

Report on Activities of Supervisory Board and Assessment of 2022 Annual Report of AS LHV Group for Submission to General Meeting of Shareholders

15 February 2023

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 Möis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi, discussed the following issues and concluded that:

1. Organisation of Management and Economic Activities in 2022 Financial Year

Western society had barely managed to declare the pandemic over when in 2022 it was replaced by war, the resultant energy crisis, steep price increases and tightening monetary policy. For LHV, 2022 was characterised by a changing environment and a resultant slowing economy. However, we and our customers' activities grew to higher levels than ever before.

AS LHV Pank (hereinafter LHV Pank), LHV's subsidiary, was named both the best and most desirable employer in 2022. Our internal satisfaction surveys continue to show very good results. LHV Pank earned the title of both the best bank and the bank with the best services, and despite the uncertain economic environment, we managed to successfully raise capital on several occasions. We were able to fulfil the promise given to our shareholders regarding the financial plan, despite the impairment of a financial investment that took place during the year. Strong results are the outcome of well-planned expectations. Our people, our customers and our shareholders as well as the long-term sustainability of our business activities are most important. In this light, 2022 was a good year for LHV.

During the year, LHV made a significant development leap in sustainability, paying more attention to the assessment of the impact of our business activities. Financial institutions have an important role to play here, and LHV has made a firm commitment to comply with the principles of sustainability. We strive to reduce our negative impact on the natural environment and contribute to creating a positive social impact. As we can only control what we can measure, we have prioritised measuring the climate impact of our business activities more accurately and moving towards clear goals. To do this, we are increasing the awareness of both our customers and employees.

In 2023 LHV will become under the direct supervision of the European Central Bank. We believe that this is a step forward. European banking has been one of the economic sectors with the lowest yield in the past decade, and a large number of banks are still trading under the book value. Europe needs an example of an innovative bank whose profitability derives from sound cost-effectiveness and a high-quality loan portfolio.

Several of LHV's underlying principles are timeless. Our fundamental belief that with the best people we can offer the best experiences to our customers and in turn the best returns for our shareholders will also see us overcoming any bumps in the road ahead.

As for LHV Pank, 2022 was a complicated year due to the rapidly changing environment. In many areas, the tailwind changed to a headwind several times during the year. All in all, the number of customers, loan portfolio, regular customer deposits, customer activity and net income increased. Only the deposits of financial intermediaries decreased. LHV Pank has a strong position and is profitable.

LHV UK Ltd, another subsidiary of LHV, is still in the process of obtaining a banking licence, which is expected to be received in Q1 2023. The largest business transaction in 2022 was acquiring the loan portfolio from Bank North Ltd, and from 2023, the company will begin to provide loans to SMEs. On receiving the licence, the company will take over the financial intermediaries' business from LHV Pank.

The business of AS LHV Varahaldus (hereinafter LHV Varahaldus), also a subsidiary of LHV, was impacted in 2022 by a larger than expected decline in the securities markets, which reduced the possibility of earning a success fee, especially due to the 20% inflation rate increasing the reference index. LHV Varahaldus managed to offer the best return for pension investors in 2022 and will continue to do so for the longer term. In fact, LHV Varahaldus' actively managed pension funds were the only ones in the Estonian market with positive returns in 2022.

The central goal of the subsidiary AS LHV Kindlustus (hereinafter LHV Kindlustus) in 2022 was to finalise its product range and increase sales. During 2022, LHV Kindlustus started cooperation with the largest insurance brokers in Estonia. Being a small company, the results have also been affected by one-off large insurance cases.

In April 2022, LHV acquired 100% of EveryPay AS (hereinafter EveryPay) shares. Since the acquisition, EveryPay's focus has been on developing new payment methods and supporting LHV's strategic goals.

2022 in numbers:

- LHV's share price decreased from EUR 43.2 (after the split EUR 4.32) to 3.34, which still outperformed the market indexes.
- Total consolidated assets of LHV were EUR 6.1 billion at the end of 2022, which is a 10% annual decline due to a decrease in the deposits of financial intermediaries.
- The loan portfolio increased by EUR 531 million to EUR 3.2 billion (+20% YoY). Retail loans grew by 22% and loans to corporates by 17%. In Q3, LHV acquired Bank North's loan portfolio in the amount of GBP 17 million. The quality of the loan portfolio stayed at its historically highest levels.
- The volume of deposits decreased to EUR 4.9 billion (-16% YoY), of which EUR 1.0 billion is attributable to financial intermediaries' deposits, which were abnormally high at the end of 2021 due to high prices of crypto assets. Regular customer deposits grew by EUR 60 million (+2%).
- Assets under management decreased by EUR 17 million to EUR 1.3 billion (-1% YoY), mainly due to market downturns.
- The volume of custody accounts decreased due to lower market prices by EUR 537 million and reached EUR 3.3 billion.
- Net profit was at a record-high level of EUR 61.4 million, an increase of EUR 1.2 million compared to last year. It was mainly positively affected by the growing loan portfolio together with increasing market interest rates.

In 2022 the Supervisory Board had eleven ordinary meetings, three extraordinary meetings and on eight occasions decisions were adopted electronically. During the year, three members of the Supervisory Board (Tiina Möis, Heldur Meerits and Raivo Hein) participated in all Supervisory Board meetings, three members of the Supervisory Board (Rain Lõhmus, Andres Viisemann and Tauno Tats) were absent from one Supervisory Board meeting and one member of the Supervisory Board (Sten Tamkivi) was absent from two Supervisory Board meetings. All the members of the Supervisory Board cast their votes electronically on all of the eight occasions the Supervisory Board adopted their decisions electronically in 2022.

In the framework of its meetings in 2022, the Supervisory Board received regular overviews of the operating and financial results of LHV and its subsidiaries, along with the activities, development and results of the related areas. Risk reports and the internal auditor's and Audit Committee reports and compliance reports were reviewed on a quarterly basis.

In Q1 2022, the Supervisory Board approved the annual report for 2021 and the report on the activities of the Supervisory Board. The Supervisory Board submitted the documents to the General Meeting for approval and made various other proposals for approval to the General Meeting. The proposals of the Nominating Committee for the regular assessment of the individual suitability of the Management Board member, the Supervisory Board members and the collective suitability of the Supervisory Board were approved in January 2022. The pricing of share options and the grant of share options for the results of 2021 were approved, along with the exercise of share options for the 2018 results. Furthermore, the decision to provide a one-off grant to the NGO Estonian Refugee Aid to assist refugees in the context of the humanitarian crisis in Ukraine was adopted in February 2022. In March 2022, the Supervisory Board's decision to make an investment in the Estonian financial technology company Modular Technologies OÜ (trademark 'Tuum') was carried out.

The decision to increase the share capital of LHV in connection with exercise of the share options programme was adopted in April 2022, and the decision to increase the share capital of LHV by issuing new ordinary shares in the form of a public offering was adopted in May 2022. In both July and December 2022, the Supervisory Board's consent was given to increase the share capital of LHV UK.

At the regular meeting of the Supervisory Board in August 2022, the primary focus was on the discussion of the strategy of LHV and its subsidiaries. In the same month, the write-down of a financial investment in the UK financial undertaking Bank North Ltd was decided (an additional write-down was also decided in September 2022) and the consent to acquire the small and medium-sized enterprises (SME) lending business of the same company was given to LHV UK, with the latter transaction finalised in October 2022.

In September, the 2023 financial calendar was approved, and consent was given to increase the share capital of LHV Pank. In October 2022, in order to reorganise the organisational structure and governance of LHV as a financial holding company, the proposals of the Nominating Committee for the assessment of the individual suitability of the new Management Board members and the collective suitability of the Management Board with a new composition were approved, following which the new Management Board members were elected and the chairman of the Management Board was appointed. The issue of EUR 100 million of senior unsecured, unsubordinated bonds to meet regulatory requirements (the so-called MREL ratio) was also decided at the October 2022 meeting.

In November 2022, the Supervisory Board decided to organise a private offering of additional Tier 1 temporary write-down notes to financial institutions and proficient investors with a larger investment portfolio. In December the term of office of the Nominating Committee members was extended and the new capital targets were confirmed. At the last two meetings of the year, the Supervisory Board discussed the assumptions for next year's operational and financial plans along with the 5-year financial forecast of LHV and its subsidiaries.

During the year, overviews of AML trends, results of the employee survey questionnaire Q12 of LHV and its subsidiaries were presented, and training days for the Supervisory Board members were organised as part of the training programme put in place at the beginning of 2022 within the suitability assessment procedure to keep the Supervisory Board members' knowledge up to date. In addition, several procedures, policies and internal regulations of LHV and its subsidiaries were reviewed, updated and approved, the main aim of which at LHV level was to reorganise the organisational structure and governance of LHV as a financial holding company.

Overall, the Supervisory Board found that it is pleased with the management and organisation of the economic activities in 2022.

2. Annual Report 2022

The Supervisory Board has examined the 2022 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 2022, and it submits the Annual Report 2022 to the General Meeting of shareholders for approval.