

Report on the activities of the Supervisory Board and assessment of the Annual Report 2019 of AS LHV Group for submission to the annual general meeting of the shareholders

19 February 2020

The Supervisory Board of AS LHV Group (LHV), consisting of Chairman of the Supervisory Board Rain Lõhmus and members of the Supervisory Board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi, discussed the following issues:

1. Activities in the financial year 2019

We have every reason to be pleased with the year 2019. 2019 was a year characterised by good results, rapid growth in assets and customer base, various new products and recognitions. Once again, LHV was declared the bank with the best service in Estonia. LHV was also declared the best bank by the international financial magazines Euromoney and the Banker.

LHV posted record-breaking results in all business areas in 2019. The highlight of the year was the purchase of the Danske private customer loan portfolio, which doubled the bank's loan stock. Loan volumes grew by EUR 0.8 billion to EUR 1.7 billion and deposit volumes by EUR 1.3 billion to 2.7 billion. Pension funds grew by EUR 160 million, amounting to EUR 1.4 billion as at the end of the year. We also achieved record levels of customer activity in payments, card transactions and conclusion of new investment agreements.

LHV posted a net profit of EUR 27.1 million in 2019. This is EUR 0.1 million less than in the previous period, but the comparison base is compromised by the single transaction which had a positive effect (disposal of the Lithuanian business unit), as well as the expenses related to the Danske transaction (previous engagement of deposits, transaction costs, portfolio write-downs, capital engagements) and the lowering of the pension fund management fee. We exceeded the financial target for July by EUR 1.5 million, mainly due to lower-than-planned write-downs, lower costs of the Danske transaction and higher income from the organisation of securities issues for customers.

Corporate banking witnessed a one-third growth in business loans in 2019. The growth in business volumes has exceeded market growth. Our market share thus reached 10% of the corporate loan market volume by the end of the year. We witnessed a broad-based growth, both with respect to customers and activity areas. Furthermore, we also acquired Versobank's portfolio in the spring of 2019. By the end of the year, the corporate loan portfolio amounted to EUR 853 million. The economic environment has remained favourable, but the growth outlook of companies operating on export markets has deteriorated. Loan portfolio remains strong, with a very low share of outstanding debts.

In retail banking, we focused on home loans, raising awareness of investment services and developing customer-tailored services. We upgraded our Mobile Bank, added the option of viewing alternative investments in the Internet Bank and increased the number of ATMs. As regards home loans, we focused on process automation and launched fully automated decision-making. In the spring of 2019, we launched our cooperation with KredEx in the provision of home loans. If we leave out the purchase of the Danske portfolio, the housing loan portfolio grew by EUR 115 million during the year. The total portfolio, with Danske included, amounts to EUR 499 million. As at the end of the year, the home loan portfolio totalled EUR 638 million.

In financial intermediation, we focused on searching new customers and expanding the product portfolio. We launched several additional services and prepared for connecting to the GBP flash payment system. We continued building our customer base, and significantly improved the anti-money laundering systems, adopting three new information systems. We also started legal preparation for implementing the regulatory changes to be applied to the UK branch in connection with the UK's exit from the European Union. The market of FinTech companies is highly active and the demand for services is growing. Our business in United Kingdom is profitable and the revenue base is growing, with revenue generated

mainly from payments, currency exchange, card payment mediation, credit services and maintenance fees.

The total volume of investment funds under the management of LHV Asset Management reached EUR 1.4 billion in 2019. The investment strategy of our largest funds L and XL is unique among competitors, with a long-term outlook and focus on OTC assets. The year proved highly successful for stock markets, with index funds relying heavily on stocks showing the best yield among Estonian pension funds. The annual yield of the LHV Pension Fund Index was more than 25%, with the yield of the largest pension funds L and XL amounting to 5.8%. The year was also characterised by amendment of the regulations on pension funds. In September, the fixed management fees for pension funds were lowered. Nonetheless, we can still earn performance pay, if we generate a strong yield from the funds. We did not earn performance pay in 2019. Nonetheless, against the backdrop of the growth in our expectations with regard to the return on investment and the fluctuating nature of the benchmark of the social tax designated for pensions, we believe we will earn performance pay over a longer period of time.

In addition to market dynamics, the investment decisions of LHV Asset Management will be affected, in the upcoming years, by the planned pension reform. When making investments, more and more attention must be paid to the potential shrinking of fund volumes and the consequent need for liquidity.

We financed the growth in business volumes through capital engagement. We engaged a total of EUR 65 million from three different instruments during the year. The successful outcome and over-subscription of all issues attests to our trustworthiness in the eyes of investors. All these transactions also contributed to the rise in LHV's investor numbers. As at the end of the year, nearly 7,000 shareholders and 3,000 bond investors had invested in LHV.

A total of eleven ordinary meetings of the Supervisory Board were held in 2019, and on six occasions, decisions were adopted electronically.

Within the framework of Supervisory Board meetings, the Supervisory Board was regularly briefed on the operating and financial results of LHV and its subsidiaries in 2019. Risk reports and internal audit reports were reviewed on a quarterly basis. Dozens of different procedures, policies and internal rules were reviewed, amended and approved during the year. Overviews were prepared of the activities and results in various areas, including the real estate market and portfolio.

- In Q1, the Supervisory Board approved the financial plan for 2019 as well as the five-year financial forecast and capital plan. At the beginning of the year, the Supervisory Board approved the Annual Report 2018, the report on the activities of the Supervisory Board and assessment of the Annual Report as well as the profit allocation proposal, and proposed to pay dividends in the net amount of 21 euro cents per share. The auditor was appointed for the financial years 2020 - 2022, and a proposal was submitted to the general meeting for raising the remuneration of members of the Supervisory Board. Option pricing, disbursement of stock options for the results posted in 2018, realisation of options, objectives of Management Board members for 2019, internal audit report for 2018, audit committee report for 2018 and internal audit plan for 2019 were approved. An overview was given of the external auditor's report for 2018, ICAAP macro-scenario for 2019, and the operational risk area. The subscription of bonds issued by LHV Bank for additional Tier 1 capital was approved.
- In Q2, the Supervisory Board gave the Management Board its consent to making a binding offer for the acquisition of the private customer loan stock installation of Danske Bank A/S Estonia branch by LHV Bank. The Supervisory Board also approved the financial position recovery plan. A decision was made to carry out the second issue of LHV's subordinated bonds planned under the LHV bond programme as approved by the Supervisory Board on 20 June 2018, along with the issue of additional Tier 1 capital bonds. The subscription results, issue volume and distribution were approved. LHV's share capital was increased in connection with the realisation of the option plan. An overview was given of the ICAAP report for 2019 and the reversed stress test. The liquidity risk policy and amendments in the AML/CFT policy were approved. In Q2, the Supervisory Board approved the increase in LHV Bank's share capital. The subscription of bonds and subordinated bonds issued by LHV Bank for additional Tier 1 capital was approved.

- In Q3, the Supervisory Board approved the financial calendar. In connection with the consent given to the acquisition of the private customer loan stock installation of Danske Bank A/S Estonia branch and completion of the transaction, the financial forecast for 2019-2023 was renewed. A proposal was submitted to the shareholders for increasing the share capital of LHV and convening an extraordinary shareholders' meeting. The subscription results of the new shares, the issue volume and division were approved. Amendments to the risk management policy, financing policy and liquidity risk policy were approved. A decision was made to launch the IRB application process. In August, a bulk of the meeting was spent on discussions on LHV's strategy.
- In Q4, the preliminary SREP report was reviewed. The operational risk policy and liquidity risk policy were amended. An overview was given of the assumptions underlying LHV's 5-year financial plan, the preliminary activity plan and LHV Asset Management's financial plan for 2020 and 5-year financial forecast, as well as LHV's financial plan for 2020 and 5-year financial forecast. In connection with the amendment of the Credit Institutions Act, the activities of the risk and capital committee were terminated on the LHV level, with the respective committee established on the LHV Bank level. In Q4, the Supervisory Board approved the increase in the share capital of LHV Bank. The subscription of the bonds and subordinated bonds issued by LHV Bank for additional Tier 1 capital was approved. Consent was given to the Supervisory Board of LHV Asset Management for establishing a private limited company, charged with the task of setting up various limited liability companies for funds.

Overall, the Supervisory Board is quite pleased with the management and economic activities in 2019.

2. Annual Report 2019

The Supervisory Board has examined the Annual Report 2019 of LHV, prepared by the Management Board, and the auditor's report. In the opinion of the Supervisory Board, the Annual Report has been prepared in accordance with the generally accepted accounting principles, international standards and other acts regulating accounting.

The Supervisory Board is pleased with the work of the auditor in 2019.

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

The Supervisory Board proposes to call the annual general meeting of LHV on 13 March 2020, with the following agenda and with the Supervisory Board proposing to vote for all draft resolutions specified under the agenda items:

1) Approval of the Annual Report 2019

To approve the Annual Report 2019 of LHV, as presented to the general meeting.

2) Profit allocation for 2019

The profit attributable to LHV as the parent company of the consolidation group in the financial year 2019 amounts to EUR 19,525 thousand. To transfer EUR 0 to the legal reserve. To approve the profit allocation proposal made by the Management Board and pay dividends in the net amount of 19 euro cents per share. The list of shareholders entitled to receive dividends will be established as at 27 March 2020 COB. Consequently, the day of change of the rights related to the shares (ex-dividend date) is set to 26 March 2020. From this day onwards, the person acquiring the shares will not have the right to receive dividends for the financial year 2019. Dividends shall be disbursed to the shareholders on 31 March 2020.

3) Overview of the economic results for the first two months of 2020

An overview provided by the Management Board to the shareholders on LHV's economic results for the first two months of 2020.

4) Overview on the business environment and the five-year financial forecast

An overview provided by the Management Board on the business environment and LHV's five-year financial forecast.

5) Approval of the amendment of the Articles of Association

To amend the Articles of Association of LHV and to adopt the new wording of the Articles of Association as presented to the general meeting.

6) Approval of the share option plan

To approve the share option plan of LHV and to grant the Supervisory Board of LHV consent to the execution of the share option plan.

7) Approval of the conditions of performance pay

As of 1 January 2021, to prospectively raise for the next five (5) years, i.e. for the period of the option programme, the percentage of performance pay payable to the management members and equivalent staff of LHV and group companies to 200% of their basic salary in accordance with the rationale presented to the general meeting.

8) Extension of the authorisation of the members of the Supervisory Board

To extend the authorisation of the members of the Supervisory Board of LHV to 3 (three) years after the adoption of this resolution.