

DESCRIPTION OF RISK FACTORS APPLICABLE TO INVESTMENT INTO THE LHV GROUP AS ADDITIONAL TIER 1 TEMPORARY WRITE-DOWN NOTES

1. INTRODUCTION

Investing into the Additional Tier 1 Temporary Write-Down Notes (the “**Notes**”) issued by LHV Group AS (the “**Company**”) entails various risks. Each prospective investor in the Notes should thoroughly consider all the information provided to them about the Notes, including the risk factors described below. Any of the risk factors described below, or additional risks not currently known to the Company, not considered significant by the Company or not relating to the Notes specifically, could have a material adverse effect on the business, financial condition, operations or prospects of the Company and the Company’s subsidiaries (together the “**Group**”) and result in a corresponding decline in the value of the Notes, cancellation of interest payments, write-down of the nominal value of the Notes or the inability of the Company to redeem the Notes after giving notice of redemption pursuant to the terms of the Notes and all relevant regulatory norms. This document has been drawn up with emphasis on the risk factors related to the Notes and does not purport to be a description of the risks related to the Company and the Group. This document must be read together with the Terms and Conditions of the Notes setting out the full contractual and detailed framework of the Notes.

The risk factors are not listed in any order of priority with regard to significance or probability.

This description of risk factors is not, and does not purport to be, investment advice or an investment recommendation to acquire the Notes. Each prospective investor in the Notes must determine, based on its own independent review and analysis and such professional advice as it deems necessary and appropriate, whether an investment into the Notes is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc.

2. RISKS RELATED TO THE NOTES

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of such investor's own circumstances. In particular, each potential investor should:

- i. have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information provided to them about the Notes (including but not limited to the Terms and Conditions of the Notes);
- ii. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- iii. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- iv. understand thoroughly the terms of the relevant Notes; and

- v. be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and such instruments may be purchased as a way to enhance yield with an understood, measured, appropriate addition of risk to the investor's overall portfolio. A potential investor should not invest in the Notes which are complex financial instruments unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Credit Risk. An investment into the Notes is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Notes in a duly and timely manner. The Company's ability to meet its obligations arising from the Notes (including not to cancel payments) and the ability of the holders of the Notes to receive payments arising from the Notes depend on the financial position and the results of operations of the Company and the Group. The Notes are not obligations of any of the Company's subsidiaries, are not bank deposits in the Company's subsidiary LHV Pank AS and are not guaranteed by the Guarantee Fund (in Estonian: *Tagatisfond*).

Subordination risk. The Notes are subordinated to most of the Company's obligations. The Notes are subordinated to all unsubordinated claims and all senior subordinated claims (e.g. claims under the subordinated "Tier 2" notes of the Company) against the Company; however, not to the claims, which are subordinated to the Notes (e.g. claims under the Company's share capital) or which rank *pari passu* with the Notes (e.g. claims under other Additional Tier 1 instrument of the Company, should it choose to issue such in the future). The subordination of the Notes means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Notes shall fall due in accordance with the Terms of the Notes and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims and senior subordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the holders of the Notes are not entitled to any payments due under the Terms and Conditions of the Notes until the full and due satisfaction of all the unsubordinated and senior subordinated claims (including under Tier 2 subordinated notes) against the Company. The subordination may have an adverse effect on the Company's ability to meet all its obligations arising from the Notes.

The Company 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 that the Company may issue that ranks senior to the Notes or on the amount of securities that it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by holders of the Notes in the event of voluntary or involuntary liquidation or bankruptcy of the Company.

Interest payments on the Notes are not certain. Making of interest payments on the Notes is generally subject to the Company's discretion. The Company may elect not to make interest payments of which the holders of the Notes may, but do not necessarily have to be notified in advance. Further, subject to regulatory restrictions as provided in section 5(2)(b) of Terms and Conditions of the Notes, the Issuer may not be permitted to make interest payments. In addition, as the Company is a holding company, it conducts substantially all of its business through its subsidiaries. The Company's subsidiaries are separate and distinct legal entities which have no obligation to pay any amounts due, or to provide the Company with funds to enable it to make payments under the Notes. Interest payments that are not made do not accumulate and will not be made at a later date. Holders of the Notes will not receive any

compensation for and will not have any claims deriving from interest payments that are not made on the foreseen interest payment dates. Further, if the principal (nominal value) of the Notes has been reduced (written-down), the Notes only carry interest on the then outstanding nominal value of the Notes. Therefore, the income receivable under the Notes by the holders of the Notes is unpredictable and cannot be determined at the time of making the investment.

The principal of the Notes may be reduced (written down). The Notes constitute temporary write-down notes belonging to the additional tier 1 capital of the Company. As such, the principal (nominal value) of the Notes will be written down if the Core Equity Tier 1 capital ratio of the Group on a consolidated basis falls below 7%. The write-down may be full or partial, depending on the capital situation of the Group. Several write-downs may occur in respect of the Notes until they are fully written-down. The temporality of the write-down, i.e. the occurrence of a write-up of the principal of the Notes is subject to the discretion and financial and capital situation of the Company. The risk exists that the principal of the Notes is never written up following a write-down. Upon liquidation or bankruptcy, the holders of the Notes only have a claim in the amount of the then outstanding (i.e. following a write-down the written-down) nominal value of the Notes (which may be equal to EUR 0.01) and will have no recourse to the Company for the original (i.e. pre-write-down) nominal value of the Notes. Therefore, there is no certainty that the holders of the Notes will receive the full original nominal value. However, the Notes may only be redeemed early at the discretion of the Company if the principal value of the Notes has not been written-off or has been fully written-up after any write-down.

Remedies in case of default on the Notes are severely limited. The Notes will become immediately due and payable at their outstanding nominal value only in the event of bankruptcy or liquidation of the Company. However, in each case, the holder of such Note may claim payment in respect of such Note only in the bankruptcy or liquidation of the Company.

Early redemption risk. According to the Terms of the Notes, the Notes may be redeemed early on the initiative of the Company, at any quarterly interest payment date after the lapse of five years from the issue of the Notes. Further, in case of adverse changes in the tax or capital treatment of the Notes (see "Tax Event" and "Capital Event" in the Terms and Conditions of the Notes), the Notes may be redeemed on the initiative of the Company also before five years have passed from their issue. If this early redemption right is exercised by the Company, the rate of return from an investment into the Notes may be lower than initially anticipated for the perpetual instrument. Also, the investors might not have an option to invest in financial instruments offering the similar risk/return characteristics at the time of the early redemption or could face additional costs in selecting a new investment. The Notes may, however, be redeemed by the Company only subject to the Terms and Conditions of the Notes and subject to certain regulatory conditions and if the EFSA has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company. In the extraordinary situation where in the regulatory review process it is determined that the Notes do not qualify as Additional Tier 1 capital of the Company from the beginning (and not due to changes in the capital treatment), the Company may redeem the notes without EFSA approval.

No fixed redemption date. The Notes have no fixed redemption date. Redemption of the Notes is subject to the Company's discretion, regulatory restrictions and EFSA approval and is thus not fully under the control of the Company. The Notes only automatically become fully redeemable at their then outstanding nominal value upon liquidation and bankruptcy of the Company. Therefore, the holders of the Notes have no security as to when the principal of the Notes will be repaid.

No ownership rights. An investment into the Notes is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company 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 Company, granting the holders of the Notes only such rights as set forth in the Note Terms. The value of the Notes might be affected by the actions of the shareholder of the Company over which the investors do not have control.

Rights and obligations of holders of the Notes may be amended at meetings of holders of the Notes. The Terms and Conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit a three fourths majority to make decisions that modify the terms and conditions applicable to the Notes and may affect the holders of the Notes' rights and obligations under the Notes, and that bind all holders of the Notes including holders of the Notes who did not attend and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority. At the meeting of holders of the Notes, the holders of the Notes also have authority to elect and give instructions to a representative to act on their behalf.

Tax regime risks. Adverse changes in the tax regime applicable in respect of transacting with the Notes or receiving interest or principal payments based on the Notes may result in an increased tax burden of the holders of the Notes and may therefore have adverse effect on the rate of return from the investment into the Notes. Due to the specific semi-equity character of the Notes, each potential investor is encouraged to obtain personal tax advice on the treatment of payments under the Notes in their tax jurisdiction, especially if the referred jurisdiction is not Estonia.

Changes in laws, regulations or administrative practice or the interpretation thereof may affect the Notes. Changes in laws, regulations or administrative practice, or the interpretation thereof, after the date of this document may affect the Notes in general, the rights of holders of the Notes as well as the market value of the Notes. The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by Estonian law. There can be no assurances as to the impact of the law of Estonia, regulations or administrative practice after the date of issue of the relevant Notes or the interpretation thereof. Such changes in law may impact statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on the Notes. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes, including those described above, could have on the Notes.

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Company's and its Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Company and its Group, including the Group's performance and financial condition, which could in turn affect the levels of CET1 capital and risk weighted assets and, therefore, the resulting CET1 ratio and the levels of capital, leverage and additional loss absorbing capacity resources more generally.

There are no rights of set-off or counterclaim. Holders of the Notes shall not be entitled to exercise any right of set-off or counterclaim against moneys owed by the Company in respect of the Notes. Therefore, holders of the Notes will not be entitled (subject to applicable law) to set-off the Company's obligations under such Notes against obligations owed by them to the Company.

Cancellation of offering. Although best efforts will be made by the Company to ensure that the offering of the Notes is successful, the Company cannot provide any assurance that the offering will be successful and that the investors will receive the Notes they subscribed for. The Company is entitled to cancel the offering.

Highly volatile and illiquid market. The Notes will not be listed. The Notes will be new securities which will not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount 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.

Bail-In Risk. The Notes may be subject to write-down or conversion powers in accordance with the Bank Recovery and Resolution Directive¹. In the event that write-down or conversion powers are exercised by a resolution authority („bail-in“), it is possible that: (a) the amount outstanding of the Notes is reduced, including to zero; (b) the Notes are converted into ordinary shares or other instruments of ownership; (c) the terms of the Notes are varied (e.g. the maturity of the Notes is changed); (d) the Notes or payments under the Notes are cancelled. Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Consent of the holders of the Notes is not necessary for effecting bail-in measures by the resolution authority.

¹ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.