

Report on the activities of the Supervisory Board and assessment of the Annual Report 2020 of AS LHV Group for submission to the annual general meeting of the shareholders

17 February 2021

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 2020

Although the year started optimistically, 2020 took an unexpected turn due to the sudden slowdown of the economy because of the COVID-19 pandemic. Yet LHV continued fulfilling its growth ambitions and financing the Estonian economy even with the crisis in the backdrop.

The international financial magazine *Euromoney* named LHV the best bank in Estonia for the third year in a row. The bank's success in earning this distinction stemmed from its rapid growth, innovativeness and good economic results. LHV's progress toward a more sustainable economy was also taken into consideration.

LHV's net profit in 2020 was 39.8 million euros, outperforming its own financial plan from the beginning of the year. Yet of all of these activities, LHV is most pleased that it attained the level of almost 259,000 bank clients by the year's end – a growth of almost 57,000.

In 2020, LHV posted record results in almost all its business volumes. The bank's loan portfolios enjoyed organic growth, but the greatest contribution to growth came from the acquisition of the credit portfolio related to Danske Bank's companies and public sector credit portfolio, as a result of which the LHV loan portfolio grew by 254 million euros, exceeding the 2-billion-euro mark for the first time. Loan volume increased by more than 500 million euros to 2.2 billion euros and the deposits volume grew by 1.4 billion euros to 4.1 billion euros.

LHV issued payment moratoria worth 350 million euros, which was largely used as a precautionary measure for ensuring liquidity. By year's end, there were 155 million euros of these planned payment moratoria left. Thus, 90% of the payment moratoria that were supposed to end were back on a normal payment schedule.

At year's end, LHV decisively increased its focus on the financial intermediaries business area. LHV announced the bank's intention to establish a bank in the UK to more clearly separate its current business operations in Estonia and the UK. Separating the lines of business will allow the bank's results and value to be more clearly highlighted for investors. The bank will be founded as LHV's subsidiary in the UK. This step will be followed by staffing, capitalization and application for a licence to operate as a credit institution. It may take several years to apply for an activity licence and it must be cleared by the local regulator.

As to other significant events taking place during the year, the issue of covered bonds and raising of capital should be mentioned. The covered bonds were the first large-scale raising of capital from international markets. In addition, LHV introduced Apple Pay on its market and discontinued trading fees for Baltic shares. At year's end, it introduced Google Pay and lowered transaction fees on foreign shares. In August, LHV became the first bank to roll out the virtual ISIC card meant for students. From September, a full payment processing service began to be offered for merchants to enable their customers to use different methods of payment. At the end of the year, LHV's insurance subsidiary received an activity licence from the Financial Supervision Authority.

2020 was also characterized by a change in regulations governing pension funds. Its greatest impact – in terms of how many people will exit pension funds and the second pillar in general – will be seen in 2021. LHV pension funds grew 163 million euros, reaching 1.5 billion euros by the end of the year. LHV's pension funds strategy continues to be geared to achieving a high yield. The bank invests into different asset classes, but we focus more on unlisted companies and real estate.

In 2020, LHV adopted a sustainability strategy and related goals. As regards its most important activities, LHV chose five UN sustainable development targets, joined the UN's sustainable banking framework and set a goal

of making its activities climate neutral by 2022. In 2020, LHV also introduced several green products. In the practical sense, LHV sees itself as a rapid-growth company in future as well, and believes it can accomplish this through the best management practices, positive social impacts and climate goals.

A total of eleven ordinary meetings of the Supervisory Board were held in 2020, and on four occasions, decisions were adopted electronically. In 2020, all Supervisory Board members took part in all Supervisory Board meetings.

In the context of the Supervisory Board meetings, the board received regular overviews of the operating and financial results of LHV and its subsidiaries, and activities, developments and results in related fields. Risk reports and internal audit reports were reviewed on a quarterly basis. Dozens of different procedures, policies and internal rules established by LHV and subsidiaries were reviewed, amended and approved during the year.

- In Q1, the Supervisory Board approved the annual report for 2019, 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 19 euro cents per share. Proposals were submitted to the general meeting for amending the articles of association, extending the powers of Supervisory Board members and a new options programme for 2020-2024 and approval of the conditions for paying performance pay for the years 2021-2025. Also approved were the pricing of options and issuing of stock options for 2019 results and realization of options for 2016 results and the management members' objectives in 2019. In January 2020, the Supervisory Board approved a preliminary financial and capital plan and capital goals, financial calendar and five-year financial forecast. In February, the Supervisory Board updated the long-term financial forecast and financial objectives along with changes to the capital management, risk management, liquidity risk and funding policy. In Q1, the audit committee members' powers were extended, the 2019 internal audit report and the audit committee's 2019 annual report and 2020 internal audit plan were approved. Among other things, an overview was given in Q1 of the external auditor's report for 2019, the ICAAP macro-scenario for 2020, operational risk area and compliance area. The making of a bid for acquiring Danske Bank A/S's Estonian companies and public sector credit portfolio and the organization of an issue of subordinated unsecured (T2) bonds were also discussed. Further, LHV's activities in connection with climate goals were reviewed in Q1 and it was decided to found the insurance company LHV Kindlustus.
- In Q2, LHV's share capital was increased in connection with realization of the option programme and the 2020 financial plan was updated to take into account the potential economic impacts of the coronavirus outbreak and emergency situation. Changes in credit policy and risk management policy were approved. The Supervisory Board also decided to carry out an issue of bonds for additional Tier 1 (AT1) capital and establish a financial recovery plan and a number of changes to operating procedures pursuant to the founding of the subsidiary AS LHV Kindlustus. It was decided to continue preparations for the purchase and sale transaction for the Danske Bank A/S Estonian companies and public sector credit portfolio. In Q2, the Supervisory Board was also given an overview of the 2020 ICAAP report and reversed stress test.
- In Q3, it was decided to carry out an issue of T2 bonds, and the relevant subscription results, issue volume and distribution were approved, and a decision was taken to prematurely redeem LHV Group's 2025 T2 bonds and fully subscribe the new T2 bonds issued by LHV Pank. In addition, the financial calendar and changes to credit policy were approved in Q3. In August, a large share of the meeting was devoted to discussing the LHV strategy.
- In Q4, it was decided to establish LHV Pank's UK subsidiary and resulting changes were made in LHV Pank's management; the executive officer of LHV Pank in the UK was appointed. In addition, the 2020 financial plan was updated again, as the LHV financial results outperformed the forecasts and the coronavirus crisis had milder than predicted impacts. An overview was given of the assumptions that went into LHV's five-year financial plan, as well as of the LHV Group, LHV Varahaldus, LHV Kindlustus and UK LHV Pank's initial activity and financial plans for 2021 and five-year financial forecasts. There were additional changes made to the credit policy, LHV's sustainability strategy – the ESG policy – was established, it was decided to subscribe in full the new AT1 bonds issued by LHV Pank and consent was given to increase LHV Pank's share capital.

Overall, the Supervisory Board is quite pleased with the management and economic activities in 2020.

2. Annual Report 2020

The Supervisory Board has examined the Annual Report 2020 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 2020.

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 24 March 2021, 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 2020

To approve the Annual Report 2020 of the Group, as presented to the general meeting.

2) Profit allocation for 2020

The profit attributable to the Group as the parent company of the consolidation group in the financial year 2020 amounts to EUR 37,950 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 29 euro cents per share. The list of shareholders entitled to receive dividends will be established as at 07 April 2021 COB. Consequently, the day of change of the rights related to the shares (ex-dividend date) is set to 06 April 2021. From this day onwards, the person acquiring the shares will not have the right to receive dividends for the financial year 2020. Dividends shall be disbursed to the shareholders on 09 April 2021.

3) Overview of the economic results for the first two months of 2021

An overview provided by the Management Board to the shareholders on the economic results for the first two months of 2021.

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

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