

Approval of the conditions of performance pay

The Supervisory Board of AS LHV Group (hereinafter the Group) proposes to the shareholders to prospectively increase, for the next 5 (five) years, the maximum proportion of performance pay payable to the managers and equivalent staff members of the Group and group companies to 200% of the basic remuneration. The justification for the proposal has been provided below.

Background information

On 13 March 2020 a proposal shall be made to the Group's shareholders to approve the new share option programme (hereinafter the **Programme**) with a term of 5 years. The Programme has been designed for the managers and equivalent staff members of the Group and group companies.

Additional requirements apply to remuneration in accordance with the legal acts. Based on the decision of the general meeting, the maximum proportion of performance pay shall be 200% of the basic remuneration.

Justification

The need for increasing the proportion of performance pay

Above all, the need for increasing the proportion of performance pay is conditioned by the need to apply standard conditions to the managers and equivalent staff members of the Group and group companies, and to adhere to the decision to be made to the general meeting of the Group's shareholders on 13 March 2020. The inclusion of the above persons in the increase of the proportion of performance pay is conditioned by the need to ensure flexibility of the existing remuneration package (including the Programme), allowing to engage in the group companies and reward persons of key importance to the Group as a whole. The main purpose of increasing the proportion of performance pay is to harmonise the long-term interests of the managers and equivalent staff members of the Group and group companies with the interests of shareholders (shares are the object of the Programme). This is considered of critical importance in creating value for shareholders, considering the Group's quick and dynamic growth and development.

The scope of the increase in the proportion of performance pay

According to the proposal made to the shareholders by the Supervisory Board of the Group, the proportion of performance pay will be increased to 200% for all managers and equivalent staff members for a period of 5 (five) years, starting from 1 January 2021. The five-year term is conditioned by the term of the Programme (the Programme is scheduled to expire in 2024).

The list of persons entitled to participate in the Programme is determined based on the proposal of the Group's Remuneration Committee, and approved by a competent body – the Group's Management Board, Supervisory Board or general meeting of the shareholders, depending on the inclusion of the particular individual within the management body. Thus, the decision-making process used for determining the persons entitled to participate in the Programme has a minimum of two levels, ensuring justification, transparency and objectiveness of the resolutions. The assessment of the duties and responsibilities of the person, along with comparison with other persons entitled to participate in the Programme, forms a material part of the decision-making process. As a result of the assessment and comparison, the number of share options will be determined for each particular person (including the scope of the increase in the proportion of performance pay, considering the higher proportion, as allowed by law and approved by the general meeting), considering the person's duties and responsibilities as well as attainment of personal objectives and general profitability of the work.

A total of nine (9) managers of the Group and group companies and nine (9) equivalent staff members are currently authorised to participate in the Programme. The managers' duties include managing,

organising and supervising the everyday work of the group company. For this purpose, the management: prepares and approves a strategic development plan and annual budget, decides on and submits to the supervisory board for approval any changes in the development plan and budget; convenes the annual and special general meetings of shareholders; prepares the financial statements and annual reports and submits them to the supervisory board for review and to the general meeting for approval; submits a proposal for profit allocation and dividend payment to the general meeting; develops risk management principles, depending on the general principles approved by the supervisory board; sets up and mans the committees required for organising everyday work; decides on the acquisition and termination of participations in other companies, acquisition, encumbrance and transfer of movable and immovable property in accordance with the limits stipulated in the rules of procedure of the supervisory board; designs the company's organisational structure in accordance with the principles stipulated in the articles of association; establishes the competence and liability limits of the heads of structural units; establishes the internal rules of procedure; establishes the principles for remuneration of staff members; implements the personnel policy; decides on other issues required for organising everyday work. The professional activities of staff members equivalent to managers may affect or significantly affect LHV's risk profile. Above all, these individuals are responsible for independent internal audit, risk management or compliance functions, report to the management body on their activities or hold the right to make, approve or prohibit decisions related to credit risk positions, the nominal value of which makes up 0.5% of the Tier 1 own funds of the credit institution and amount to at least EUR 5 (five) million, or are involved in investing fund assets, considering the investment purpose, investment policy, investment restrictions, risk mitigation rules of the corresponding fund, and the standard investor's risk tolerance and investment horizon.

The estimated impact of the increase in the proportion of performance pay on adherence to the requirement concerning preservation of the level of own funds of AS LHV Pank

The increase in the proportion of performance pay has no estimated impact on adherence to the requirement concerning preservation of the level of own funds of AS LHV Pank. Furthermore, the decision will not affect the Group's economic results or risk position.