that, in each case:

- (i) such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities; and
- (ii) such variation or substitution would not itself directly lead to a downgrade in any of the credit ratings of the Notes as assigned by any rating agency immediately prior to such variation or substitution (unless any such downgrade is solely attributable to the effectiveness and enforceability of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*)); and

- (iii) such variation or substitution is not materially less favourable to holders (unless any such prejudice is solely attributable to the effectiveness and enforceability of Condition 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*)).

For the avoidance of doubt, any such substitution or variation shall not be deemed to be a modification or amendment for the purposes of Condition 11 (*Meetings of Noteholders; Modification*).

Any substitution or variation in accordance with this Condition 13 is subject to the Issuer obtaining prior written consent of the Resolution Authority and complying with the rules of any competent authority, stock exchange and/or quotation system by or on which the Notes are, for the time being, listed, traded and/or quoted.

For the purpose of this Condition 13 a variation or substitution shall be "**materially less favourable to holders**" if such varied or substituted securities do not:

- (i) include a ranking at least equal to that of the Notes pursuant to Condition 1(b)(i) (*Status*);
- (ii) have the same interest rate and the same interest payment dates as those from time to time applying to the Notes;
- (iii) have equivalent redemption rights as the Notes;
- (iv) have the same currency of payment, maturity, denomination and original aggregate outstanding nominal amount as the Notes prior to such variation or substitution;
- (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the interest payment date last preceding the date of substitution or variation; or
- (vi) have a listing on a recognised stock exchange if the Notes were listed immediately prior to such variation or substitution; and

Where:

"**Qualifying Securities**" means securities issued directly or indirectly by the Issuer that contain terms which at such time result in such securities being eligible to qualify towards the Issuer's eligible liabilities and/or loss absorbing capacity for the purposes of, and in accordance with, the relevant Applicable Banking Regulations to at least the same extent as the Notes prior to the relevant MREL Disqualification Event or Withholding Tax Event.

14. Notices

Notices to the Noteholders shall be valid if published 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. In addition, so long as Notes are admitted to trading on Euronext Dublin and it is a requirement of applicable law or regulations, published on the website of Euronext Dublin (<https://live.euronext.com/en/markets/dublin>). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. Currency Indemnity

If any sum due from the Issuer in respect of the Notes 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 Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder 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 Noteholder 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.

16. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law, except for Conditions 2 (*Status*), and 17 (*Acknowledgement of Bail-in and Loss Absorption Powers*) 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 Notes (including a dispute regarding any non-contractual obligation arising out of or in connection with the Notes).
- (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 Noteholders to take proceedings outside England:* Notwithstanding Condition 16(b) (*English courts*), any Noteholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders 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 Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

17. **Acknowledgement of Bail-in and Loss Absorption Powers**

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Noteholder (which, for the purposes of this Condition 17, includes each holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Noteholder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of such Bail-in and Loss Absorption Powers as may be exercised by the Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

- (a) the effect of the exercise of any Bail-in and Loss Absorption Powers by the Resolution Authority, which exercise (without limitation) may include and result in some or any of the following, or a combination thereof:
 - (i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;
 - (ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;
 - (iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and

- (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Notes, as deemed necessary by the Resolution Authority, to give effect to the exercise of any Bail-in and Loss Absorption Powers by the Resolution Authority.

"Bail-in and Loss Absorption Powers" means any loss absorption, write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, the SRM Regulation, or any laws, regulations, rules or requirements in effect in the Republic of Estonia, relating to (i) the transposition of the BRRD and (ii) the instruments, rules and standards created thereunder, as applicable, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period).

"Relevant Amounts" means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and additional amounts due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any Bail-in and Loss Absorption Powers by the Resolution Authority.

For the avoidance of doubt, any exercise of any Bail-in and Loss Absorption Powers by the Resolution Authority described above will not constitute an event of default under the Notes.

No repayment or payment of Relevant Amounts in respect of the Notes will become due and payable or be paid after the exercise of any Bail-in and Loss Absorption Powers by the Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, amended or altered as a result of such exercise.

Upon the exercise of the Bail-in and Loss Absorption Powers by the Resolution Authority with respect to the Notes, the Issuer will provide a written notice to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable regarding such exercise of the Bail-in and Loss Absorption Powers but any delay or failure to provide such notice shall not affect the validity or enforceability of such exercise of the Bail-in and Loss Absorption Powers.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note ("NGN") form. On 13 June 2006 the European Central Bank (the "ECB") announced that notes 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 notes 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.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to 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 satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Temporary Global Note cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denominations of EUR 100,000 and higher integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg 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 or (b) any of the circumstances described in Condition 7 (*Events of Default*) occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum denomination of EUR 100,000 and higher integral multiples of EUR 1,000 in excess thereof, notwithstanding that no Definitive Notes will be issued with a denomination above EUR 199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes 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 Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) 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 Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 3 October 2023 (the "**Deed of Covenant**")). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate

principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note 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 Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" means any day on which the TARGET System is open.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Electronic Consent and Written Resolution: While any Global Note is held on behalf of a clearing system, then:

- (a) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which a special quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Agency Agreement) has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by (a) accountholders in the clearing system with entitlements to such Global Note and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Xact WebPortal system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to EUR 97,560,000 will be used by the Issuer for general corporate purposes.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Annual 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 STATEMENTS OF FINANCIAL POSITION

The table below shows the Group's consolidated statements of financial position as at 31 December in 2022 and 2021.

	As at 31 December	
	2022	2021
	(audited)	(audited)
	(€ thousand)	
Assets		
Due from central banks.....	2,390,964	3,874,284
Due from credit institutions.....	87,933	106,838
Due from investment companies	3,391	6,188
Financial assets at fair value through profit or loss	9,354	135,855
Financial assets measured at amortised cost	364,230	0
Loans and advances to customers.....	3,208,572	2,677,160
Receivables from customers.....	21,019	9,752
Other financial assets.....	124	2,236
Other assets.....	6,775	3,471
Strategic financial investments	1,180	5,236
at fair value through profit or loss		
Tangible assets.....	9,552	4,517
Right-of-use assets	7,307	3,957
Intangible assets.....	13,853	11,825
Goodwill.....	10,748	3,614
Total assets	6,135,002	6,844,933
Liabilities		
Deposits from customers and loans received.....	5,486,998	6,354,224
Financial liabilities at fair value through profit or loss	3,850	157
Accounts payable and other liabilities	92,462	55,373
Subordinated debt.....	130,843	110,378
Total liabilities	5,714,153	6,520,132
Equity		
Share capital	31,542	29,864
Share premium.....	141,186	97,361
Statutory legal reserve	4,713	4,713
Other reserves	5,683	4,733
Retained earnings	229,817	179,746
Total equity attributable to owners of the parent...	412,941	316,417
Non-controlling interest.....	7,908	8,384
Total equity	420,849	324,801
Total liabilities and equity	6,135,002	6,844,933

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below summarises the Group's consolidated statements of profit or loss and other comprehensive income for the financial years ended 31 December 2022 and 2021.

	2022 <i>(audited)</i>	2021 <i>(audited)</i>
	<i>(€ thousand)</i>	
Interest income	152,413	124,641
- incl. interest income based on EIR.....	146,216	118,990
Interest expense	<u>(23,302)</u>	<u>(27,322)</u>
Net interest income	129,111	97,319
Fee and commission income	61,495	60,824
Fee and commission expense	<u>(16,595)</u>	<u>(17,345)</u>
Net fee and commission income	44,900	43,479
Net gains from financial assets measured at fair value	(2,008)	(924)
Foreign exchange rate gains/losses.....	<u>1,414</u>	<u>(22)</u>
Net gains from financial assets	(594)	(946)
Other income	228	534
Other expense	(102)	-4
Staff costs	(46,795)	(31,322)
Administrative and other operating expenses.....	<u>(42,843)</u>	<u>(33,863)</u>
Profit before credit losses	83,905	75,197
Impairment losses on financial instruments	(5,056)	0
Impairment losses on loans and advances	<u>(2,996)</u>	<u>(3,948)</u>
Profit before income tax	75,853	71,249
Income tax expense	<u>(14,421)</u>	<u>(10,986)</u>
Profit for the year	61,432	60,263
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit and loss</i>		
Unrealised exchange differences on translating the financial statements of foreign operations	<u>(1,489)</u>	<u>48</u>
Total comprehensive income for the year	59,943	60,311
 Total profit attributable to:		
Owners of the parent	59,808	58,261
Non-controlling interest	<u>1,624</u>	<u>2,002</u>
	61,432	60,263
 Total comprehensive income attributable to:		
Owners of the parent	58,319	58,309
Non-controlling interest	<u>1,624</u>	<u>2,002</u>
	59,943	60,311

CONSOLIDATED STATEMENTS OF CASH FLOWS

The table below summarises the Group's consolidated statements of cash flows for the financial years ended 31 December 2022 and 2021.

	2022 <i>(audited)</i>	2021 <i>(audited)</i>
	<i>(€ thousand)</i>	
Cash flows from operating activities before changes in operating assets and liabilities.....	85,883	74,800
Net cash from/(used in) operating activities.....	(1,290,187)	1,281,579
Net cash (used in)/from investing activities.....	(256,083)	181,469
Net cash from financing activities.....	50,298	114,614
Effect of exchange rate changes on cash and cash equivalents.....	(441)	66
Net increase/(decrease) in cash and cash equivalents.....	(1,496,413)	1,577,728
Cash and cash equivalents at the beginning of the year.....	3,930,012	2,352,284
Cash and cash equivalents at the end of the year.....	2,433,599	3,930,012

SELECTED CONSOLIDATED RATIOS AND APMS

The table below shows selected consolidated ratios for the Group as at and for the six months ended 30 June 2023, and as at and for the years ended 31 December in 2022 and 2021.

	As at/for the six months ended 30 June	As at/for the years ended 31 December	
	2023	2022	2021
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>(per cent.)</i>		
Performance measures			
Return on average assets ⁽¹⁾	2.2	0.9	1.0
Return on average equity ⁽²⁾	30.7	16.4	21.1
Cost to income ratio ⁽³⁾	44.4	51.7	46.4
Financial ratios			
Net interest margin ⁽⁴⁾	3.84	2.01	1.66
Interest spread ⁽⁵⁾	3.77	1.98	1.63
Asset quality			
Non-performing loans ratio ⁽⁶⁾	0.3	0.2	0.6
Non-performing loans coverage ratio ⁽⁷⁾	199	276	119.3
Loans to deposits ratio ⁽⁸⁾	64.3	65.5	46.1
Other ratios			
LCR ⁽⁹⁾	162.6	139.7	142.7
LCR, adjusted for deposits of financial intermediaries ⁽¹⁰⁾	326.2	231.5	253.3
NSFR ⁽⁹⁾	148.0	144.0	163.4
Leverage ratio ⁽⁹⁾	6.79	6.83	4.32
Core equity tier 1 capital adequacy ratio ⁽⁹⁾⁽¹⁴⁾	18.17	16.02	14.27
Tier 1 capital adequacy ratio ⁽⁹⁾⁽¹⁴⁾	20.54	18.43	16.08
Total capital adequacy ratio ⁽⁹⁾⁽¹⁴⁾	23.76	21.72	19.97
MREL-TREA ⁽⁹⁾⁽¹⁴⁾	32.79	29.99	—

MREL-LRE ⁽⁹⁾⁽¹⁴⁾	12.12	11.12	—
Key ratios for LHV Pank			
Cost to income ratio ⁽³⁾	34.0	39.9	38.6
Pre-tax return on average equity ⁽¹¹⁾	39.0	27.9	29.8
Return on average equity ⁽²⁾	34.0	24.0	25.6
Tier 1 capital adequacy ratio ⁽⁹⁾⁽¹⁴⁾	21.30	19.13	16.01
Total capital adequacy ratio ⁽⁹⁾⁽¹⁴⁾	23.95	21.86	18.66
Key ratios for LHV Asset Management			
Cost to income ratio ⁽³⁾	77.9	90.7	83.8
Pre-tax return on average equity ⁽¹¹⁾	9.0	2,9	6.4
Return on average equity ⁽²⁾	4.6	(0.4)	2.3
Assets under management, € million	1,465	1,332	1,349
Active customers of Pillar 2 funds, thousands	128	131	138
Key ratios for LHV Insurance			
Return on average equity ⁽²⁾	(17.4)	(28.9)	(11.7)
Gross written premiums, € thousands	15,690	17,138	6,747
Net loss ratio ⁽¹²⁾	71.7	73.9	48.7
Net expense ratio ⁽¹³⁾	33.4	46.0	87.7

Notes:

- (1) Profit 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 (equal to gross amount of Stage 3 loans, which amounted to €9.3 million as at 30 June 2023, €7.5 million as at 31 December 2022 and €16.0 million as at 31 December 2021) as a percentage of total of the gross loans (being loans and advances to customers before allowances for credit losses).
- (7) Total allowances for credit losses as a percentage of non-performing loans (equal to gross amount of Stage 3 loans). Allowances include allowances for loans and advances to customers.
- (8) Loans and advances to customers divided by deposits from customers.
- (9) Calculated in accordance with applicable requirements in Estonia.
- (10) LCR, adjusted for financial intermediaries: the amount of deposits of financial intermediaries is deducted both from the numerator (high quality liquid assets) as well as the denominator (outflows) when calculating LCR. Full liquidity is kept by LHV to back the deposits of financial intermediary clients.
- (11) Profit for the year attributable to owners of the parent less income tax expense for the year, 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.
- (12) Sum of net losses divided by sum of net earned premiums.
- (13) Sum of administrative expenses, depreciation expenses, commission fees and reinsurance commissions divided by sum of net earned premiums.
- (14) The net own funds are retrospectively increased by the net profit allowed to be included in the capital base after receiving the necessary permission from the supervisory authority. The profit inclusion permission affects the net own funds of the final month the period the profit was earned in. The ratios presented in the table take into account the net profit included retrospectively to net own funds:
 - for the Group €50.3 million, €31.2 million and €29.4 million as at 30 June 2023, 31 December 2022, and 31 December 2021, respectively.
 - for LHV Pank €28.4 million, €34.7 million and €24.5 million as at 30 June 2023, 31 December 2022, and 31 December 2021, respectively.

DESCRIPTION OF THE GROUP

INTRODUCTION

The Issuer is a holding company for three principal wholly-owned subsidiaries, LHV Pank, LHV Asset Management and LHV Bank. The Issuer also owns 100 per cent. of EveryPay AS ("**EveryPay**"), a payment solutions provider, and 65 per cent. of AS LHV Kindlustus ("**LHV Insurance**"), a non-life insurance joint venture that started operations in 2021.

LHV Pank is the third largest bank in Estonia with a 17 per cent. market share in deposits and an 18 per cent. market share in corporate loans, in each case according to information provided by the EFSA as at 31 December 2022. In February 2023 an independent survey company, Dive, announced that LHV Pank offered the best service in Estonian banking with a score of 97.8 per cent. In August 2022, Euromoney identified LHV Pank as the best bank in Estonia for the fifth consecutive year.

LHV Pank 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, LHV Pank also has a 65 per cent. owned subsidiary, LHV Finance, which provides consumer finance and hire purchase services in Estonia and a UK branch which was established in 2018. The business of the UK branch was transferred to LHV Bank in August 2023. However, the formal winding down of the UK branch as a legal entity is yet to be completed by the end of 2023.

LHV Asset Management is the second biggest pension fund manager in Estonia, with a market share in terms of volume of 31.2 per cent. and a market share in terms of number of clients of 25.1 per cent., in both cases according to data provided by the Estonian Pension Register (*Pensionikeskus*) as at 31 December 2022.

LHV Asset Management acts as the fund manager for 11 investment funds – seven compulsory Pillar 2 pension funds, three voluntary pension funds and a UCITS investing into equity instruments. As at 31 December 2022, LHV Asset Management employed 31 people and the volume of assets managed by it was over €1.3 billion. LHV Asset Management has more than 164 thousand pension fund clients.

LHV Bank is a bank licensed in the UK. It has been lending to small and medium sized companies since 2023. In August 2023, it started operating part of the banking services business of the Group by acquiring the business of the UK branch of LHV Pank.

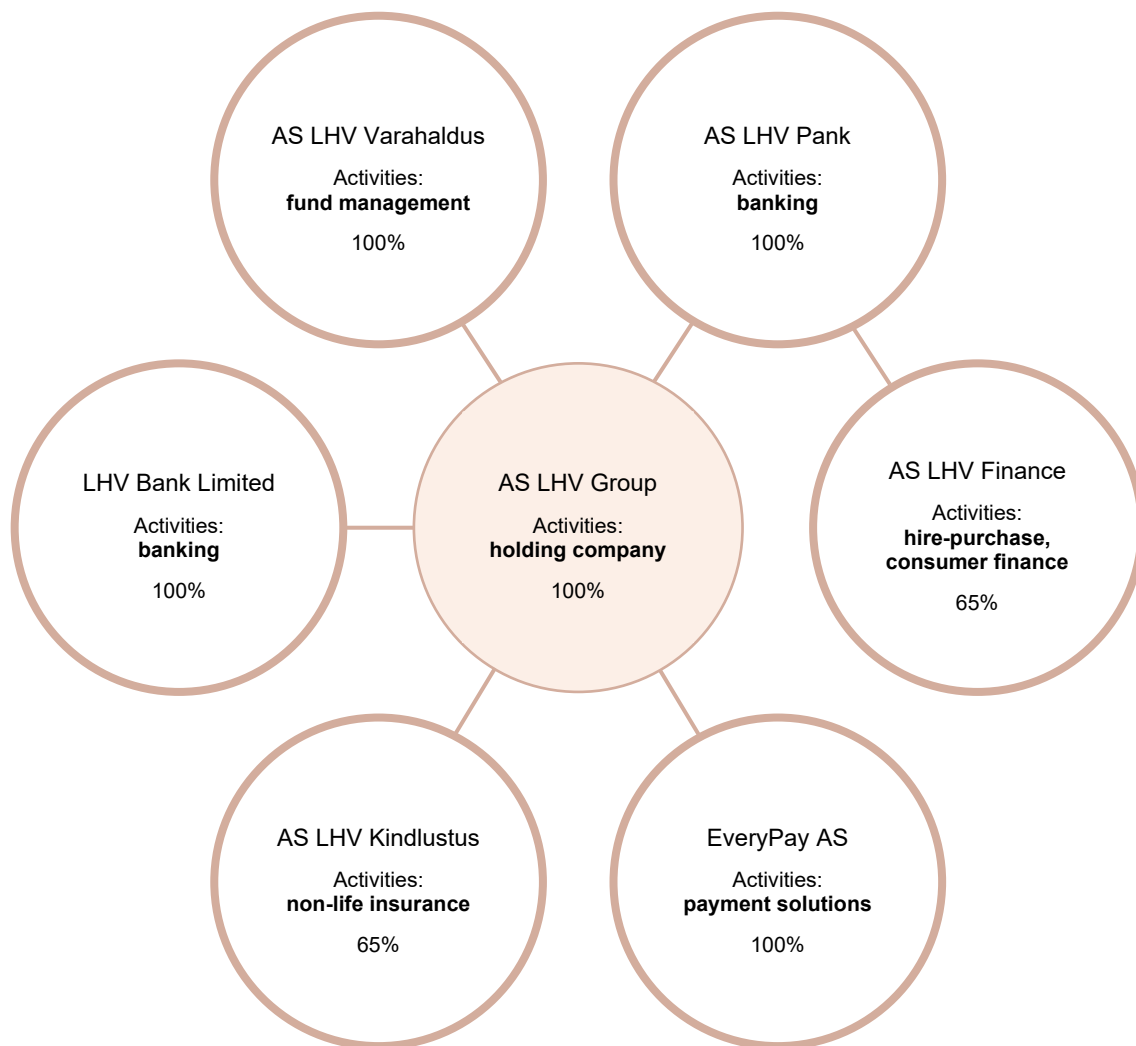
As at 31 December 2022, the Group's consolidated profit for the year was €61.4 million, compared to €60.3 million in 2021.

As at 31 December 2022, the Group's total loans and advances to customers (consolidated) amounted to €3.2 billion and its deposits from customers and loans received (consolidated) amounted to €5.5 billion. As at the same date, the Group's total consolidated assets were €6.1 billion. As at 31 December 2022, the Group employed 875 people (active employees only; consolidated).

HISTORY

The Group's history dates back to 1999 when LHV Pank was established pursuant to the Estonian Commercial Code by nine individuals and four legal entities, including Mr Rain Lõhmus and Mr Andres Viisemann. In 2005, the Issuer, in which Mr Rain Lõhmus and Mr Andres Viisemann remain significant shareholders, was established as a holding company for both LHV Pank and LHV Asset Management.

Below is a chart showing the structure of the Group and its principal subsidiaries as at the end of June 2023:



The table below summarises the Group's history.

1999	LHV Pank was established and started operations as an investment firm. LHV Asset Management was established.
2002	LHV Asset Management initiated pensions funds fund management operations.
2005	The Issuer was established.
2009	LHV Pank obtained its credit institution license and initiated deposit taking and lending operations.
2010	LHV Pank launched payments services.
2011	LHV Pank launched bank payment cards issuing services.
2013	LHV Finance was established as a majority-owned subsidiary of LHV Pank and launched hire-purchase services.
2014	LHV Pank launched bank payment cards acquiring services.
2015	LHV Pank joined the SEPA payments network as a direct member and launched ATM network services.
2016	The Issuer's shares were listed on the Nasdaq Tallinn Stock Exchange. LHV Pank commenced offering mortgage loans to private clients. LHV Asset Management acquired Danske Capital AS, Danske Bank A/S's Estonian-established asset management company.
2017	LHV Pank began servicing payment service providers.
2018	LHV Pank opened a branch in London, UK; Moody's assigned LHV Pank a credit rating of Baa1.
2019	LHV Pank 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	LHV Pank commenced making payments as a direct member of the Faster Payments scheme in the UK. In October 2020, LHV Pank completed the acquisition of a portfolio of corporate and municipality loans that had been originated by Danske Bank's Estonian branch. LHV Insurance was established and received its non-life insurance licence in December.
2021	LHV Bank was established.
2022	EveryPay was acquired by LHV Group.
2023	LHV Bank received a UK banking licence. The business of LHV Pank's UK branch was transferred to LHV Bank.

SHAREHOLDERS

Shareholders

The Issuer's principal shareholders are two of its founders who between them own (directly and indirectly) 32.6 per cent. of the shares in the Issuer as at 30 June 2023. Both of these shareholders are also members of the Issuer's Supervisory Board.

The table below shows the Issuer's five largest shareholders as at 30 June 2023.

	Number of shares	Participation
	<i>(unaudited)</i>	<i>(unaudited)</i>
		<i>(per cent.)</i>
Rain Lõhmus ⁽¹⁾ and his related parties.....	68,649,130	21.46
Andres Viisemann ⁽¹⁾ and his related parties	35,756,320	11.18
Krenno OÜ	12,446,070	3.89
Tiina Mõis ⁽²⁾ and her related parties	11,359,990	3.55
Heldur Meerits ⁽²⁾ and his related parties	10,975,280	3.43

Notes:

- (1) Founder and member of the Supervisory Board.
(2) Member of the Supervisory Board.

As at 30 June 2023, the Issuer had approximately 36 thousand shareholders.

So far as the Issuer is aware, Mr Rain Lõhmus and Mr Andres Viisemann have not entered into a shareholders' agreement in relation to their shareholdings in the Issuer. Mr Rain Lõhmus and Mr Andres Viisemann are entitled to use their rights as shareholders of the Issuer in accordance with applicable law, the Articles of Association and the rules of Nasdaq Tallinn Stock Exchange.

STRATEGY

The Group's vision is helping 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 Group's home markets are Estonia and increasingly also the UK. The Group has the capability to grow its business in both of these geographies by leveraging its technological solutions. It is demonstrated by the fact that the Group's deposits and loans have grown threefold over the period from 31 December 2018 to 31 December 2022. The Group strives to grow within the bounds of predetermined risk appetite and profitability targets. 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 Group's strategy is to ensure that LHV Pank has the strongest possible value proposition, with products and services that are simple, transparent and relevant to its customers and positively distinguish it from the market. The Group 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 payments, integrated investment services, a payment collection service for businesses, insurance solutions and pension funds with high long-term returns.

The Group communicates with its customers principally through modern electronic channels, which is the way preferred by most of 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 Group's long-term aim is to operate with four core companies: a bank, a fund management company, an insurance undertaking and a separate credit institution in the UK. The Group's long-term ambition is to become

Estonia's largest bank. The Group targets growing its customer base and loan portfolio by focusing on efficiency, profitability, innovation and the provision of the best possible service.

In relation to its corporate banking customers, the Group aims to keep growing its loan portfolio at a pace higher than market average while maintaining high asset quality of the portfolio. It is targeting customers in search of a bank that understands the nature of their business and is able to provide the required financing structure. The Group intends to continue LHV Pank's 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 LHV Pank 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 Group's return on equity through efficient capital allocation.

In relation to its retail banking customers, the Group intends to focus on expanding its customer base and enhancing customer activity. Its focus on customers all across Estonia, targeting active customers who prioritise electronic channels including the internet bank and mobile app. At the same time, the Group has recently also opened LHV Pank's third physical office, in Pärnu, Estonia, to better support its customers in the western part of Estonia. The Group seeks to better engage customers who have opened a current account with LHV Pank, whose salary is transferred to the account and who use LHV Pank's cards for their daily financial affairs. The Group intends to focus also on boosting its market share in mortgage loans. In addition, the Group focuses on increasing its market share and customer activity in the area of investments services.

In relation to the Group's banking services business line, the Group sees itself as a bank that belongs among the leaders of modern banking in Europe. It positions itself as a next-generation bank capable of integrating and serving as a bridge between traditional banking and new-generation financial services through open banking. The Group's services and technological level enables it to provide a unified banking platform in both euros and pounds for international clients and financial technology companies, including major payment intermediaries.

The Group's UK banking entity, LHV Bank, is involved in servicing part of the banking services customers. In addition, it offers loans to small and medium sized companies.

The Group's priority focus for LHV Asset Management is that its managed pension funds should deliver strong long-term returns. The Group intends to continue implementing LHV Asset Management's investment strategy, with an increased focus on investing in private equity and real estate which complement public instruments in the portfolios.

In relation to LHV Insurance, the Group has, since 2021, launched most of the non-life insurance products that are required by Estonian retail customers. The objective of LHV Insurance is to support the Group companies with the best insurance solutions. LHV Insurance offers simple, innovative and customer-friendly products through a mix of channels. It is focused on retail customer products which make up the majority of the Estonian non-life insurance market.

The Group's constant goal is to build strong relationships with all stakeholders by being:

- the best financial services provider for customers;
- the most supportive financial services provider for international financial intermediaries;
- an attractive employer that offers high job satisfaction, development opportunities and self-fulfilment for people;
- a transparent company that delivers a strong return on equity per year for investors; and
- a company with the best management practices, positive social impacts and climate goals for society.

STRENGTHS

The Group believes that its principal strengths are:

- **Leading brand in Estonia.** The Group believes that the LHV brand is well known as a leading locally-owned financial group. This is supported by the expansion and success of LHV Pank and the activities of LHV Asset Management, which is the second largest pension fund manager in Estonia with a market share of 30 per cent. of the assets under management in the Estonian pension system according to the Estonian Pension Register (Pensionikeskus) as at 30 June 2023. In addition, LHV Finance is a leading consumer finance and hire-purchase provider in Estonia.
- **Superior offering in terms of quality, range of products, technological innovation and price.** The Group 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, LHV Pank has launched many novel products and has been one of the first to incorporate internationally successful products and services, such as the LHV Connect API, which offers flexible payments services with access to several instant payments schemes through a single file format and automated payment routing options. LHV Pank also offers services such as virtual accounts and agency banking services. The Group believes that LHV Pank's mobile banking capabilities exceed those of its competitors in terms of their intuitiveness and the range of services offered. LHV Pank 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. LHV Asset Management offers both passive and actively managed pension funds. Compared to its competitors, LHV Asset Management's actively managed funds are investing more in alternative asset classes, which distinguishes the offering from the rest of the pension fund managers. LHV Insurance aims to stand out based on the simplicity and speed of concluding insurance contracts and handling claims. A high level of customer satisfaction with claim handling is an objective in every individual loss event.
- **Strong track record.** The Group has a strong track record of profitable growth, as evidenced by growing business volumes and strong ROE that it has delivered to the shareholders (the Group's average return on equity totalled 16.4 per cent. in 2022 and 21.1 per cent. in 2021). The strong ROE has been supported by high efficiency in terms of the cost to income ratio which equalled 51.7 per cent. in 2022 and 46.4 per cent. in 2021. Additionally, the Group has also displayed low allowances for credit losses 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 Group believes that this evidences its strong credit analysis and management process, and its expert staff in this area. The Group's non-performing loans (equal to Stage 3 loans) amounted to €7.5 million as at 31 December 2022 and €16.0 million as at 31 December 2021, which represented 0.2 per cent. and 0.6 per cent. of the value of its total gross loan balances as at 31 December 2022 and 31 December 2021, respectively. According to the Estonian Pension Register (Pensionikeskus), as at the end of June 2023, the pension funds managed by LHV Asset Management have the best 15-year performance among all Estonian pension funds which have a track record of at least 15 years.
- **Strong liquidity and solvency.** The Group has a deposit funded business model and a straightforward balance sheet. The Group's assets are mainly composed of loans to customers and high quality liquid assets. Deposits make up a large share of the liabilities. The Group maintains a conservative approach to liquidity management and a strong capital position to support future growth. The Group's total capital adequacy ratio equalled 21.7 per cent. as of 31 December 2022.

BUSINESS

The Group has eight operating segments as follows:

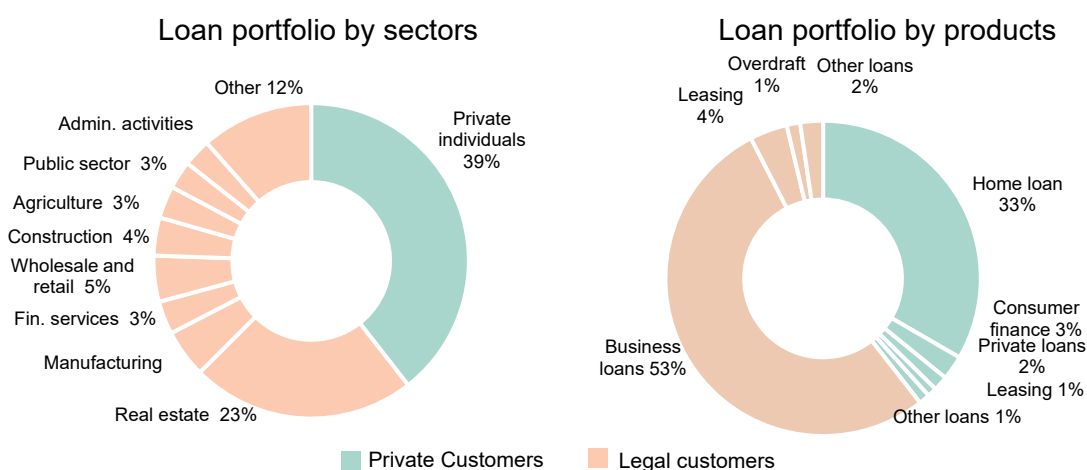
- **corporate banking**, which covers all of LHV Pank's corporate customers and other legal entities with credit exposure over €500 thousand. The main products are different kinds of credit and payments;
- **retail banking**, which covers all of LHV Pank's private individual and small legal entity customers with credit exposure under €500 thousand. This is the regular universal banking segment offering payments, cards, credits and other services;
- **asset management**, which covers the LHV Asset Management second and third pillar pension management business and other fund management services;

- **hire-purchase and consumer finance** provided by LHV Finance to small legal businesses and private individuals;
- **financial intermediates**, which cover both FinTech companies with a large volume of payments both in Estonia and in the UK as well as other regular payment services provided by LHV Pank;
- **insurance segment** covers the activities of LHV Insurance that offers non-life insurance;
- **LHV Bank**, UK-based company with a UK banking licence. LHV Bank acquired the activities of LHV's UK branch in August 2023 and is involved in servicing LHV's banking services customers including payment institutions and e-merchants. Additionally, it provides loans to small and medium sized companies; and
- **other activities**, which include treasury activities through providing an internal banking function to segments and the Issuer's own activities, which are mostly capital and funding related.

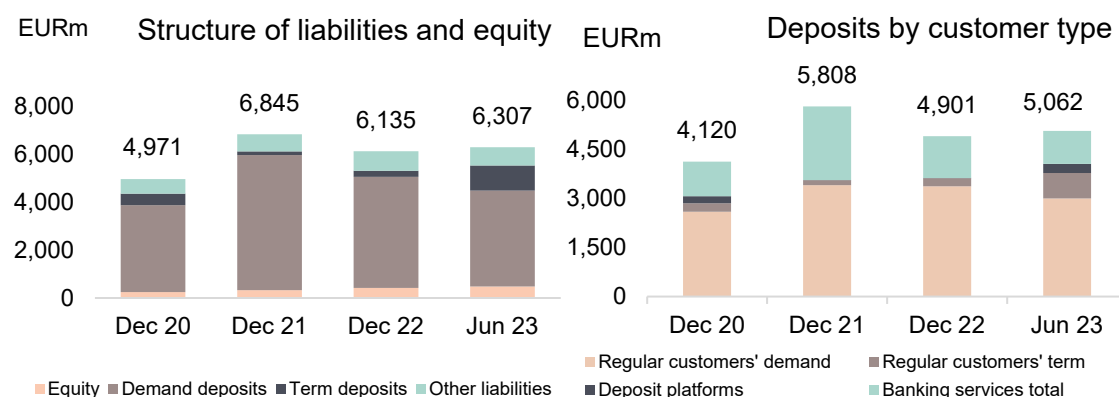
The table below shows summary information relating to each of these operating segments as at and for the year ended 31 December 2022.

	As at and for the year ended 31 December 2022								
	Corporate banking	Retail banking	Asset management	Hire purchase and consumer financing <i>(per cent.)</i>	Financial intermediates	Insurance	LHV Bank Ltd	Other activities	Total
Net income	35.0	34.7	4.5	6.0	18.8	0.8	0.0	0.2	100.0
Profit	69.6	54.0	(0.2)	10.1	16.4	(2.8)	(19.0)	(28.2)	100.0
Total assets	52.2	46.3	0.4	1.5	0.0	0.5	0.7	(1.5)	100.0
Total liabilities	8.4	64.8	0.0	1.3	26.0	0.4	0.1	(1.1)	100.0

The graph below shows summary information relating to the Group's loan portfolio products and by sectors, as at 30 June 2023.



The graph below shows summary information relating to the Group's liabilities and equity, as at 30 June 2023.



LHV Pank

LHV Pank provides banking services to retail, corporate 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. LHV Pank 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 banking services unit provides services to FinTech customers such as payment service providers and virtual asset service providers.

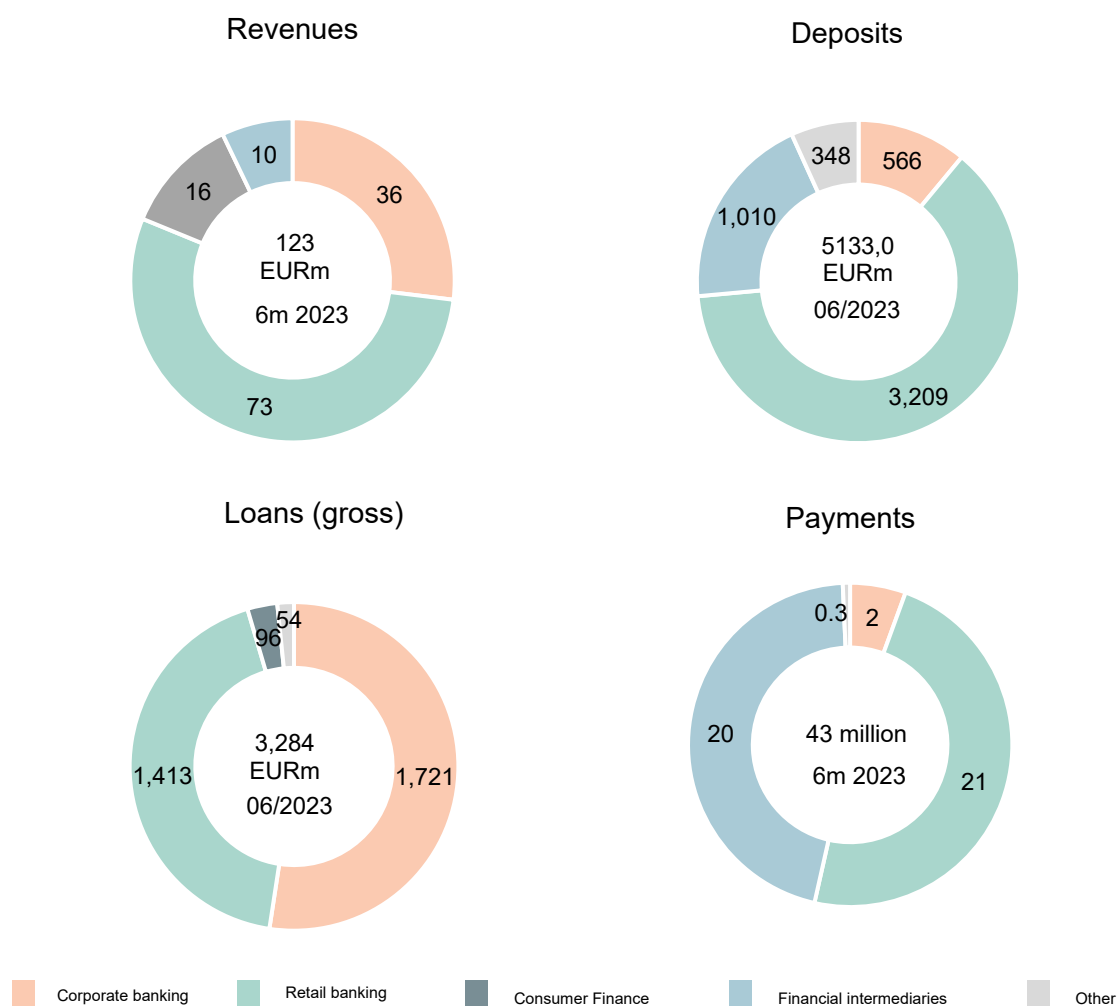
LHV Pank also provides hire-purchase and consumer finance in Estonia, through its subsidiary LHV Finance.

In 2022, LHV Pank and its subsidiary accounted for 93.0 per cent. of the Group's net operating revenue and more than 100 per cent. of its profit for the year.

LHV Pank is principally deposit funded through retail and corporate current account deposits and, to a smaller extent, through term deposits. Term deposits have been raised both from the LHV Pank's Estonian customer base as well as from the Raisin intermediation platform. The loan portfolio comprises both corporate and retail loans. Corporate loans have dominated LHV Pank's lending business but loans to private individuals including mortgage loans also make up a substantial share. Mortgage loans to private clients accounted for 33 per cent. of its total credit portfolio as at 31 December 2022, compared to 31 per cent. as of 31 December 2021. Total loans to private individuals accounted for 39 per cent. of its total credit portfolio as at 31 December 2022 compared to 38 per cent. as at 31 December 2021. Among corporate loans, the real estate sector makes up the largest share of the portfolio. Loans to the real estate sector made up 25 per cent. of the total credit portfolio as at 31 December 2022 (compared to 24 per cent. as at 31 December 2021). LHV Pank has internal limits on the proportion of its loans to the real estate sector to avoid excessive sector concentration and monitors the split of various sectors in its credit portfolio on a regular basis.

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

Below is a diagram showing a breakdown of the business volumes of LHV Pank, in the case of total revenue, for the 6 months ended 30 June 2023 and in the case of deposits, customer base and loans (gross) as at 30 June 2023. The deposits classified in the "Other" segment in the graph include €70 million deposits from group companies and €278 million deposits raised from the deposit intermediation platform Raisin.



LHV Pank has a long-term bank deposits rating of Baa1 with a positive outlook.

Corporate banking

The key corporate banking product offered by LHV Pank 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. LHV Pank 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). LHV Pank 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. LHV Pank considers all Estonian corporates as its target clients.

In the longer term, LHV Pank is seeking to grow the size of its corporate loan portfolio while maintaining high loan credit quality and fulfilling return on equity targets. The Issuer is proud of LHV Pank's 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. LHV Pank is also developing its trade finance business.

In addition to credit products, LHV Pank also offers its corporate customers cash management and payments services.

Retail banking

As at 31 December 2022, LHV Pank had around 376,000 retail customers using its retail banking products. LHV Pank offers its retail customers 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, LHV Pank provides flexible and appropriate financing. LHV Pank's products and services are simple, transparent and relevant. Modern electronic means of communication are used for customer relations (including LHV Pank's mobile app). Where possible, LHV Pank 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 LHV Pank's everyday banking services.

The retail banking unit is an important source of deposits for LHV Pank in order to fund both its mortgage and corporate banking businesses. Accordingly, LHV Pank focuses its sales and marketing activities on attracting private individuals who use LHV Pank for their core daily banking activities (including receiving salary payments), wealthy customers (to the private banking offering) and small and medium sized companies. LHV Pank'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. LHV Pank 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. LHV Pank'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. LHV Pank is not aiming to be a price leader in the market but instead offers premium service to command pricing which enables it to earn targeted returns on equity with an acceptable risk appetite. For homes with high energy efficiency, a green mortgage loan product is offered at a lower cost for the customer. The retail banking unit also provides loans to small and medium sized companies. LHV Pank'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 LHV Pank'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 LHV Pank's investment services offering, comprising brokerage and foreign currency services.

Banking services

LHV Pank's banking services business comprises the provision of banking infrastructure and services to more than 200 payment intermediation and technology customers, including companies such as Wise and Coinbase. LHV Pank continues to focus on acquiring new customers and expanding its product portfolio. In addition to developing its product portfolio, LHV Pank has significantly improved its anti-money laundering systems. The FinTech company market remains active and the demand for the banking services that LHV Pank provides to these companies continues to grow. LHV Pank 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 LHV Pank's business in the UK is growing, with revenue generated mainly from payments, currency exchange, card payment mediation, credit services and maintenance fees. LHV Pank 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 LHV Pank's payments infrastructure (which is shared between all of LHV Pank'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 stand-alone UK subsidiary, LHV Bank, obtained a banking licence in the UK in May 2023 and the financial intermediation business of LHV Pank was transferred to LHV Bank in August 2023. The purpose of the change is to clearly separate LHV Pank'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

LHV Pank views its electronic channels (including both the internet bank and mobile app) as the core channels for interaction with its clients. LHV Pank 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. LHV Pank's delivery channels include:

- *customer service offices* – LHV Pank has three branches located in Tallinn, Tartu and Pärnu;
- *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;
- *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 LHV Pank's customers;
- 95 ATMs – through which customers can withdraw cash, make 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. In August 2021 LHV Pank signed an agreement with Worldline according to which Worldline took over the servicing of LHV ATMs and started upgrading and improving the ATM network. Machines were relocated, so that the network covers the whole of Estonia more evenly; and
- LHV Connect – an API which offers integration between the information system (such as accounting software) of the customer and LHV Pank. The API offers access to a range of LHV Pank's payment services.

Hire purchase and consumer financing in Estonia

Through its subsidiary, LHV Finance, LHV Pank provides hire purchase and consumer financing services in Estonia. LHV Finance was established in 2013 to provide hire-purchase services. In 2015, it began offering consumer loans as well. In 2017, LHV Finance started to offer rebranded targeted consumer loans (such as renovation loans and car loans). As at 31 December 2022, LHV Finance's credit portfolio amounted to €90.9 million and it had over 48,800 effective credit agreements.

Other LHV Pank activities

As an institutional broker, LHV Pank helps Baltic companies to raise equity and debt financing via capital markets activities. LHV Pank 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 2021, LHV Pank received the "Best Stock Exchange Member of the Year" award of the Nasdaq Baltic stock exchanges for the seventh time. LHV Pank 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.

LHV Pank's securities trading system, LHV Trader, is available to customers and the funds of those customers are treated as off-balance sheet assets of LHV Pank. Due to the nature of the system, LHV Pank deposits these funds in personalised accounts with its partner and does not use them for its own business purposes. LHV Pank earns commission and interest income on intermediation of transactions in these accounts. LHV Pank 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.

LHV Bank Limited

LHV Bank was established as a stand-alone credit institution in the UK in order to clearly separate LHV Pank's existing operations in Estonia and the UK. Previously, the Group conducted its operations in the UK through a branch of LHV Pank.

In 2023, LHV Bank's focus has been on obtaining the bank's licence to operate in the UK, staffing the company, developing information systems, and transferring the business activities from the branch to LHV Bank. In the development of LHV Bank's information systems, the Group's focus will be on modern, cloud-based solutions, mostly outsourced, with the goal of fully separating information systems from LHV Bank. The business transfer from the UK branch of LHV Bank to LHV Bank was completed in August 2023 and involved the migration of clients and services to the new information system.

LHV Bank will focus on three areas: banking services for payment institutions, loans for businesses, and services for e-merchants.

For international payment institutions, the Group offers a unified platform that enables real-time payment services in pounds. In the future, it is expected that euro payments will also be provided by LHV Bank. Until such time that this service will be set up, customers requiring services and payments in euro will be serviced out of LHV Bank in Estonia.

For small and medium-sized enterprises in the UK, LHV Bank provide loans for property investment and business activities starting from GBP 0.5 million, secured by commercial real estate and other collateral. The main distribution channel for business loans is loan brokers. To kickstart the loan activity, LHV Bank acquired the Bank North loan business in 2022, resulting in acquiring a loan portfolio in Manchester, an experienced team, modern loan management software, and collaboration agreements with major loan brokers. The strengths of LHV Bank lie in a faster loan process and experienced loan managers with a deep understanding of local entrepreneurs' needs.

LHV Asset Management

LHV Asset Management is an Estonian licensed fund manager with an emphasis on active investment strategies. It acts as the fund manager for 11 investment funds – seven compulsory (Pillar 2) pension funds (LHV Pensionifond XS, LHV Pensionifond S, LHV Pensionifond M, LHV Pensionifond L, LHV Pensionifond XL, LHV Pensionifond Indeks and LHV Pensionifond Roheline), three voluntary (Pillar 3) pension funds (LHV Täiendav Pensionifond, LHV Pensionifond Indeks Pluss and LHV Pensionifond Roheline Pluss) and a UCITS investing into equity instruments (LHV World Equities Fund).

LHV Asset Management was one of the first players in the Estonian pension market who started offering actively managed pension funds with different strategies by 2002. Two passively managed pension funds, Pillar 2 fund LHV Pensionifond Indeks and Pillar 3 fund LHV Pensionifond Indeks Pluss, were launched in 2016. In 2021 funds Roheline and Roheline Pluss were launched – both funds are actively managed and are investing only in ESG oriented opportunities.

LHV Asset Management offers a wide range of investment strategies to its clients within the pension system network and especially within Pillar 2, including a passively managed index fund, an ESG/green fund and five actively managed funds with varying risk classes. In recent years, LHV Asset Management's actively managed funds have concentrated more on alternative asset classes and non-listed securities with the belief that over a long investment horizon the average annual expected return will exceed that of publicly traded securities. Growth in the size of its funds as well as changes in regulation have allowed LHV Asset Management to invest more into local non-listed assets, such as real estate, and to provide financing to Estonian companies through debt securities. LHV Asset Management's pension funds have been among the biggest and most active institutional investors in Estonia in recent years. As at 31 December 2022, almost half of the assets of the largest funds managed by LHV Varahaldus – LHV pension funds M, L and XL – were invested in alternative asset classes (in the case of the largest fund L even slightly more than a half) and the rest was divided between listed equities and bonds based on the risk class of the fund. To diversify the portfolio and protect against inflation, listed positions include investments in precious metals.

In 2020, the severity of COVID-19 became clear and markets experienced a significant drop in value in the first quarter. However, the markets subsequently recovered in the remainder of 2020. LHV Asset Management's actively managed funds entered the downturn with lower public equity exposure and were thus better positioned for the recovery. While in 2021, actively managed funds with less equity exposure underperformed peers which were mostly invested in world indices, the opposite has been the case in 2022. Among all pension funds in Estonia, only three managed to deliver positive returns in 2022: LHV's biggest actively managed funds M, L and XL, which ended the year with increased yields of 2.4 per cent., 3.6 per cent. and 2.8 per cent., respectively. Property and local corporate bond positions made the strongest positive contribution and forest investments also had a good

year. While total return on the selected equity positions was slightly negative, mainly due to the weaker performance of Baltic stocks, the result was fairly good, considering the general negative environment for market indices.

In 2021, LHV Asset Management's assets under management fell from €1,537 million to €1,349 million due to almost 25 per cent. of its customers deciding to leave the pension system, as a result of the Pillar 2 pension reforms. The number of customers leaving was somewhat lower than had been expected. Pension reform also affected the financial results of LHV Asset Management in 2021, as client acquisition costs were written off from intangible assets and created a cost in the income statement, and also in 2022, as the assets under management from which fees were generated were lower than in prior years. Over the last 18 months the pension system has stabilised and the number of new people joining Pillar 2 system is similar to the number of people deciding to leave the system.

Mandatory pension funds constitute about 96 per cent. of LHV's assets managed. In addition, assets under management in the voluntary pension system grew by 65 per cent. from €31 million to €51 million. LHV Asset Management accounted for 4.6 per cent. of the Group's net income and (0.2) per cent. of its profit for the year, in each case before other activities and inter-segment eliminations which each recorded negative net income and profit for the year in 2022.

As of 31 December 2022, LHV Asset Management employed 31 people full-time. At the same date, the volume of assets managed by LHV Asset Management was €1,332 million. LHV Asset Management has more than 164,000 pension fund clients and was the second biggest pension fund manager in Estonia with market shares of 31.2 per cent. in terms of volume and 25.1 per cent. in terms of number of clients, in each case according to the Estonian Pension Register as at 31 December 2022.

Other activities

The Group's other activities comprise:

- its own investor relations management activities as well as ensuring that its subsidiaries remain appropriately capitalised;
- non-life insurance activities through LHV Insurance, which is a subsidiary of the Issuer established as a joint venture in co-operation with Toveko Invest OÜ. LHV Insurance received its non-life insurance licence in December 2020 and is currently offering insurance products principally to clients of LHV Pank (mostly casco insurance, motor third party liability insurance and home insurance products) and Euronic's retail store chain (in the form of extended warranty and purchase insurance products). Insurance products are also offered to the general public through LHV Insurance's website and through insurance brokers; and
- payment solutions offered by EveryPay. LHV Pank is the main customer of EveryPay.

Lending and loan portfolio

For details of the Group's loan portfolio, see "*Financial Review—Lending*".

Deposit portfolio

For details of the Group's deposit portfolio, see "*Financial Review—Liquidity and Funding—Funding—Customer deposits and loans received*".

RISK MANAGEMENT AND INTERNAL CONTROL

The Management Board ensures that the Group has appropriate risk management and internal controls for its operations and business area. The Group's internal control system covers all activities carried out by its Supervisory Board, management and employees in order to ensure efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting, correspondence to reality and unconditional compliance with all laws and regulations. The internal control system covers all business, support and control units.

The objective of the Group's risk management is to identify, correctly quantify and manage risks. The wider objective of risk management is to increase the value of the Issuer by minimising losses and reducing volatility of results.

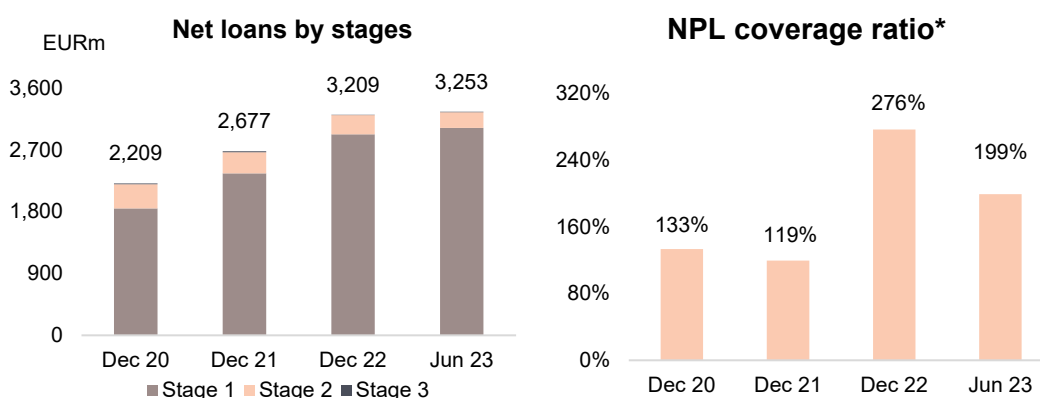
The Group's risk management is based on a strong risk culture and the principle of three lines of defence. The first line of defence, which is the business areas, is responsible for risk-taking and daily risk management. The second line of defence, which is the risk management area, is responsible for developing risk management methods and risk reporting. The third line of defence, which is internal audit, exercises independent supervision over the entire Group.

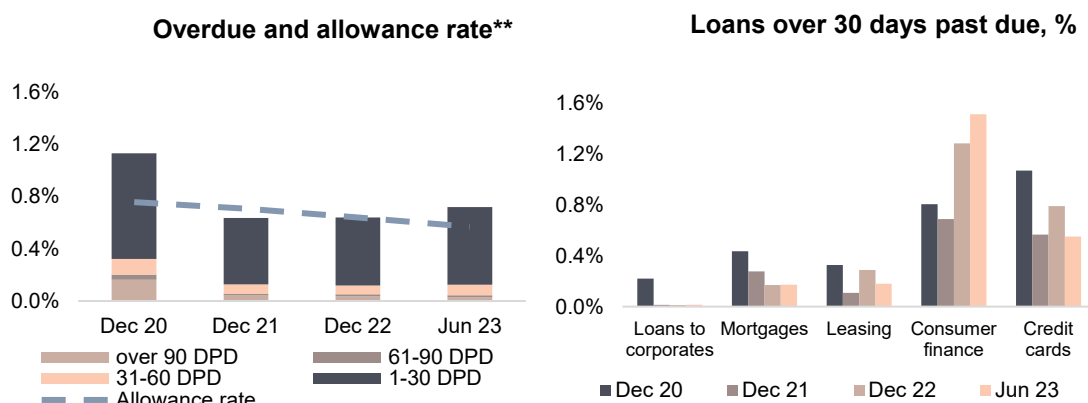
Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk principally arises from the Group's credit exposures to customers, including outstanding loans, guarantees, other receivables and commitments, and also from its cash and cash equivalents, derivatives and deposits with banks and other financial institutions and debt securities.

Credit risk is one of the largest risks for the Group's business. Management therefore carefully manages its exposure to credit risk. 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 a credit risk management unit which reports regularly to the Management Board and Supervisory Board. For further information on the Group's credit risk measurement, credit risk grading and expected credit loss measurement, see subsections 2.1 and 2.2 to the risk management section of the 2022 Financial Statements. For a discussion of the Group's credit risk exposure, see subsection 2.3 to the risk management section of the 2022 Financial Statements, which includes tables analysing the Group's credit risk exposure by financial instruments for which an expected credit loss allowance is recognised and discussions of the Group's exposure to credit risk in respect of financial instruments not subject to impairment and the Group's approach to collateral, as well as an analysis of the changes in the Group's expected credit loss allowances during each of 2022 and 2021 by portfolio.

The below graphs provide an overview of the quality of the Group's credit portfolio and the trends of the relevant credit risk statistics over the past few years. The graphs display the volume of loans by stages, the ratio of allowances for credit losses to stage 3 gross amount, the percentage of overdue loans and the allowance rate, and the loans overdue more than 30 days split by products.





*NPL coverage ratio: allowances for credit losses as a percentage of non-performing loans (Stage 3 gross loans).

** Allowance rate: total allowances for credit losses as a percentage of total gross loan portfolio.

Market risk

Market risk arises from the Group's positions which are exposed to changes in interest rates, foreign exchange rates and securities prices. These positions arise from the Group's trading, market making and investment activities as well as from the Group's lending and funding activities (banking book). The Group has set conservative limits for its trading, liquidity and investment portfolios and open foreign currency exposures.

LHV Asset Management invests most of its available resources into its own managed pension funds. The management of LHV Asset Management is responsible for monitoring the associated market risk of these investments. See subsection 3 to the risk management section of the 2022 Financial Statements for a more detailed discussion of the Group's approach to foreign currency risk, price risk and interest rate risk.

Liquidity risk

Liquidity risk relates to the Group's ability to meet its contractual obligations on time. Liquidity risk is most relevant in the context of the Group's banking entities LHV Pank and LHV Bank as there is a difference between the maturity of assets (loans provided to customers) and liabilities (mostly deposits) of these entities. The Group's liquidity risk management is documented in its liquidity risk management policy and other internal rules, which provide for liquidity risk metrics, limits and internal procedures.

The Group's liquidity risk management framework includes stress testing, early warning indicators and a business continuity plan for liquidity management. The key internal metric for liquidity risk management is the survival period, which is calculated on both a base case and stressed scenario basis.

The Group's treasury department is responsible for managing the Group's liquidity risk as the first line of defence. One of the key instruments for this is maintaining an adequate buffer of high quality and liquid instruments. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the treasury, which can be readily sold or used as collateral in funding operations with the central bank. See subsection 4 to the risk management section of the 2022 Financial Statements for a more detailed discussion of the Group's approach to liquidity risk.

COMPETITION

The Group's three principal subsidiaries all operate in a competitive market.

LHV Pank

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. LHV Pank and Luminor are the third and fourth largest banks in terms of

market share of deposits and lending. LHV Pank'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.

LHV Pank principally seeks to compete by:

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

LHV Bank Limited

For its banking services business, LHV Bank competes with a number of international banks, non-banks and technology companies. LHV Bank seeks to compete by offering a simple and robust application programming interface ("API") framework. It is able to offer a comprehensive payment scheme coverage in the European Union and UK (access to the euro payment schemes are offered through LHV Pank).

LHV Asset Management

As at 30 June 2023, there were five pension fund managers operating in Estonia. Out of these, four (including LHV Asset Management) are affiliated with banks. The largest pension fund managers in terms of compulsory pension fund assets under management include Swedbank Investment Funds (with 38 per cent. market share), LHV Asset Management (with 30 per cent. market share) and SEB Asset Management (with 16 per cent. market share). LHV Asset Management principally seeks to compete by offering funds with an active investment strategy which complement investments to the public markets with investments into private equity and real estate. LHV Asset Management is the only market participant managing pension funds focused on environmentally conscious investments.

INFORMATION TECHNOLOGY

The overall responsibility for managing and overseeing IT development, IT administration and information security functions throughout the Group is assigned to the Head of IT of the Group who is also a member of the Management Board of the Group.

LHV Pank has only three physical branches in Estonia and one in London. Instead of branches, LHV Pank prioritises digital channels and information technology to service its customers. One of the cornerstones of LHV Pank's IT strategy is a strong internal IT team, making up a quarter of LHV Pank's workforce. Most of LHV Pank'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 LHV Pank 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 LHV Pank'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 LHV Bank's operations.

LHV Asset Management also prioritises servicing its customers through digital channels. In addition to Bank's service channels, LHV Asset Management has developed a dedicated pension app. LHV Asset Management shares IT resources with LHV Bank.

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.

LHV Group's IT 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 Group maintains the following insurance policies:

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

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

COMPLIANCE

The Group'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.

ANTI-MONEY LAUNDERING

Managing the risks related to anti-money laundering ("AML") and combating the financing of terrorism is mainly divided between the first and second lines of defence. The Group applies a risk-based approach, which relies on the assessment of product, service and customer risks, and implementation of risk mitigation measures. The Group invests substantially in strengthening and maintaining a robust controls framework and systems. As set out in LHV Pank's customer acceptance principles, potential new and existing high risk clients' business relationships need to be approved by LHV Pank's Risk Client Committee (and in selected cases, also by the Management Board). By the same principles, all customers of the banking services business line, 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 the risk-takers, are responsible for implementing the main know your customer 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 are 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. Similar functions, as well as on-site customer visits, in the Financial Intermediaries business line are supported by Business Risk Management and Business Operations departments.

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 on, and escalations received from, the first line of defence and development and maintenance of the training framework. There is a separate AML reporting officer function supporting the Financial Intermediaries business line in the UK.

LITIGATION

Members of the Group are party to legal and administrative proceedings in the course of their everyday business operations. In the case of LHV Pank, it typically acts as plaintiff in these proceedings, seeking to recover debts by defaulting borrowers and other customers, and, as at the date of this Prospectus, LHV Pank is only acting as plaintiff on ongoing litigation all of which relates to debt recovery.

In addition, the Group operates in a field which is subject to extensive regulation and its members, particularly LHV Pank and LHV Asset Management, are also subject to administrative proceedings initiated primarily by the ECB in the course of its financial supervision. As of the date of this Prospectus, none of the legal or administrative proceedings to which any member of the Group 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 Group's financial position and there are no legal or administrative proceedings to which any member of the Group has been party during the 12 months preceding the date of this Prospectus which may have, or have had, a significant effect on the Group's financial position or profitability.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

In accordance with Estonian law, the Issuer 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 Issuer's operations and is authorised to represent the Issuer based on the law and the articles of association of the Issuer (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 Issuer'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 Issuer's operations, representing the Issuer and for organising its accounting. Furthermore, in accordance with the Estonian Commercial Code, it is the obligation of the Management Board to draft the Issuer's annual reports and submit the annual reports to the Supervisory Board for review and to the general meeting of shareholders of the Issuer (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, as well as the economic activities and economic situation of the Issuer to the Supervisory Board at least once every month and must give immediate notice to the Supervisory Board of any material deterioration of the economic condition of the Issuer or of any other material circumstances related to its operations. If the Issuer is insolvent (other than on a temporary basis), the Management Board must immediately file for bankruptcy.

The Management Board may enter into transactions that lie outside the Issuer's ordinary scope of business only with the consent of the Supervisory Board.

In accordance with the Articles of Association, the Issuer may be represented in all transactions and legal acts by the Chairman of the Management Board alone or by two members of the Management Board acting jointly. A member of the Management Board may not represent the Issuer 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 one to five members who are appointed by the Supervisory Board for a term up to five years. As at the date of this Prospectus there are four members in the Management Board as shown in the table below.

Name	Role	Date appointment first registered
Mr. Madis Toomsalu	Chairman	5 December 2016
Mr. Martti Singi	Member	1 November 2022
Mr. Meelis Paakspuu	Member	1 November 2022
Mr. Jüri Heero	Member	1 November 2022

The term of office of Mr. Madis Toomsalu expires on 31 March 2026 and the terms of office of Mr. Martti Singi, Mr. Meelis Paakspuu and Mr. Jüri Heero expire on 31 March 2027.

Mr. Toomsalu was born in 1982. He obtained a Bachelor's degree in business management from the Tallinn University of Technology ("**TalTech**") in 2009 and a Master's degree in 2011 in public finance. Within the Group, in addition to holding the position of the Chairman of the Management Board of the Issuer, Mr. Toomsalu is the Chairman of the supervisory board of LHV Pank, LHV Fund Management, LHV Insurance and EveryPay and Chairman of the Board of Directors of LHV Bank. Previously Mr. Toomsalu held various positions within the Group. Mr. Toomsalu also acts as the member of the management board of non-profit organisation, MTÜ FinanceEstonia, a member of the council of the foundation SA Rohetiiger and a member of the panel of experts of the Government's Green Policy Steering Committee.

Mr. Singi was born in 1974. He holds a Master's degree in international business administration from the Estonian Business School awarded to him in 2009. Within the Group, in addition to holding the position of the member of the Management Board of the Issuer, he is a member of the management board and the CRO of LHV Pank. Before assuming his current position in LHV Pank in 2012, Mr Singi served at AS Swedbank as the Head of Group Credit Risk Control from 2007 to 2009 and he was the CFO of SEB Life and Pension from 2006 to 2007. Previously Mr. Singi was also the member of the supervisory board and member of the management board of IIZI Kindlustusmaakler AS.

Mr. Paakspuu was born in 1974. He graduated from the University of Tartu in 1996 and obtained a degree in economics. Within the Group, in addition to holding the position of the member of the Management Board of the Issuer, Mr. Paakspuu is the member of the management board of and the CFO of LHV Pank. Before joining the team of LHV Pank, Mr Paakspuu served as the CFO of DNB Pank AS from 2012 to 2015. In the past he has acted as the member of the management board of MP Advisory OÜ and Estonian Banking Association.

Mr. Heero was born in 1977. Mr Heero holds a degree in economics from the Faculty of Economics and Business Administration of the University of Tartu awarded to him in 1999. Within the Group, in addition to holding the position of the member of the Management Board of the Issuer, he is a member of the management board and the Head of IT of LHV Pank. Mr Heero joined the Group in 2004 as the Head of IT. From 2006 to 2007, he served as a member of the supervisory board of LHV Pank, and since 2007, has been holding the position of a member of the management board of LHV Pank. In addition, Mr. Heero is a member of the management board of OÜ Heero Invest. Previously he has been the member of the supervisory board of AS Cognitive Dynamics.

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 of 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 Issuer's activities during the year.

In accordance with the Articles of Association, the Supervisory Board shall establish and regularly review the Issuer's strategy, general activity plan, risk management principles and annual budget, and adopt resolutions on issues of significance to the activities of the Issuer, which do not fall within the competence of the Management Board and are beyond the scope of everyday economic activities, including:

- (a) approval of the Issuer's annual business plan and annual budget;
- (b) approval and, if necessary, amendment of the annual report and profit allocation proposal prepared by the Management Board;
- (c) acquisition or disposal of stakes in other companies;
- (d) deciding on the establishment or dissolution of a subsidiary of the Issuer;
- (e) acquisition, transfer or dissolution of a company;

- (f) transfer and encumbering of immovable property and movable property entered in the register;
- (g) deciding on the opening and closure of foreign branches;
- (h) investments which exceed the budgeted amount for the financial year;
- (i) loans or other borrowings which exceed the budgeted amount for the financial year;
- (j) granting of loans and borrowings beyond the scope of the everyday economic activities of the Group;
- (k) appointment and removal of procurators;
- (l) election, extension of authorisation, and removal of members of the Management Board; appointment of the Chairman of the Management Board;
- (m) specification of the obligations of members of the Management Board, supervision over the activities of the Management Board and establishment of the principles for remuneration of the Management Board;
- (n) deciding on the conclusion of transactions with members of the Management Board, establishment of the terms and conditions for such transactions, deciding on legal disputes and appointment of the Issuer's representative in such a transaction or dispute;
- (o) deciding on the conclusion of transactions with shareholders of the Issuer, establishment of the terms and conditions for such transactions, deciding on legal disputes and appointment of the Issuer's representative in such a transaction or dispute;
- (p) appointment and removal of bodies to be set up by the Supervisory Board, and establishment of their rules of procedure, unless otherwise provided by law; and
- (q) deciding on other matters placed within the competence of the Supervisory Board by law or the Articles of Association of the Issuer.

The Supervisory Board has the right to establish committees whose existence, duties, staff and position within the organisation shall be specified by the Supervisory Board. The Supervisory Board has set up the Audit Committee, the Nomination Committee, the Risk and Capital Committee and the Remuneration Committee and established the relevant rules of procedures.

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 period of up to three years. The members of the Supervisory Board elect among themselves a Chairman 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 a rule, once a month, or when 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 Chairman of the Supervisory Board has a casting vote. As at the date of this Prospectus there are seven members in the Supervisory Board as shown in the table below.

<u>Name</u>	<u>Role</u>	<u>Date appointment first registered</u>
Mr. Rain Lõhmus	Chairman	21 May 2014
Mr. Raivo Hein.....	Member	18 January 2010
Mr. Heldur Meerits.....	Member	18 December 2008

Mrs Tiina Mõis.....	Member	8 December 2006
Mr. Tauno Tats.....	Member	21 May 2014
Mr. Andres Viisemann.....	Member	7 September 2004
Mr. Sten Tamkivi	Member	29 April 2015

The term of office of Mr. Sten Tamkivi expires on 29 March 2024. The terms of other current members of the Supervisory Board expire on 29 March 2026.

Mr. Rain Lõhmus

Mr. Lõhmus was born in 1966. He graduated from TalTech 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 Osaühing Zarenor Invest from 2002 until 2012. He has been engaged with the Group since it was established in 1999 and was one of its founders. Currently Mr. Lõhmus serves as the Chairman of the Supervisory Board of the Issuer and as a member of the supervisory board of LHV Pank. He is also the owner and a member of the management board of AS Lõhmus Holding and Lohmus Capital OÜ, the owner of OÜ Merona Systems and Kõrberebane OÜ and a member of the supervisory board of Kodumaja AS. Additionally, he is a management board member and an owner of Zerospotnrg OÜ and Umblu Records OÜ. In the past he has held the position of member of the supervisory board of LHV Finance, Arco Vara AS, Kodumajagrupi AS, AS Audentes, AB Archyvų sistemas (previously AS Arhiivikeskus) and AS LH Capital and the position of member of the management board of OÜ Cuber Technology and LHV CAPITAL I PTE. LTD.

Mr. Raivo Hein

Mr. Hein was born in 1966. Mr Hein holds a degree in road construction from TalTech 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 Issuer, he also serves as the member of the supervisory board of LHV Pank. He is also the owner and the member of the management board of OÜ Kakssada Kaksikümmend Volti, a member of the management board of Zerospotnrg OÜ, E-Finance OÜ, Lame Maakera OÜ, Põhjala Kellad OÜ, a liquidator of OÜ Saarte Sillad (in liquidation) and a member of the supervisory board of AS Puumarket. In the past he has been a member of the supervisory board of Aktsiaselts Fix Ideed Estonia, Moonfish Media OÜ and United Dogs and Cats OÜ; the Chairman of the supervisory board of OÜ Tarbegaas and a member of the management boards of Sundog Media OÜ and AS Starman.

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 Issuer, he is also a member of the supervisory board of LHV Pank. Mr Meerits serves as a member of the supervisory board of Kodumaja AS and of foundations SA Põltsamaa Ühisgümnaasiumi Toetusfond, SA Tähelaps and Audentese Koolide SA. Mr. Meerits is also the owner and a management or supervisory board member of the companies established for the management of personal economic interests, AS Amalfi, AS Altamira and SIA Valdemara Group and the protector and beneficiary of Castra Hiberna Foundation. In the past he has been a member of the supervisory board of AS Audentes, AS Smart City Group, Green Clay Manufacturing OÜ, Steri AS, Mainor Ülemiste AS, AS Ecosalvager, AS Estonian Air, AS Smart City Group, SA Dharma and a member of the management board of OÜ Lalallaalla, MTÜ Eesti Eraüldhariduskoolide Ühendus, AS Avatud Eesti Fond and Sihtasutus Teater NO99.

Mrs Tiina Mõis

Mrs Mõis was born in 1957. Mrs Mõis holds degrees in econometrics and organisation of service and economic engineering from TalTech awarded to her in 1980. From 1991 to 1999 she worked as the Chief Accountant and 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 of AS Genteel and since 2021 a member of the management board of Nine Lives OÜ, her wholly-owned investment vehicle. Within the Group, in addition to her position as a member of the Supervisory Board of the Issuer, she is also a member of the supervisory board of LHV Pank. She is also a member of the supervisory board of Rocca al Mare Kooli Aktsiaselts and Rocca al Mare Kooli Sihtasutus. She has also been a member of the supervisory board of AS Baltika, Green Clay Manufacturing OÜ, Rocca al Mare Kooli SA, 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. Andres Viisemann

Mr. Viisemann was born in 1968. Mr. Viisemann obtained a degree in finance from the University of Tartu in 1992. He also holds 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 board of numerous companies. He has been engaged with the Group since its establishment in 1999 and was one of its founders. Within the Group, in addition to his position as a member of the Supervisory Board of the Issuer, he is also a member of the supervisory boards of LHV Pank and LHV Asset Management. He is also an owner and a member of the management board of Viisemann Holdings OÜ and a member of the supervisory board of AS Fertilitas and AS Viimsi Haigla. In the past, he has been a member of the supervisory board of Rocca al Mare Koolimaja AS, 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.

Mr. Sten Tamkivi

Mr. Tamkivi was born in 1978. He holds a Masters' degree in management from the Stanford University Graduate School awarded to him in 2013. Between 2005 and 2013 he served as a member of the management board of Skype Technologies OÜ. Between 2009 and 2012, he was the member of the management board of the Estonian Association of Information Technology and Telecommunications. Between 2009 and 2012, he worked as an advisor to the Office of the President of the Republic of Estonia. Between 2003 and 2008, he served as the member of the management board of Mercur ThinkTank OÜ. In addition to his position as a member of the Supervisory Board of the Issuer, he belongs to the supervisory boards of ASI Private Equity AS, Salv Technologies OÜ and Kistler-Ritso Eesti SA. In addition, he is the owner and management board member of Seikatsu OÜ and Osaluste Hellalt Hoidmise OÜ and a management board member of Plural Estonia OÜ, OÜ Notorious, Kaigun OÜ, TBD Holdco OÜ, MTÜ Asutajad. He is also one of the owners of osaühing E-laen and serves as a management board member of other companies. Previously he has acted as the member of the supervisory board of OÜ Tarkvara Tehnoloogia Arenduskeskus, and a non-profit organisation SA Poliitikauuringute Keskus Praxis, and as the member of the management boards of Topia OÜ, Eesti Infotehnoloogia ja Telekommunikatsiooni Liit, Teleport, Inc. and Skype Technologies OÜ.

Mr. Tauno Tats

Mr Tats was born in 1972. Mr Tats holds a Masters' degree in economic science from the Tallinn Technical University awarded to him in 2003. He is currently working as a member of the management board of Ambient Sound Investments OÜ. Before assuming his current position in Ambient Sound Investments OÜ, he served as the undersecretary of the Ministry of Finance. In addition to his position as a member of the Supervisory Board of the Issuer, and a member of the management board of Ambient Sound Investments OÜ, he is a member of the supervisory boards of AS Ecomet Invest and OÜ Eesti Killustik and a member of management board of Ammende Hotell OÜ, ASI Venture Holdings OÜ, InkspinSix OÜ, Balti Karjäärid OÜ and MTÜ Plate torn. Additionally, he is a management board member of other companies established for the management of investments of the aforementioned companies. Previously he has acted as a member of the supervisory board of AS Redgate Capital, EfTEN Kinnisvarafond AS, a member of the management board of OÜ TrinTau, InkSpinFour OÜ and Perila Perjatsi Põllud ja Metsad.

Remuneration of the members of the Supervisory Board

The General Meeting has established that the Supervisory Board members receive remuneration for their attendance of the Supervisory Board meetings in the amount of EUR 1,500 per meeting.

General Meeting

The General Meeting is the highest governing body of the Issuer. 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 appointment, extension, and removal, of members of the Supervisory Board;
- (v) approving the establishment of the number of auditors, and appointment and removal of an auditor;
- (vi) approving the conduct of a special audit;
- (vii) approving annual reports and the allocation of profit;
- (viii) approving the dissolution, merger, division or transformation of the Issuer;
- (ix) approving the conclusion of transactions which are beyond the scope of everyday economic activities with members of the Supervisory Board, establishment of terms and conditions for such transactions, determining the conduct of legal disputes with members of the Supervisory Board and the appointment of a representative of the Issuer in such transactions and disputes; and
- (x) approving other matters within the competence of the General Meeting by law.

An ordinary 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. An advance notice of the General Meeting of a minimum of three weeks shall be given.

An extraordinary 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-twentieth of the share capital, the Supervisory Board, or the Issuer's auditor requests that a meeting is convened or (iii) if the General Meeting is required in the interests of the Issuer. If the Management Board fails to convene an extraordinary 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 Issuer 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 per cent. of the votes represented at the General Meeting.

Committees

The Issuer has four principal Supervisory Board level committees (Audit Committee, Remuneration Committee, Nomination Committee and Risk and Capital Committee) and one Management Board level committee (ESG Steering Committee). In addition, there is one committee established at the supervisory board level of LHV Pank (Risk and Capital Committee) that also reports to the supervisory board of LHV Pank.

Audit Committee

This committee is an advisory body to the Supervisory Board in the fields of accounting, audit, risk management, internal control and internal audit, supervision, budgeting and compliance with legal requirements. Pursuant to the Estonian Auditors Activities Act, the duties of the Audit Committee include monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the audit of the financial statements or the consolidated annual report and monitoring the independence of the audit firm and the authorised auditor representing the audit firm by law, and compliance with the requirements established in the Auditors Activities Act. The Audit Committee is also responsible for making proposals to the Supervisory Board and providing recommendations for the appointment or removal of external and internal auditors, preparation and approval of internal audit plan, prevention or elimination of problems or ineffectiveness in the organisation and for compliance with legislation and good professional practice.

The Audit Committee has three members: Mr. Verner Uiho (Chairman), Mr. Raivo Hein and Mr. Tauno Tats. Under its charter, it should meet at least four times a year. The Audit Committee held ten meetings in 2022, four of which were attended by the external auditor, and so far six meetings in 2023, one of which were attended by the external auditor.¹

Remuneration Committee

This committee is a corporate governance body jointly formed by the Supervisory Board and the supervisory boards of LHV Pank, LHV Finance and LHV Insurance. The Remuneration Committee was formed with the purpose of developing and implementing the remuneration strategy of the employees and the members of the management boards. The Remuneration Committee has been charged with the task of assessing the principles of remuneration within the Group and the impact of any remuneration-related decision on adherence to the requirements established for the management of risks, own funds and liquidity.

The Remuneration Committee comprises at least three members of the supervisory board of LHV Pank as appointed by the Issuer's Supervisory Board. These members are Mrs. Tiina Mõis (Chairman), Mr. Rain Lõhmus and Mr. Andres Viisemann. The Remuneration Committee met once in 2022, and so far has met twice in 2023, once adopting decisions electronically and once in writing.

Nomination Committee

This committee is corporate governance body jointly formed by the Supervisory Board and supervisory board of LHV Pank and formed with the purpose of supporting the Supervisory Board of the Issuer and supervisory board of LHV Pank in questions related to the selection process and eligibility requirements for the members of the management boards, supervisory boards and the key function holders of the respective companies. The competence of the Nomination Committee includes, among other things, individual assessment of the suitability of candidates for members of governing bodies and key personnel, the collective suitability assessment of governing bodies, the assessment of the composition, structure and activities of the governing bodies, continuous monitoring of the decision-making process by the governing bodies, periodical review and decision-making on the content, format and frequency of the risk information received, ensuring the involvement of risk management, compliance testing, internal audit and other department managers where appropriate in relevant matters.

The Nomination Committee is comprised of at least three members, who are selected from amongst the matching members of the Issuer's and LHV Pank's supervisory boards. These members are Mrs. Tiina Mõis (Chairman),

Mr. Rain Lõhmus and Mr. Andres Viisemann. The Nomination Committee met three times and once adopted a decision electronically in 2022 and so far met three times and once adopted a decision electronically in 2023.

Risk and Capital Committee

This committee is a corporate governance body formed by the Supervisory Board. The committee's purpose is to monitor the implementation of the risk management policy and the capital management policy at the Group consolidated level. The committee reviews regular risk reports, the processes ensuring capital adequacy, capital plans and the largest clients with high credit risk. The Risk and Capital Committee also advises and supports the Supervisory Board on the risk management principles and risk tolerance; supervises the implementation of the risk management principles by the Management Board in accordance with the instructions of the Supervisory Board; reviews the accounting of business model and risk management principles in the fees set for clients and, in the event of any deficiencies, submits an improvement plan to the Supervisory Board; and checks the accounting of the likelihood and timing of risk, capital, liquidity and revenues in the principles of remuneration.

The Risk and Capital Committee comprises at least three members of the Supervisory Board. These members are Mr. Rain Lõhmus (Chairman), Mr. Andres Viisemann and Mr. Heldur Meerits. The Risk and Capital Committee of the Issuer was established in 2023 and so far has met three times.

Conflicts of interest

Apart from their shareholdings in the Issuer, 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 Issuer and their private interests or other duties.

Corporate governance

The Issuer complies with the corporate governance regime of the Republic of Estonia. The Issuer is also committed to adhering the highest standards of corporate governance within its Group companies for ensuring transparent management of the Group companies and avoiding conflicts of interests. The Issuer follows the principles of good corporate governance arising from the Good Corporate Governance Recommendation as adopted by the EFSA and the relevant reports are published as part of the annual reports of the Issuer. The Good Corporate Governance Recommendation is binding on the basis of "comply or explain principle", and any requirements which are currently not fully followed by the Issuer have been described in its latest Good Corporate Governance Report.

EMPLOYEES

As at 31 December 2022, the Group employed 875 active staff (full-time equivalent), compared to 609 as at 31 December 2021.

The Group'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 Group'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 Group 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 Group.

The Group's recruitment strategy is to find, engage and keep the best people in the labour market. In determining remuneration, the Group is prepared to make exceptions rather than restricting its choices with strict remuneration intervals for a specific position. To keep its employees, the Group 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 Group'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 Group'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 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 Issuer is a holding company for three principal wholly-owned subsidiaries, LHV Pank, LHV Asset Management and LHV Bank.

The Group's long-term aim is to operate with four core companies: banks in Estonia and the UK, an asset management company and an insurance undertaking. The Group's ambition is to become Estonia's largest bank. To achieve this, it intends to continue focusing on efficiency, profitability, innovation and the provision of the best possible service.

The Group's principal sources of revenue are its net interest income (which is generated by LHV Pank and amounted to 94.5 per cent. of its net income in 2022) and its net fee and commission income (which is generated by both LHV Pank and LHV Asset Management and amounted to 24.1 per cent. of its net income, in 2022).

In 2022, the Group's profit for the year was €61.4 million compared to €60.3 million in 2021. As at 31 December 2022, the Group's total 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 Group's total assets were €6.1 billion. As at 31 December 2022, the Group employed 875 people (active employees only).

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Economic conditions

LHV Pank 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 current macroeconomic environment is not very favorable for the Estonian economy and is not expected to improve in 2024. Global growth is projected to fall from an estimated 3.5 per cent. in 2022 to 3.0 per cent. in 2023 and remain at that level in 2024, meaning that growth remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to have an impact on economic activity. Global headline inflation is expected to fall from 8.7 per cent. in 2022 to 6.8 per cent. in 2023 and 5.2 per cent. in 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward and the euro area is likely to see a sharper deceleration in GDP growth from 3.5 per cent. in 2022 to 0.9 per cent. in 2023 to 1.5 per cent. in 2024.²

The tightening of monetary policy is also effecting the macroeconomic environment as higher interest rates are impacting different business sectors due to tighter credit conditions. Higher interest rates are 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 ECB will probably raise interest rates by

² IMF World Economic Outlook Update. July 2023 - <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>

an additional 25 basis points in 2023 and EURIBOR levels are expected to go beyond 4 per cent. At the same time, in the current environment, it cannot be ruled out that base interest rates will still be cautiously lowered in the coming year.

The Estonian economy shrank by 1.3 per cent. in 2022 and is expected to shrink by a further 2.0 per cent. in 2023 and to grow by 2.7 per cent. in 2024³ or shrink by 1.0 per cent. in 2023 and grow by 2.4 per cent. in 2024⁴. As at the date of this Prospectus quarterly real GDP has declined for four consecutive quarters. In the last quarter of 2022, real GDP had declined 3.9 per cent. year on year (according to Eurostat). In the first and second quarters of 2023, Estonia's real GDP declined by 3.7 per cent. and 3.0 per cent. year on year, respectively (according to Eurostat). Based on data released by the Estonian Statistical Office, Estonia's nominal GDP was €31 billion in 2021 and €36.2 billion in 2022. The ECB's forecast of nominal GDP for 2023 is €39.4 billion and €41.2 billion for 2024. The economy continues to grow in nominal terms (7.4 per cent.) which is helping businesses and households to better cope with the slowdown.

In 2022, half of the areas of economic activity in Estonia had a positive contribution to the economic growth (at nominal prices), however the share of added value in production fell in 2022 in almost all areas of activity on average by 1.1 percentage points. The exceptions were agriculture, water supply and waste management, and accommodation and catering. At constant prices, there has been a decline in growth in manufacturing since April of 2022. In June 2023 the total production of industrial enterprises decreased by 12.6 per cent. at constant prices compared with a year earlier.

Soft data from sentiment surveys of the Estonian Institute of Economic Research (from June 2023⁵) indicates that overall confidence in the economy has significantly decreased compared to the previous survey in 2022. But there is hope that the decline in economic activity and consequently in GDP will be bottomed out by the end of 2023 or failing that, 2024.

The biggest challenge for the economy remains the rapid rise of consumer prices. Although in July 2023 inflation levels in Estonia had decreased practically to the average level of the EU (6.4 per cent.), this does not negate the fact that during the entirety of 2022 the Consumer Price Index ("CPI") growth exceeded the average of the Eurozone twice, and the increase of the CPI in 2023 was also significantly higher than that of the EU.

The Ministry of Finance estimates that for 2023 average CPI growth will be 9.6 per cent. and for 2024 4.7 per cent. The Bank of Estonia estimates CPI growth of 9.1 per cent. for 2023 and 3.9 per cent. for 2024.

The labour market has stayed resilient in the first half of the year with unemployment at 5.3 per cent. in the first quarter of 2023 and 6.7 per cent. in the second half of the year (Statistical Office). As employers are not expecting economic activity to increase in the second half of 2024, the Ministry of Finance expects that the unemployment rate will stay stable in 2024. The Bank of Estonia estimates that in 2024 the unemployment rate will be 7.1 per cent.

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.

Loan portfolio acquisition in 2020

In October 2020, LHV Pank acquired a €273 million credit portfolio of corporate and public sector credits from Danske Bank for a price of €254 million, i.e LHV Pank 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.

These acquisitions contributed to the growth of the Group's loan volumes in 2020. The Group's loan volumes grew by 31 per cent. in 2020 and reached €2,209 million as at 31 December 2020.

³ Estimate of the Ministry of Finance in August 2023 - <https://fin.ee/riigi-rahendus-ja-maksud/fiskaalpoliitika-ja-majandus/rahendusministeriumi-majandusprognoos>

⁴ Estimate of the Bank of Estonia in June 2023 - <https://www.eestipank.ee/en/press/economic-forecast-lower-inflation-second-half-year-will-support-growth-economy-20062023>

⁵ <https://www.ki.ee/en/index.html>

Factors affecting net interest income

The Group's net interest income amounted to €129.1 million in 2022 and €97.3 million in 2021 and amounted to 74.4 per cent. of its net income in 2022 compared to 69.3 per cent. in 2021.

The Group'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, leveraged loans and lending of securities and hire purchase and other loans);
- leasing transactions;
- debt securities it holds; and
- balances it places with credit institutions, investment companies and the central bank.

The Group's interest expense comprises the interest it pays on:

- customer deposits and loans received;
- balances with the central bank, reflecting the negative yield on those balances in some years; and
- subordinated debt which it has borrowed.

The Group recognises interest income and interest expense using the effective interest method, which is explained in item 17 of the section "Summary of significant accounting policies" in the 2022 Financial Statements.

Within the Group's net interest income:

- interest income on corporate loans is the major contributor to total interest income, comprising 51.9 per cent. of the Group's total interest income in 2022 and 49.9 per cent. in 2021. Interest income on mortgage loans and consumer loans comprised 18.5 per cent. and 6.3 per cent., respectively, of the Group's total interest income in 2022 and 17.2 per cent. and 6.5 per cent., respectively, in 2021.
- interest expense paid on deposits from customers and loans received comprised 25.6 per cent. of the Group's total interest expense in 2022 and 19.5 per cent. in 2021. Interest expense on subordinated debt comprised 41.5 per cent. of the Group's total interest expense in 2022 and 28.7 per cent. in 2021 and interest expense on balances with the central bank comprised 32.9 per cent. of the Group's total interest expense in 2022 and 51.9 per cent. in 2021.

The Group'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.

For a discussion of the trends in LHV Pank's net interest income, see "*—Results of Operations—Net interest income*".

Factors affecting net fee and commission income

The Group's net fee and commission income amounted to €44.9 million in 2022 and €43.5 million in 2021. The Group's net fee and commission income amounted to 25.9 per cent. of its net income in 2022 compared to 31.0 per cent. in 2021.

The Group's fee and commission income principally relates to:

- its asset management activities;
- the card and settlement services that its provides to customers;

- its security brokerage activities; and
- currency exchange services that it provides to customers.

The Group's fee and commission expense principally relates to:

- cards;
- acquiring services; and
- ATMs.

The Group recognises fee and commission income and fee and commission expense after the service has been received and when the liability has been incurred.

Within the Group's net fee and commission income:

- asset management and related fees comprised 22.1 per cent. of the Group's total fee and commission income in 2022 and 27.2 per cent. in 2021 and fees from cards and settlements comprised 44.8 per cent. of the Group's total fee and commission income in 2022 and 38.9 per cent. in 2021; and
- expenses related to cards comprised 37.5 per cent. of the Group's total fee and commission expense in 2022 and 33.1 per cent. in 2021 and expenses related to acquiring comprised 44.3 per cent. of the Group's total fee and commission expense in 2022 and 41.0 per cent. in 2021.

The Group's net fee and commission income is affected by a number of factors. Asset management fees are principally determined by the size of assets under management and by pension fund performance. Prior to September 2020, the fees were calculated as a fixed percentage of assets under management. From September 2020, the fixed percentage was reduced by law and a performance fee element was introduced. 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.

For a discussion of the trends in the Group's net fee and commission income, see "*—Results of Operations—Net fee and commission income*".

KEY DEVELOPMENTS DURING THE HALF YEAR ENDED 30 JUNE 2023

On 18 July 2023, the Group published its Interim Financial Statements, which are incorporated by reference in this Prospectus. Below is a summary of the key developments of the Group for the period 1 January 2023 to 30 June 2023.

- The Group's number of customers and customer activity was at an all-time high as of 30 June 2023. The Group's number of customers reached 575 thousand, compared to 556 thousand as of 31 December 2022 and 513 thousand as of 31 December 2021 (number of customers includes pension fund investors). The Group's assets under management totalled €1,465 million as of 30 June 2023 (compared to €1,332 million as of 31 December 2022 and €1,349 million as of 31 December 2021).
- In the period from 1 January 2023 to 30 June 2023, the Group's net profit was €68.7 million (compared to €26.4 million in the same period in 2022). Total net income was €143.3 million (compared to €72.7 million in the same period in 2022) and operating expenses increased to €63.7 million from €39.9 million in the same period in 2022. Impairment losses on loans and advances increased to €1.0 million compared to €(0.4) million in the first six months of 2022. Return on equity increased to 30.7 per cent. for the first six months of 2023 compared to 14.7 per cent. in the same period of 2022.
- The Group's deposits from customers and loans received increased in the first six months of 2023 and reached €5,573 million as at 30 June 2023 (compared to €5,487 million as at 31 December 2022, representing a 1.6 per cent. increase during the first six months of the year). The growth was driven by a

decrease in deposits of financial intermediaries while the deposits of private individuals and other legal entities increased.

- LHV Pank's total loans and advances to customers increased to €3,253 million as at 30 June 2023 (compared to €3,209 million as at 31 December 2022, representing a 1.4 per cent. increase during the first six months of the year). The growth was based both on an increase in loans to corporates as well as individuals.

RECENT DEVELOPMENTS

On 22 August 2023, the business of the UK branch of LHV Pank was transferred to LHV Bank. The change will affect clients of the LHV financial intermediaries business line in the UK. The transfer was underpinned by LHV Bank obtaining a banking licence in early May of 2023 and the permission from a UK court to transfer its business. The transfer involved moving the servicing of sterling payments for UK business clients from the existing branch of LHV Pank to the new bank. LHV Bank also took over the interfaces to the sterling payment systems and the contracts related to the servicing of sterling payments. At the same time, LHV Bank introduced a new cloud-based banking support system and successfully migrated client-related data from the Estonian-based bank's support system to LHV Bank's UK-based system. For financial intermediary clients, the change means that the service channels for sterling payments has changed. Euro payments are made by clients in the same way as before, as they are still channelled through LHV Pank.

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the significant accounting policies applied by the Group generally, see "Summary of significant accounting policies" in the 2022 Financial Statements.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing the Group's consolidated financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the consolidated 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 consolidated financial statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's consolidated financial statements, see note 2 to the 2022 Financial Statements, which identifies, as the most significant factors, the estimates and assumptions required in applying IFRS 9.

RESULTS OF OPERATIONS

Net interest income

The Group's net interest income is the difference between its interest income and its interest expense.

The table below shows the breakdown of the Group's net interest income in 2022 and 2021.

	2022 <i>(audited)</i>	2021 <i>(audited)</i>
	<i>(€ thousand)</i>	
Interest income		
Corporate loans	79,130	62,213
of which, stage 3 interests ⁽¹⁾	63	303
Mortgage loans.....	3,338	21,441
Consumer loans.....	9,607	8,156
Leasing.....	2,450	6,000
Hire purchase	28,144	3,409
Private loans.....	1,629	2,299
Credit card loans	836	834
Leveraged loans and lending of securities	3,668	1,742
Due from credit institutions and investment companies	8,594	281
Due from central banks	6,407	2,283
Debt securities.....	(210)	(349)
Other loans.....	8,820	16,332
Total interest income	152,413	124,641
Interest expense		
Deposits from customers and loans received.....	(5,965)	(5,323)
Due to central banks	(7,661)	(14,170)
Subordinated debt	(9,676)	(7,829)
Total interest expense	(23,302)	(27,322)
Net interest income	129,111	97,319

The Group's net interest income amounted to €129.1 million in 2022 compared to €97.3 million in 2021.

2022 and 2021 compared

The increase of €31.8 million, or 32.7 per cent., in net interest income in 2022 compared to 2021 reflected an increase of €27.8 million, or 22.3 per cent., in interest income and a decrease of €4.0 million, or 14.7 per cent., in interest expense.

The €27.8 million increase in interest income in 2022 principally reflected:

- 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 increase in loan volumes and interest rates;
- a €16.9 million, or 27.2 per cent., increase in interest income from corporate loans from €62.2 million in 2021 to €79.1 million in 2022, which was driven by an increase in loan volumes and in interest rates;
- a €6.3 million, or 276 per cent., increase in interest income from due from central banks, from €2.3 million in 2021 to €8.6 million in 2022, which was mainly driven by increased interest rates; and
- a €7.5 million, or 46 per cent., decrease in interest income from other loans, from €16.3 million in 2021 to €8.8 million in 2022, which was mainly driven by increased interest rates (from negative to positive) applied on financial intermediaries deposits and lower balances of these deposits.

The €4.0 million decrease in interest expense in 2022 reflected:

- a €1.8 million, or 23.6 per cent., increase in interest expense on subordinated debt from €7.8 million in 2021 to €9.7 million in 2022, which was driven by an increase in outstanding subordinated loans;

- a €0.6 million, or 12.1 per cent., increase in interest expense on deposits from customers and loans received from €5.3 million in 2021 to €6.0 million in 2022, which was driven by an increase in interest rates; 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.

Net fee and commission income

The Group's net fee and commission income is the difference between its fee and commission income and its fee and commission expense.

The table below shows the breakdown of the Group's net fee and commission income in 2022 and 2021.

	2022	2021
	<i>(audited)</i>	<i>(audited)</i>
	<i>(€ thousand)</i>	
Fee and commission income		
Asset management and related fees	13,581	16,540
Fees from cards and settlements	27,580	23,635
Security brokerage and commission fees	4,329	6,159
Currency exchange fees	8,462	8,618
Fees from consumer loans and hire purchase	845	768
Fees from insurance services	237	919
Other fee and commission income	6,461	4,185
Total fee and commission income	61,495	60,824
Expenses related to card payments acquiring	(7,344)	(7,104)
Expenses related to cards	(6,216)	(5,734)
Security brokerage and commission fees paid	(2,340)	(1,778)
Costs related to ATMs	(148)	(748)
Transaction costs	(1,103)	(1,135)
Other fee expense	556	(846)
Total fee and commission expenses	(16,595)	(17,345)
Net fee and commission income	44,900	43,479

The Group's net fee and commission income amounted to €44.9 million in 2022 compared to €43.5 million in 2021.

2022 and 2021 compared

The increase of €1.4 million, or 3.3 per cent., in net fee and commission income in 2022 compared to 2021 reflected an increase of €0.7 million, or 1.1 per cent., in fee and commission income and a decrease of €0.8 million, or 4.3 per cent., in fee and commission expense.

The €0.7 million increase in fee and commission income in 2022 principally reflected:

- a €3.9 million, or 16.7 per cent., increase in fee and commission income from cards and settlements from €23.6 million in 2021 to €27.6 million in 2022, which was driven by an increase in business volumes;
- a €3.0 million, or 17.9 per cent., decrease in asset management and related fees from €16.5 million in 2021 to €13.6 million in 2022, which was driven by a decrease in success fee earned

by LHV Asset Management (no success fee was earned in 2022 compared to €2.6 million in 2021); and

- a €2.3 million, or 54.4 per cent., increase in fee and commission income from other fee and commission income from €4.2 million in 2021 to €6.5 million in 2022, which was driven by an increase in business volumes.

The €0.8 million decrease in fee and commission expense in 2022 principally reflected:

- a €0.6 million, or 80.2 per cent., decrease in costs related to ATMs paid from €0.7 million in 2021 to €0.2 million in 2022, which was driven by a change in the ATM network management partner together with reduction of number of ATMs;
- a €0.6 million, or 31.6 per cent., increase in security brokerage and commission fees paid from €1.8 million in 2021 to €2.3 million in 2022, which was driven by a higher trading volumes; and
- a €0.5 million, or 8.4 per cent., increase in fees related to bank cards paid from €5.7 million in 2021 to €6.2 million in 2022, which was driven by increase in the customer base and the volume of outstanding card transactions.

Net gains from financial assets

The Group'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 Group's net gains from financial assets amounted to €(0.6) million in 2022 and €(0.9) million in 2021, an increase of €0.4 million, or 37 per cent., in 2022 compared to 2021.

Other income and expense items

The table below shows the Group's other income and expense items in 2022 and 2021.

	2022	2021
	<i>(audited)</i>	<i>(audited)</i>
	<i>(€ thousand)</i>	
Staff costs.....	(46,795)	(31,322)
Administrative and other operating expenses	(42,843)	(33,863)
Other income.....	228	534
Other expenses	(102)	(4)
Total	(89,512)	(64,655)

The Group's other income and expense items amounted to €89.5 million in 2022 compared to €64.7 million in 2021.

2022 and 2021 compared

The increase of €24.9 million, or 38.4 per cent., in other income and expense items in 2022 compared to 2021 principally reflected an increase of €15.5 million, or 49.4 per cent., in staff costs from €31.3 million in 2021 to €46.8 million in 2022. This increase was mainly the result of an increase in the number of employees (the number of the Group's active staff as at the end of the year increased by 43.7 per cent. from 609 in 2021 to 875 in 2022) and, to a lesser extent, was also due to salary increases.

Profit before credit losses

Reflecting the above factors, the Group's profit before credit losses was €83.9 million in 2022 compared to €75.2 million in 2021, an increase of €8.7 million, or 11.6 per cent., in 2022.

Impairment losses on loans and advances

The Group'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, a decrease of €1.0 million, or 24.1 per cent., in 2022.

The Group's impairment allowances 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 impairment allowances against that portfolio amounting to €15.5 million as at 31 December 2022 compared to €15.3 million as at 31 December 2021, giving a total net increase of allowances for credit losses against the portfolio of corporate loans and advances of €0.2 million during 2022. In 2022 allowances for credit losses increased due to growth in the loan volumes.

Profit before income tax

Reflecting the above factors, the Group's profit before income tax was €75.9 million in 2022 compared to €71.2 million in 2021, an increase of €4.6 million, or 6.5 per cent. in 2022 .

Income tax expenses

The Group's income tax expenses amounted to €14.4 million in 2022 compared to €11.0 million in 2021, an increase of €3.4 million, or 31.3 per cent. in 2022 . In the second quarter of 2018, credit institutions in Estonia became subject to income tax calculated at a rate of 14 per cent. of their pre-tax profit.

In 2021 and 2022, the increase in income tax expense principally reflected the Group's higher pre-tax profitability in that year and a higher paid-out dividend amount.

Profit for the year

Reflecting the above factors, the Group's profit for the year was €61.4 million in 2022 compared to €60.3 million in 2021, an increase of €1.2 million, or 1.9 per cent., in 2022.

Other comprehensive income

The Group's other comprehensive income was €1,489 thousand in 2022, which reflects the unrealised exchange rate differences on translating the financial statements of LHV Bank's operations. The Group's other comprehensive income was €48 thousand in 2021.

LIQUIDITY AND FUNDING

Overview

The Group's liquidity needs arise primarily as a result of the need to fund loans and advances to customers, the payment of expenses and dividends, the payment of principal and interest on its loans and investments in securities. Additionally, the Group maintains a liquidity buffer the size of which is determined based on regulatory requirements and the Group's internal liquidity planning framework. To date, the Group's liquidity needs have been funded principally through deposits and subordinated 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 Group's customers in Estonia and the UK, the Group 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 Group's cash flow from operating activities, investing activities and financing activities for 2022 and 2021.

2022	2021
<i>(audited)</i>	<i>(audited)</i>
<i>(€ thousand)</i>	

Cash flows from operating activities before changes in operating assets and liabilities	85,883	74,800
Net cash from/(used in) operating activities	(1,290,187)	1,281,579
Net cash (used in)/from investing activities.....	(256,083)	181,469
Net cash from financing activities	50,298	114,614
Effect of exchange rate changes on cash and cash equivalents	(441)	66
Net increase/(decrease) in cash and cash equivalents.....	(1,496,413)	1,577,728
Cash and cash equivalents at the beginning of the year.....	3,930,012	2,352,284
Cash and cash equivalents at the end of the year.....	2,433,599	3,930,012

Operating activities

The Group's net cash inflow from operating activities before changes in operating assets and liabilities in 2022 was €85.9 million compared to €74.8 million in 2021. The Group'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 staff costs, administrative and other operating expenses and income tax charge. The Group's net cash inflow from operating activities in 2022 was €1,290.2 million compared to a net cash inflow of €1,281.6 million in 2021. The changes in the Group'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).

Investing activities

The Group's net cash received in investing activities was €(256.1) million in 2022 compared to net cash used in investing activities of €181.5 million in 2021.

In 2022, the Group's principal cash inflows were €(235.8) million from net changes of investment securities at fair value through profit or loss ("FVTPL") and cash outflow was €11.3 million on the purchase of tangible and intangible assets and €9.0 million on the purchase of strategic financial investments.

In 2021, the Group's principal cash inflows were €193.4 million from net changes of investment securities at FVTPL and cash outflow was €6.7 million on the purchase of tangible and intangible assets and €5.2 million on the purchase of strategic financial investments.

Financing activities

The Group's net cash inflow from financing activities was €50.3 million in 2022 compared to of €114.6 million in 2021.

In 2022, the Group's financing cash inflow principally reflected €20.3 million in proceeds from the issuance of subordinated debt and €45.5 million from additional capital paid. Principal financing cash outflows were €14.0 million in dividends.

In 2021, the Group's financing cash inflow principally reflected €139.4 million in proceeds from the issuance of subordinated debt and €26.9 million from additional capital paid. Principal financing cash outflows were €40.0 million in redeeming subordinated debt and €10.5 million in dividends.

Funding

Sources of funding

The Group's principal source of funding is its customer deposits and loans received. In addition, the Group's funding comprises senior unsecured and subordinated debt. In 2020, LHV Pank completed its debut covered bond issue and participated in the targeted longer-term refinancing operations by the Eurosystem.

The Group 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 Group's customer deposits and loans received amounted to €5,487.0 million, or 96.0 per cent. of its total liabilities, as at 31 December 2022 and €6,354.2 million, or 97.5 per cent. of its total liabilities, as at 31 December 2021.

Customer deposits and loans received

The table below shows the breakdown of the Group's customer deposits and loans received by customer category and type as at 31 December in 2022 and 2021.

<i>(audited)</i>	Individuals	Financial intermediaries	Legal entities	Public sector	Total
	<i>(€ thousand)</i>				
31 December 2022					
Demand deposits	1,065,135	1,477,182	2,042,117	58,406	4,642,840
Term deposits	63,208	23,046	146,137	24,587	256,978
Loans received.....	—	—	437,956	150,000	587,956
Accrued interest liability	336	192	842	(2,146)	(776)
Total.....	1,128,679	1,500,420	2,627,052	230,847	5,486,998
31 December 2021					
Demand deposits	1,005,757	2,473,973	2,008,349	161,510	5,649,589
Term deposits	39,209	15,679	81,808	22,587	159,283
Loans received.....	—	—	348,980	200,000	548,980
Accrued interest liability	285	(1,537)	161	(2,537)	(3,628)
Total.....	1,045,251	2,488,115	2,439,298	381,560	6,354,224

The Group's deposits principally comprise demand deposits which represented 84.6 per cent. of its total deposits and loans received as at 31 December 2022 and 88.9 per cent. of its total deposits and loans received as at 31 December 2021. The Group's only other class of deposit is term deposits which are available for terms of between three months and two years and generally pay higher rates of interest than its demand deposits.

As at 31 December 2022, legal entities accounted for 47.9 per cent. of the Group's total deposits and loans received, financial intermediaries accounted for 27.3 per cent., private individuals accounted for 20.6 per cent. and the public sector account for 4.2 per cent. of the Group's total deposits and loans received.

As at 31 December 2021, legal entities accounted for 38.4 per cent. of the Group's total deposits and loans received, financial intermediaries accounted for 39.2 per cent., private individuals accounted for 16.4 per cent. and the public sector account for 6.0 per cent. of the Group's total deposits and loans received.

The increase in the Group's loans received as at 31 December 2022 compared to 31 December 2021 principally reflected the €987.7 million decrease in financial intermediaries deposits.

Depositor concentration

As at 31 December 2022, there were 2 customers whose deposits exceeded 1 per cent. of the Group's total deposits from customers and their deposits aggregated €241 million. As at the same date, the share of the Group's 20 largest depositors was 16.6 per cent.

As at 31 December 2021, there were 13 customers whose deposits exceeded 1 per cent. of the Group's total deposits from customers and their deposits aggregated €1,963 million. As at the same date, the share of the Group's 20 largest depositors was 37.6 per cent.

See "Risk Factors—Risks Relating to the Group—The Group has significant customer and sector concentrations".

Maturity profile

The table below shows the Group'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 (including interest cash flows) occur for 2022 and 2021.

	On demand	Up to 3 months	3-12 months	1 – 5 years	Over 5 years	Total⁽¹⁾
<i>(audited)</i>						
						<i>(€ thousand)</i>
As at 31 December 2022	4,643,310	98,213	192,434	575,870	0	5,509,827
As at 31 December 2021	5,648,302	55,271	102,924	551,826	0	6,358,323

Note:

- (1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Group's customer deposits principally comprise demand deposits. The Group believes that its demand accounts (except for financial intermediaries' accounts) are diversified by customer type and generally sticky in nature and therefore constitute a stable source of funding.

See "Risk Factors—Risks Relating to the Group—The Group is subject to the risk that liquidity may not always be readily available".

Interest repricing

The Group pays interest on the majority of its demand deposits. The interest rate depends on the customer segment and the deposit amount and currency and ranges from 0.01 per cent. to around 3.50 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 Group 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 Group's term deposits also pay interest, currently up to 4.5 per cent., and amounts can be withdrawn from these accounts at their maturity, unless the bank agrees to terminating the deposit prematurely based on a customer's request.

The table below shows the Group's customer deposits and loans received ranked by the recalculation dates of interest rates for 2022 and 2021.

	Up to 3 months	3-12 months	1 – 5 years	Over 5 years	Carrying amount⁽¹⁾
<i>(audited)</i>					
					<i>(€ thousand)</i>
As at 31 December 2022	3,775,569	454,833	1,257,372	0	5,487,774
As at 31 December 2021	2,249,662	101,744	4,007,466	0	6,358,872

Note:

- (1) The carrying amount excludes accrued interest which amounted to €(776) thousand as at 31 December 2022 and €(4,648) thousand as at 31 December 2021.

Currency mix

The Group 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; and
- 31 December 2021, 93.7 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.

Geographical distribution

In terms of the geographical distribution of deposits from customers and loans received:

- as at 31 December 2022, 76.6 per cent. were classified as Estonian, 14.6 per cent. were from other EU countries, 8.0 per cent. were from the UK and 0.8 per cent. were from other countries; and
- as at 31 December 2021, 62.9 per cent. were classified as Estonian, 25.2 per cent. were from other EU countries, 9.9 per cent. were from the UK and 2.0 per cent. were from other countries.

In 2021, the increase in proportion of deposits from other EU countries and the UK reflects the increase in the number of customers in the financial intermediaries segment and growth in their deposits volume. In 2022, the increase in proportion of deposits from Estonia reflects the decline of deposits from financial intermediaries.

See "Risk Factors—Risks Relating to the Group—The Group's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia".

Subordinated debt

As at 31 December 2022, the Group has five issues of subordinated bonds outstanding as shown in the table below.

Type of bonds	Amount (€ thousand)	Interest rate (per cent.)	Maturity date
Tier 2	40,000	6.00	28 November 2028
Tier 2	35,000	6.00	30 September 2030
AT1	20,000	8.00	No maturity date
AT1	15,000	9.50	No maturity date
AT1	20,000	10.50	No maturity date
	130,000		

The bonds have been issued principally to support the capital requirements applicable to the Group.

LENDING

Loans and advances to customers by type of customer, type of loan and industry sector

The Group's loans and advances to customers amounted to €3,208.6 million as at 31 December 2022 and €2,677.2 million as at 31 December 2021. The table below shows a breakdown of the Group's loans and advances to customers by type of customer and type of loan as at 31 December in 2022 and 2021.

	31 December 2022 (audited)	31 December 2021 (audited)
	(€ thousand)	
Loans to legal entities		
Corporate loans	1,747,860	1,469,216
Leases	121,015	111,001

Overdraft	36,194	32,327
Trade finance	36,255	37,162
Apartment association loans	18,273	10,929
Factoring	16,677	17,382
Leveraged loans	3,679	5,304
Credit card loans and hire-purchase	747	570
Total	1,980,700	1,683,891
Loans to individuals		
Mortgage loans	1,049,386	840,736
Consumer loans	77,119	56,936
Private loans	52,801	49,683
Leases	31,678	30,127
Hire purchase	15,824	13,081
Credit card loans	8,933	7,540
Leveraged loans	6,857	9,008
Leases of real estate	3,332	3,975
Study loans	2,559	1,213
Overdraft	25	19
Total	1,248,514	1,012,318
Allowances for credit losses	(20,642)	(19,049)
Total loans and advances to customers	3,208,572	2,677,160

As at 31 December 2022, corporate loans accounted for 54.1 per cent. of the Group's total loans and advances to customers before allowances for credit losses compared to 54.5 per cent. as at 31 December 2021. The Group's other significant category of loan is mortgage loans (which accounted for 32.5 per cent. of the Group's total loans and advances to customers before allowances for credit losses as at 31 December 2022 compared to 31.2 per cent. as at 31 December 2021).

The increase in the loan portfolio in 2021 and in 2022 principally reflected organic growth.

The table below shows a breakdown of the Group's loans and advances to customers by industry sector as at 31 December in 2022 and 2021.

	2022		2021	
	<i>(audited)</i>		<i>(audited)</i>	
	<i>(€ thousand)</i>	<i>(per cent.)</i>	<i>(€ thousand)</i>	<i>(per cent.)</i>
Individuals.....	1,248,515	38.7	1,012,318	37.5
Real estate	793,578	24.6	657,585	24.4
Manufacturing.....	155,377	4.8	152,568	5.7
Public sector.....	79,272	2.5	97,622	3.6
Wholesale and retail.....	151,254	4.7	132,116	4.9
Administrative activities	119,667	3.7	117,713	4.4
Agriculture	79,560	2.5	68,673	2.5
Financial services	128,773	4.0	85,808	3.2
Art and entertainment.....	57,859	1.8	51,795	1.9
Construction.....	111,657	3.5	84,790	3.1
Professional, scientific and technical activities	75,344	2.3	44,888	1.7
Transport and logistics	25,522	0.8	28,888	1.1
Education	5,747	0.2	4,341	0.2
Information and communication.....	13,844	0.4	10,902	0.4
Other servicing activities.....	8,484	0.3	17,357	0.6
Other.....	174,761	5.4	128,845	4.8
Total (before impairment) ..	3,229,214	100.0	2,696,209	100.0

The Group'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 Group also has a significant proportion of loans to individuals in its portfolio. Real estate loans accounted for 24.6

per cent. of the Group's loans and advances to customers (before impairment) as at 31 December 2022, compared to 24.4 per cent. as at 31 December 2021. Loans to individuals accounted for 38.7 per cent. of the Group's loans and advances to customers (before impairment) as at 31 December 2022, compared to 37.5 per cent. as at 31 December 2021.

Risk concentration

A small number of the Group's loans and advances to customers carry a large risk exposure, meaning that the Group'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 Group had large exposure loans outstanding to five customers and these loans aggregated 57 per cent. of the Group's net own funds. As at 31 December 2021, the Group had large exposure loans outstanding to five customers and these loans aggregated 76 per cent. of the Group's net own funds.

See "Risk Factors—Risks Relating to the Group—The Group has significant customer and sector concentrations".

Maturity profile

The table below shows the Group'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 2022 and 2021.

	On demand	Up to 3 months	3-12 months	1 – 5 years	Over 5 years	Total⁽¹⁾
<i>(audited)</i>						
			<i>(€ thousand)</i>			
As at 31 December 2022 ..	—	186,547	487,298	2,115,010	1,258,430	4,047,285
As at 31 December 2021 ..	—	173,534	431,582	1,661,341	924,419	3,190,876

Note:

- (1) This figure is different than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Group'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, 12.0 per cent. falling due between three and 12 months, 52.3 per cent. falling due between one and five years and the remaining 31.1 per cent. falling due after five years, in each case as at 31 December 2022.

Interest repricing

The Group'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 was approximately 9 per cent. of the Group's total value of loans to customers as at 31 December 2022.

The table below shows the Group's loans and advances to customers ranked by the recalculation dates of interest rates for 2022 and 2021.

	Up to 3 months	3-12 months	1 – 5 years	Over 5 years	Total⁽¹⁾
<i>(audited)</i>					
			<i>(€ thousand)</i>		
As at 31 December 2022	1,475,880	1,622,099	90,799	31,931	3,220,709
As at 31 December 2021	1,214,410	1,375,207	85,595	15,869	2,691,081

Note:

- (1) Excludes accrued interest and impairments which amounted to €8,505 thousand and €(20,642) thousand, respectively, as at 31 December 2022, €5,128 thousand and €(19,049) thousand, respectively, as at 31 December 2021.

As at 31 December 2022, 45.8 per cent. of the Group's customer loans and advances (excluding accrued interest and impairments) repriced within three months, 50.4 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 Group makes customer loans and advances principally in euro. As at:

- 31 December 2022, 99.1 per cent. of its customer loans and advances were denominated in euro and the balance was denominated in other currencies; and
- 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.

Geographical distribution

In terms of the geographical distribution of customer loans and advances:

- as at 31 December 2022, 98.5 per cent. were classified as Estonian, 0.6 per cent. were from other EU countries and 0.9 per cent. were from other countries; and
- 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.

See "*Risk Factors—Risks Relating to the Group—The Group's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia*".

FINANCIAL ASSETS AT FVTPL AND AT AMORTISED COST

The Group's portfolio of FVTPL financial assets principally comprises shares and fund units and foreign exchange forward contracts and also included debt securities until 31 December 2021. Since 31 December 2022, debt securities are recorded at amortised cost. The securities are issued by both domestic and international issuers. The Group 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 financial assets at FVTPL and at amortised cost

The table below summarises the Group's investments in debt and equity securities as at 31 December 2022 and 31 December 2021.

	2022 <i>(audited)</i>	2021 <i>(audited)</i>
	<i>(€ thousand)</i>	
FVTPL financial assets		
Shares and fund units	1,075	727
Debt securities	765	127,504
Investments in managed pension funds	7,474	7,620
Foreign exchange forwards	40	4
Total FVTPL financial assets	9,354	135,855
Financial assets at amortised cost		
Debt securities	364,230	—
Total financial assets at amortised cost	364,230	—

As at 31 December 2021, all of the Group'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 Group'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 Group's debt securities typically pay interest on either a semi-annual or annual basis.

The table below shows the Group's debt securities by the recalculation dates of interest rates for 2022 and 2021.

	<u>Up to 3 months</u>	<u>3-12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Total⁽¹⁾</u>
<i>(audited)</i>			<i>(€ thousand)</i>		
As at 31 December 2022	236,130	4,965	122,965	471	364,531
As at 31 December 2021	46,000	3,350	77,218	152	126,720

Note:

- (1) Excludes accrued interest which amounted to €555 thousand as at 31 December 2022 and €784 thousand as at 31 December 2021.

As at 31 December 2022, 64.8 per cent. of the Group'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 0.1 per cent. repriced after five years.

Maturity profile

The table below shows the Group'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 2022 and 2021.

	<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⁽¹⁾</u>
<i>(audited)</i>			<i>(€ thousand)</i>			
As at 31 December 2022	—	236,130	4,966	123,519	471	365,086
As at 31 December 2021	—	46,047	3,387	77,915	155	127,504

Note:

- (1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Group's debt securities are well diversified by maturity with 64.7 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 0.1 per cent. falling due after five years, in each case as at 31 December 2022.

Currency mix

The Group'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, 99.98 per cent. of its investments in debt and equity securities were denominated in euro; and
- 31 December 2021, 99.97 per cent. of its investments in debt and equity securities were denominated in euro.

Geographical distribution

In terms of the geographical distribution of the Group'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, 65.5 per cent. were classified as Estonian, 34.5 per cent. were classified as from other EU countries, and the balance was from other countries; and

- as at 31 December 2021, 41.2 per cent. were classified as Estonian, 58.7 per cent. were classified as from other EU countries, 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 Group's management and are also governed by EU capital adequacy regulations which are directly applicable in Estonia and 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 Group'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 Group follows four 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 is on tier 1 own funds because only these can absorb losses;
- the Group's capital is divided into (i) regulatory minimum capital and (ii) the Group's capital buffer and to reach its long-term economic goals the Group 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 Group 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 (including their consolidated holding companies) 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 an additional capital maintenance buffer of 2.5 per cent. (imposed by the EFSA) applies. The Group is also subject to 2.0 per cent. O-SII buffer and a 1.0 per cent. countercyclical buffer. The systemic risk buffer (imposed by the Estonian Central Bank in 2018) was reduced to zero due to the COVID-19 pandemic in May 2020. Additionally, the Group is subject to Pillar 2 buffers resulting from the SREP process.

The table below shows an overview of the capital requirements applicable to the Group following LHV Pank's SREP notification in December 2022.

	CET1	Tier 1	Total
		<i>(per cent.)</i>	
Pillar 1 requirement.....	4.50	6.00	8.00
Pillar 2 requirement.....	1.91	2.55	3.40
Total SREP capital requirement.....	6.41	8.55	11.40
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
Total minimum regulatory requirement.....	11.91	14.05	16.90
Additional internally determined buffers ⁽¹⁾	2.29	2.30	2.30
Total internal capital target.....	14.20	16.35	19.20

Notes:

(1) These are buffers determined by the supervisory board of the Group.

Each year, the Group 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 Group uses the standard method for calculating its capital requirements for credit and market risk, and the basic indicator approach for calculating its operational risk requirement.

The own funds of LHV Asset Management are required at all times to exceed the minimum amount of share capital laid down in the Investment Funds Act (currently, €3 million). In addition, from January 2017, the net own funds of a fund manager are required to be at least 0.5 per cent. of the market value of its managed Pillar 2 pension funds (for the market value up to €1 billion) and additional 0.02 per cent. of the market value of its managed pension funds for the portion of the market value which exceeds €1 billion.

The table below shows the Group'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 2022 and 2021. The capital base in the table below does not take into account the Q4 2022 net profit included retrospectively to Tier 1 capital of 31 December 2022.

	2022	2021
	<i>(audited)</i>	<i>(audited)</i>
	<i>(€ thousand)</i>	
Capital base		
Paid-in share capital.....	31,542	29,864
Share premium.....	141,186	97,361
Legal reserves transferred from net profit.....	4,713	4,713
Other reserves.....	(1,441)	47
Accumulated profit.....	170,010	179,746
Intangible assets.....	(23,333)	(14,473)
Profit for accounting period (COREP).....	25,611	—
Deductions.....	(369)	(128)
CET1 capital elements or deductions.....	(456)	(12,209)
CET1 instruments of financial sector entities where the institution does not have a significant investment.....	(3,351)	(5,236)
CET1 instruments of financial sector entities where the institution has a significant investment.....	(181)	(4,328)
Tier 1 capital.....	343,931	275,357
Additional Tier 1 capital.....	55,000	35,000
Total Tier 1 capital.....	398,931	310,357
Subordinated debt.....	75,000	75,000
Total tier 2 capital.....	75,000	75,000
Total net own funds for capital adequacy calculation.....	473,931	385,357
Capital requirements		
Credit risk and counterparty risk.....	2,059,477	1,769,983
Market risk.....	21,292	6,779
Operational risk.....	197,920	152,778
Total capital requirements.....	2,278,689	1,929,540

The Group is also subject to a Basel III leverage ratio requirement of 3.0 per cent. The Group's leverage ratio was 6.49 per cent. as at 31 December 2022 and 4.32 per cent. as at 31 December 2021. The Group's leverage ratio for these periods has been calculated in accordance with the Basel III leverage ratio and disclosure requirements.

The Group is also subject to MREL requirements which are gradually phased-in until 2024. The required MREL-TREA for the Group stands at 24.57 per cent. and the required MREL-LRE at 5.91 per cent. The limits will have to be met by 1 January 2024. The intermediate MREL target for the Group that had to be met by 1 January 2022 was 19.08 per cent. of the total risk exposure amount and 5.91 per cent. of the leverage ratio exposure measure. No subordination requirement is applicable currently to the MREL targets. In order to be able to pay dividends, the combined buffer requirement should be added on top of the MREL-TREA target. The combined buffer stands at 5.5 per cent. as at the date of this Prospectus and will increase to 6.0 per cent. from 1 December 2023.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group 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 Group's commitments and contingent liabilities as at 31 December in 2022 and 2021.

	2022	2021
	<i>(audited)</i>	<i>(audited)</i>
	<i>(€ thousand)</i>	
Unused loan commitments	601,093	679,579
Performance guarantees ⁽¹⁾	30,174	19,919
Financial guarantees	52,577	49,409
Letters of credit.....	6,605	1,438
Total	690,449	750,345

Note:

- (1) These are contracts that provide compensation if another party fails to perform a contractual obligation. For further information see note 23 to the 2022 Annual Financial Statements and note 22 to the 2021 Annual Financial Statements. The Group did not record any losses on performance guarantees in 2022 and 2021.

The Group 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 Group in the past three years.

RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with its shareholders that have a significant impact on the Group 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 and fee and commission income for the Group. Further information on the Group's related party transactions is set out in note 24 to the 2022 Annual Financial Statements and in note 23 to the 2021 Annual Financial Statements.

TAXATION

The tax laws of the investor's jurisdiction and of the Issuer's jurisdiction might have an impact on the income received from the Notes. The following is a general description of certain Estonian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Estonia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Estonia

Taxation of interest in Estonia

Estonian Resident Noteholders

Pursuant to Article 17(1) of the Estonian Income Tax Act of 1999, as amended (the "EITA"), income tax at the rate of 20 per cent. is charged on interest received by natural persons who are tax resident in Estonia. Income tax payable in respect of interest payments made to Estonian residents (natural persons) is to be withheld by the Issuer. The Issuer will not withhold income tax if the Estonian resident Noteholder, who is a natural person, has notified the Issuer that the interest was received on financial assets acquired for money held in an investment account as specified in Article 172 of the EITA.

Interest income earned by resident legal entities is not subject to annual taxation. Such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Noteholders

The Issuer does not withhold any income tax on interest payments to non-residents (legal and/or natural persons).

Provided that: (a) the tax residency of the Noteholders is not known by the Issuer at the time that the Issuer makes an interest payment to a Paying Agent; and (b) the Paying Agent is a non-resident person, no withholdings will be made in Estonia.

The interest income earned by non-resident Noteholders without a permanent establishment in Estonia is not subject to taxation in Estonia but may be subject to taxation in their country of residence.

Definitive Notes

Noteholders should be aware that, if Definitive Notes are issued, holders of any Definitive Notes that are not held through Euroclear or Clearstream, Luxembourg, who are natural persons, will be required to present evidence of non-Estonian residency or other evidence as required by the Issuer, to the relevant Paying Agent if the Paying Agent is a tax resident in Estonia, in order to receive payments of interest free of Estonian withholding tax (which, as at the date of this Prospectus, is charged at a rate of 20 per cent.).

Taxation of capital gains in Estonia

Estonian Resident Noteholders

The income earned by resident individuals from the sale or exchange of the Notes is taxed as gain from the transfer of property which is subject to income tax at the rate of 20 per cent (increased to 22 per cent. starting from 2025). A Noteholder has to declare the gain and pay the income tax on its annual income return.

Pursuant to Article 37(1) of the EITA, a resident individual has the right to deduct certified expenses directly related to the sale or exchange of Notes from the resident's gain or to add such expenses to the resident's loss. The gain or loss derived from the transfer of Notes is the difference between the acquisition cost and the sale price of the Notes. The gains or loss derived from the exchange of the Notes is the difference between the acquisition cost of the Notes and the market price of the property received as a result of the exchange.

Individual Noteholders may postpone the taxation of their income derived from the sale or exchange of the Notes, by using an investment account specified in Article 172 of the EITA for the purposes of making transactions with the Notes and depositing the proceeds from the transfer of Notes in the investment account. 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 account exceeds the amount which had been previously paid into the account).

Gains received by resident legal entities from the sale of Notes is not subject to annual corporate income tax. Such gain is included in their profits and taxed upon distribution of profits pursuant to relevant procedures.

Non-resident Noteholders

Income earned from the sale or exchange of Notes is not subject to income tax in Estonia by non-resident Noteholders (i.e. non-resident legal persons who do not have a permanent establishment in Estonia, and/or natural persons).

The income earned by non-resident Noteholders 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, the "**participating Member States**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

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 the Notes 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 Notes 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 jurisdiction of the Issuer) 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, 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 Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Sole Bookrunner has, pursuant to a subscription agreement dated 29 September 2023 (the "**Subscription Agreement**"), agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 100.000 per cent. of their principal amount less a combined management and underwriting commission. In addition, the Issuer has agreed to reimburse the Sole Bookrunner for certain of its expenses and to indemnify the Sole Bookrunner against certain liabilities in connection with the issue of the Notes. The Subscription Agreement entitles the Sole Bookrunner to terminate it in certain circumstances prior to payment being made to the Issuer.

United States of America

The Notes 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 except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes 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.

The Sole Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by the Sole Bookrunner (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

The Sole Bookrunner has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
 - (ii) a customer within the meaning of Directive 2016/97/EU (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

The Sole Bookrunner has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK 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 UK domestic law by virtue of the EUWA.

Other UK regulatory restrictions

The Sole Bookrunner has further represented, warranted and undertaken that:

- (a) 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 the Notes in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the Prospectus Regulation and any applicable provision of Italian laws and regulations; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time; and
- (ii) comply with any other applicable laws or requirements imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

General

The Sole Bookrunner has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material, in all cases at its own expense, relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Sole Bookrunner to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by the Supervisory Board of the Issuer given on 17 August 2023.

Expenses Relating to Admission to Trading

2. The Issuer estimates that the total expenses related to the admission to trading of the Notes will be approximately €7,500.

Legal and Arbitration Proceedings

3. 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 Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

4. Since 31 December 2022 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries. Since 30 June 2023, there has been no significant change in the financial position or performance of the Issuer or the Issuer and its Subsidiaries.

Auditors

5. The audited consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2021 and 31 December 2022 by KPMG Baltics OÜ. KPMG Baltics OÜ is a member of the Estonian Auditors' Association.

Validity of the Prospectus and Prospectus Supplements

6. This Prospectus is valid for twelve months. For the avoidance of doubt, the Issuer shall have no obligation to supplement this Prospectus after the end of the offer or admission to trading of the Notes.

Documents on Display

7. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of the Issuer or at (i) <https://investor.lhv.ee/en/senior-bonds/> (in the case of the documents listed at (a) and (b) below) or (ii) <https://investor.lhv.ee/en/reports/> (in the case of the documents listed at (c) below) for 12 months from the date of this 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 Agency Agreement and the Deed of Covenant; and
 - (c) the Financial Statements.

For the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on the website of the Issuer does not form part of this Prospectus.

In addition, this Prospectus will be available, in electronic format, on the website of the Euronext Dublin (<https://live.euronext.com/en/markets/dublin>).

Yield

8. If the Issuer were to pay interest on each Interest Payment Date up to and including the Reset Date and were to redeem the Notes on the Reset Date, the yield on the Notes would be 8.750 per cent. per annum. The yield is calculated as of the date of this Prospectus and may fluctuate in the future. It is not an indication of future yield.

ISIN and Common Code

9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS2693753704 and the common code is 269375370. The Classification of Financial Instrument (CFI) code and the Financial Instrument Short Name (FISN) code are each as set out on the website of the Association of National Numbering Agencies (ANNA).

Listing Agent

10. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the official list of Euronext Dublin or to trading on the Regulated Market for the purposes of the Prospectus Regulation.

The Legal Entity Identifier

11. The Legal Entity Identifier (LEI) code of the Issuer is 529900JG015JC10LED24.

Conflicts of Interest

12. The Sole Bookrunner has engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. The Sole Bookrunner and its affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Sole Bookrunner and its 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 and its affiliates. The Sole Bookrunner or its affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer and its affiliates consistent with their customary risk management policies. Typically, such parties 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 Notes. Any such positions could adversely affect future trading prices of the Notes. The Sole Bookrunner and its 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.

INDEX OF DEFINED TERMS

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