DESCRIPTION OF RISK FACTORS APPLICABLE TO INVESTMENT INTO THE AS LHV GROUP FIXED TO FLOATING SENIOR PREFERRED NOTES

1. INTRODUCTION

Investing into the Fixed to Floating Senior Preferred Notes (the "**Notes**") issued by AS LHV Group (the "**Issuer**") entails various risks. Each prospective investor in the Notes should thoroughly consider all the information provided to them about the Issuer and its group, and the Notes, including the risk factors described below.

Any of the risk factors described below, or additional risks not currently known to the Issuer, not considered significant by the Issuer or not relating to the Notes specifically, could have a material adverse effect on the business, financial condition, operations or prospects of the Issuer and the Issuer's subsidiaries (together the "**Group**"), and result in a corresponding decline in the value of the Notes, or the inability of the Issuer to redeem the Notes pursuant to the Terms and Conditions of the Notes (the "**Conditions**") and all relevant regulatory acts. This document has been prepared with emphasis on the risk factors related to the Notes and does not purport to be a description of the risks related to the Issuer and the Group. This document must be read together with the Conditions 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.

Notes are not offered publicly, and the Issuer will not apply for the Notes to be admitted for trading on any trading venue. Therefore, no prospectus or other similar information document will be prepared, registered, or made available.

The target market for the Notes are eligible counterparties, professional clients and retail clients, as defined in Directive 2014/65/EU (as amended, "MiFID II"), having sufficient knowledge and experience in a particular financial product. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

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

<u>The Notes may not be a suitable investment for all investors</u>. Each potential investor in the Notes, no matter if considering the investment at the time of issuance of the Notes or intending to make the purchase at the later stage, 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 Conditions);

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the 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, and also have sufficient diversification of instruments and risks in their portfolio;

(iv) understand thoroughly the Conditions; 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 Issuer may fail to meet its obligations arising from the Notes in a duly and 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 depend on the financial position and the results of operations of the Issuer and the Group. **The Notes are not obligations of any of the Issuer's subsidiaries, they are not bank deposits in the Issuer's subsidiary AS LHV Pank and are not guaranteed by the Estonian Guarantee Fund (in Estonian*: Tagatisfond*)**.

The Issuer is not prohibited from issuing further debt which may rank *pari passu* with the Notes. There is no restriction on the amount of debt that the Issuer may issue that ranks *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 the bankruptcy of the Issuer.

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 AS LHV Pank. In the event of the insolvency of AS 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 AS 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 holders of the Notes against the Issuer in respect of the Notes would be structurally subordinated to the claims of all such creditors of AS LHV Pank or such other subsidiary. The Conditions do not restrict the amount of indebtedness that the Group may incur, including indebtedness of AS LHV Pank or the Issuer's other subsidiaries.

Remedies in case of default on the Notes are severely limited. The Notes contain limited enforcement events relating to non-payment by the Issuer of any amounts due and to the insolvency or liquidation of the Issuer, whether in Estonia or elsewhere. Moreover, the noteholder's rights for accelerating the payments in such circumstances are very limited and they can claim an anticipated payment only in the bankruptcy or liquidation proceedings of the Issuer. Also, any exercise of any Bail-in and Loss Absorption Powers (as described in Condition 16 (*Acknowledgement of Bail-in and Loss Absorption*

Powers) in the Conditions) or any other resolution tool by a resolution authority will not constitute an event of default under the Notes.

Early redemption risk. According to the Conditions, the Notes may be redeemed early at the initiative of the Issuer on the Reset Date (as defined in the Conditions). Further, in case of adverse changes in the tax or capital treatment of the Notes (see sections 5(b) "*Redemption for tax reasons*" and 5(d) "*Redemption as a result of an MREL Disqualification Event*" in the Conditions), the Notes may be redeemed at the initiative of the Issuer also before the scheduled maturity of the Notes. If these early redemption rights are exercised by the Issuer, the rate of return from an investment into the Notes may be lower than initially anticipated by the holders of the Notes. Also, the holders of the Notesmight 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 ahead of the scheduled maturity by the Issuer only subject to the Conditions and certain regulatory conditions and provided that the Estonian Financial Supervision and Resolution Authority (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 Issuer. In the extraordinary situation where in the regulatory review process it is determined that the Notes do not qualify as MREL eligible capital of the Issuer from the beginning (and not due to changes in the capital treatment), the Issuer may redeem the Notes without EFSA approval.

Fixed to Floating Interest Rate. Notes bear interest at the rate that converts from a fixed rate to a floating rate at the Reset Date (as defined in the Conditions).

During the time the interest rate is fixed, holders of the Notes are exposed to the risk that the price of such Notes may fall because of changes in the market yield (which typically changes on a daily basis). Holders of the Notes should be aware that movements of the market yield can adversely affect the price of the Notes and can lead to losses for them. The floating rate applicable to the Notes from the Reset Date is based on two components, namely 3-month EURIBOR and the Margin (as defined in the Conditions). Holders of the Notes should be aware that the floating rate interest income is subject to changes to 3-month EURIBOR and therefore cannot be anticipated. Hence, the investors 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 instruments. Since the Margin is fixed at the Issue Date, holders of the Notes 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 (the "**market spread**"). However, the price of the Notes is subject to changes in the market spread, changes in 3-month EURIBOR or both. Holders of the Notes should be aware that movements in the market spread can adversely affect the price of the Notes and can lead to losses for the holders of the Notes. In addition, holders of the Notes are exposed to reinvestment risk with respect to proceeds from interest payments or early redemptions by the Issuer. If the market yield (or market spread respectively) declines, and if holders of the Notes want to invest such proceeds in comparable transactions, holders of the Notes will only be able to reinvest such proceeds in comparable transactions at the then prevailing lower market yields (or market spreads respectively).

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.

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 an alternative benchmark. 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. The Conditions provide for certain fallback arrangements in the event that a published benchmark becomes unavailable, 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.

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.

There is no active trading market for the Notes. The Notes will not be admitted to trading on any trading venue and there is no certainty that any market will develop for the Notes. If a market does develop, it may not be very liquid. The Notes are not widely distributed and the number of investors holding the Notes will expectedly remain low. As the Notes are not traded on any trading venue, the price formation of any trade in the Notes is subject to the negotiations of the respective parties to such trade. Therefore, even where the Notes are freely transferable, the investor may not be able to sell or purchase the Notes, or to sell or purchase the Notes at expected the price or in the expected amount.

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 Issuer, or of its subsidiaries, 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 holders of the Notes only such rights as set out in the Conditions. The value of the Notes might be affected by the actions of the shareholders of the Issuer over which the investors do not have control.

The Conditions contain very limited covenants. There is no negative pledge in respect of the Notes and the Conditions place no restrictions on the amount or type of securities it may issue that rank *pari passu* with the Notes. In addition, the Notes do not require the Issuer or its Group to comply with financial ratios or otherwise limit its ability or that of its subsidiaries to incur additional debt, nor do they limit the Issuer's ability to use cash to make investments or acquisitions, or the ability of the Issuer or its subsidiaries to pay dividends, repurchase shares or otherwise distribute cash to shareholders. Such actions could potentially affect the Issuer's ability to service its debt obligations, including those under the Notes.

Potential conflicts of interest between the holders of the Notes and the Agent. Potential conflicts of interest may arise between AS LHV Pank as the Agent, incl. acting in its role as the determination agent for the purposes of the Floating Rate of Interest (as defined in the Conditions), and the holders of the Notes, including with respect to certain discretionary determinations and judgments that the

Agent may make pursuant to the Conditions that may influence the amount receivable by the holders of the Notes during the term of the Notes and upon redemption of the Notes.

There is no gross-up obligation in relation to the Notes. The Issuer shall withhold and deduct taxes on payments made under the Notes in accordance with the applicable Estonian tax laws. In situations where the tax should not be withheld by the Issuer under the applicable tax law, but the respective circumstances are not known or available to the Issuer, the holders of the Notes are expected to provide any relevant information and certificates for lowering or avoiding the withholding rates in advance of any payments by the Issuer. The Issuer shall not compensate any amounts it has withheld or deducted under the applicable tax law. Under no circumstances is the Issuer required to pay any additional amounts under the Conditions 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 any Notes, holders of the Notes may receive less than the full amount of principal due under such Notes upon redemption.

Modification and waivers. The Conditions contain provisions for calling meetings of holders of the Notes to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing. These provisions permit defined majorities to bind all holders of the Notes, including holders of the Notes who did not attend and vote at the relevant meeting, or as the case may be, did not sign the written resolution including those holders of the Notes who voted in a manner contrary to the majority. Furthermore, the Conditions provide that the Notes and the Conditions may be amended without the consent of the holders of the Notes which are formal, minor, or technical nature or to correct a manifest error. Additionally, the Issuer may, subject to Condition 4(g) (*Benchmark Replacement*), vary or amend the Conditions to give effect to certain amendments without any requirement for the consent or approval of holders of the Notes. The Issuer cannot foresee, as at the date of issue of the Notes, what such changes may entail, however, any changes made will be binding on holders of the Notes.

Furthermore, holders of the Notes shall regularly visit the Issuer's website as specified in the Conditions for learning about the notices published by the Issuer, incl. any information about the meetings of noteholders. As the contact information of the holders of the Notes in the Register (as defined in the Conditions) may not be accurate or available, the Issuer also publishes respective information on its website.

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 for the holders of the Notes and may therefore have adverse effect on the rate of return from the investment into 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 Notes or the interpretation thereof. Such changes in law may impact statutory, tax and regulatory regimes during the term 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.

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 Issuer in respect of the Notes. Therefore, holders of the Notes 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.

Bail-In Risk. The Notes may be subject to write-down or conversion powers in accordance with the Estonian Financial Crisis Prevention and Resolution Act (the act implementing the Bank Recovery and Resolution Directive[1] into the Estonian law). In the event that write-down or conversion powers are exercised by a resolution authority („bail-in"), it is possible that: (a) the principal amount of or the outstanding amount due in respect of the Notes is reduced, including to zero; (b) the Notes are converted into ordinary shares or other instruments of ownership; (c) the Conditions 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 a bail-in tool. Consent of the holders of the Notes is not necessary for effecting bail-in measures by the resolution authority. Pursuant to Condition 16 (*Acknowledgment of Bail-in and Loss Absorption Powers*), each holder of the Notes 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 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 holders of the Notes losing some or all of their investment in the Notes.

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 is uncertainty regarding the final substance of the applicable MREL regulations and how those regulations, once enacted, 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 is entitled to redeem the Notes in whole (but not in part) if a MREL Disqualification Event occurs.

[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, as amended from time to time.

LHV GROUP TARTU MNT 2, 10145 TALLINN 6 800 400 GROUP@LHV.EE LHV.EE