

Report on the Activities of the Supervisory Board and Assessment of the 2021 Annual Report of AS LHV Group for submission to the Annual General Meeting of Shareholders

16 February 2022

The Supervisory Board of AS LHV Group (hereinafter 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. Organisation of management and economic activities in the financial year 2021

2021 was undoubtedly a contradictory year. On the one hand, trends that had started previously continued to deepen. At the same time, Estonia coped well in this economic environment. However, the inconsistencies are not about to end yet, as we have seen the emergence of clear economic sectors where recovery has been slower than that of the rest of the economy. LHV still continued fulfilling its growth ambitions and financing the Estonian economy against the backdrop of this contradictory year.

The international financial magazine *Euromoney* named LHV's subsidiary As LHV Pank (hereinafter the Bank) as the best bank in Estonia for the fourth year in a row. The bank's success in earning this distinction stemmed from its good response to the impact of the COVID-19 virus, various digital banking and other financial product developments, as well as the successful issue of covered bonds and remarkable growth figures with regard to business volumes, profitability and the number of clients.

LHV's net profit in 2021 was 60.3 million euros LHV, which outperformed its financial plan. Yet of all of these activities, LHV is most pleased that it attained the level of almost 321,000 bank clients by the year's end – a growth of almost 63,000 or 24% in a year, while the number of clients with an investment contract grew by as much as 46,000 or 64%.

In 2021, LHV posted record results in almost all its business volumes. We have worked hard for the Bank to have as strong an offer as possible to ensure growth. Today, we are able to finance essentially all the Estonian companies and can issue home loans all across Estonia. The volume of loans grew by more than 468 million euros in a year, reaching 2.68 billion euros, and the volume of deposits grew by 1.69 billion euros, reaching 5.81 billion euros. In autumn, we introduced the possibility of trading in crypto assets in the Bank's mobile app and the volume of the clients' crypto assets reached 7.6 million euros by the end of the year.

As to other significant events taking place during the year, LHV introduced several innovations in means of payment. We created an option of digitally viewing one's PIN code, added a COVID-19 cover option to the travel insurance of certain cards and created a permanent donation function. Since September, we have also offered companies the option of electronically opening an account with the Bank. At the beginning of the year, we considerably reduced the service fees of foreign shares for our clients and in autumn we introduced the possibility of trading in crypto assets in the Bank's mobile app. The Growth Account was actively used and we also added the option of saving up for the down-payment for a home loan. The Bank's subsidiary AS LHV Finance introduced a refinancing loan which allows clients to conveniently merge several consumer loans into one.

2021 was also characterised by the impact of the changes related to pension funds. The results of LHV's subsidiary AS LHV Varahaldus were affected by the pension reform that entered into force at the beginning of 2021 and was first reflected in the company's results in September. The opportunity of clients to exit the 2nd pillar reduced the volume of funds as well as the number of clients of the 2nd pension pillar by 40,000, to

140,000 clients by the end of the year. However, the negative impact of the reform remained more modest than expected and the state's payments to clients who continued in the 2nd pillar were restored from the beginning of September. We were the first to start offering our clients the pension investment account option.

We continued introducing ESG activities in 2021, developed a new Group-wide ESG policy, disclosed an overview of activities that was in line with the principles of responsible banking and joined the PCAF financial partnership at the end of the year. The Bank's Tallinn office was issued with an international BREEAM environmental certificate. Throughout the year, we improved the terms and conditions of green products (e.g., leasing, home loan) and introduced new solutions (insurance). We also concluded a cooperation agreement with the start-up eAgronom, with whose help we shall compensate the inevitable negative environmental effects of office activities in the future.

A total of eleven ordinary meetings of the Supervisory Board were held in 2021, and on four occasions, decisions were adopted electronically. In 2021, all Supervisory Board members took part in almost all Supervisory Board meetings, with Sten Tamkivi being absent from one Supervisory Board meeting.

In the context of the Supervisory Board meetings, the board received regular overviews of the operating and financial results of LHV and its subsidiaries, as well as activities, developments and results in the 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. At every ordinary Supervisory Board meeting, the board was given overviews of how the Group's subsidiaries were doing.

- In Q1, the Supervisory Board approved the annual report for 2020, the report on the activities of the Supervisory Board and assessment of the Annual Report as well as the profit allocation proposal, and it proposed to pay dividends in the net amount of 29 euro cents per share. In January 2021, the Supervisory Board approved a preliminary activity and financial plan and a five-year financial forecast. In Q1, the remuneration committee members' powers were extended, the 2020 internal audit report was reviewed and the 2021 internal audit plan was approved. Among other things, an overview was given in Q1 of the external auditor's report for 2020, the ICAAP macro-scenario for 2021, and the 2021 ICAAP report and reversed stress test. An overview was also given of the operating risk area, changes were made to the remuneration policy and the investment strategy of pension funds was discussed. In January and February, it was decided to issue unsubordinated unsecured senior non-preferred bonds.
- In Q2, LHV's share capital was increased in connection with realisation of the option programme, changes to the credit policy were approved, and both the 2021 Q1 risk report and the 2021 Q1 internal audit and audit committee reports were reviewed. In May, the Supervisory Board approved the financial recovery plan and decided to discontinue the activities of LHV's subsidiary OÜ Cuber Technology. The Supervisory Board was also given an overview of the results of the satisfaction survey conducted among the employees of the consolidation group companies.
- In Q3, it was decided to issue senior unsecured bonds, and the 2022 financial calendar and changes to the financial recovery plan were approved. The Supervisory Board decided to increase LHV's share capital by way of issuing new ordinary shares and a special general meeting of shareholders was therefore convened. In connection with the share issue, the subscription price upon increasing the share capital was determined, and the number of shares to be issued, the new size of the share capital and the ratio of preferential subscription rights were specified. The subscription results of the ordinary share offer and the issue volume and distribution were also approved. In August, the Supervisory Board decided to update the 2021 financial plan in connection with the macroeconomic situation being more favourable than anticipated, and it dedicated most of the ordinary August meeting to discussing LHV's strategy.
- In Q4, an overview was given of the prerequisites of LHV's five-year plan, the preliminary 2022 activity and financial plans of LHV, and the companies in LHV's consolidation group, as well as of the five-year financial forecasts. Changes were made to the principles of ethics, the market risk policy, the operating risk policy and the credit policy. Changes were also made to the procedures of the nomination committee, audit committee and internal audit, and a decision was made to change the location of the nomination

committee in the organisation structure of LHV's consolidation group, as a result of which the procedure of the committee was updated and the individual suitability of the members of LHV's Management Board and Supervisory Board as well as the collective suitability of the Supervisory Board were assessed. The Supervisory Board gave its consent to increasing the share capital of subsidiaries LHV UK Limited and the Bank. The Supervisory Board decided to make changes to the procedure of LHV's Supervisory Board and extend the mandate of a member of the Management Board of LHV, Madis Toomsalu, until 31 March 2026. The Supervisory Board was given an overview of the results of the satisfaction survey conducted again among the employees of LHV's consolidation group companies.

Overall, the Supervisory Board is pleased with the management and organisation of the economic activities in 2021.

2. Annual Report 2021

The Supervisory Board has examined the 2021 Annual Report 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 approves the Annual Report prepared by the Management Board, is pleased with the work of the auditor in 2021, and it submits the Annual Report 2021 to the general meeting of shareholders for approval.