

Report on Activities of Supervisory Board and Assessment of 2023 Annual Report of AS LHV Group for Submission to General Meeting of Shareholders

21 February 2024

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 and concluded that:

1. Organisation of Management and Economic Activities in 2023 Financial Year

The year 2023 was marked by significant global economic shifts, notably in major economies like the European Union, where rising interest rates were a direct response to inflation. Geopolitical tensions and fluctuating energy prices underscored structural economic challenges, complicating strategic planning. Despite these hurdles, LHV exceeded its initial financial projections set out at the start of the year, prompting an upward revision of its 2023 financial targets in September.

AS LHV Pank, a key subsidiary of LHV, stood out as Estonia's most desirable employer, reflecting its internal satisfaction metrics and service excellence. This recognition contributed to a substantial increase in its customer base, loan, and deposit portfolios, alongside a remarkable 129% year-over-year profit growth. LHV's exemplary investor relations and successful bond issuance underscore its resilience amidst economic downturns.

Sustainability efforts focused on managing both the direct and indirect environmental impacts of LHV's operations. Steps were taken to assess emissions tied to the loan portfolio and enhance environmental data collection, setting the stage for further impact reduction initiatives.

Transitioning to the direct supervision of the European Central Bank (ECB) presented challenges, but LHV views this as an opportunity to demonstrate the viability of innovative banking models in Europe. LHV's core principles, emphasizing efficiency, effectiveness, and customer-centric technology use, remain steadfast.

AS LHV Pank faced a challenging but fruitful year, with significant customer growth, portfolio expansion, and profitability, despite the dynamic market environment. LHV Bank Limited, another subsidiary, secured a banking license, expanding its service offerings. AS LHV Varahaldus navigated a tough financial market, maintaining stable returns for pension fund investors. AS LHV Kindlustus achieved profitability for the first time, while AS LHV Paytech focused on developing innovative payment solutions aligned with strategic goals.

LHV's key financial highlights of 2023 include a share price increase, significant growth in customer base and deposits, a robust loan portfolio, and record net profits, showcasing LHV's strengthened market position and comprehensive service offerings.

In 2023, the Supervisory Board of LHV convened for eleven regular meetings and engaged in electronic decision-making on five occasions, reflecting a robust commitment to governance. Attendance was high, with four members participating in all sessions, underscoring the Supervisory Board's dedication to LHV's oversight.

The Supervisory Board's activities were comprehensive, encompassing strategic oversight, financial management, and regulatory compliance. Key undertakings included approving the annual report for 2022, assessing the suitability of the members of the Management Board and the Supervisory Board, also the key function holders, and managing the share option program. Strategic decisions such as increasing LHV's share capital and issuing bonds were pivotal, reflecting the Supervisory Board's focus on financial stability and growth.

Throughout the year, the Supervisory Board maintained an ongoing and detailed dialogue with various Supervisory Board level committees, emphasizing the continuous interaction that is crucial for effective governance and strategic alignment. This close collaboration facilitated for example thorough discussions over two quarters regarding the assumptions and content of the financial plan, illustrating the Supervisory Board's hands-on approach to financial forecasting and planning. Moreover, the Supervisory Board's engagement extended to consistent oversight of risk management practices, including the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), and other related areas. These discussions were integral to the Supervisory Board's role in ensuring that LHV adhered to robust risk management standards, critical for maintaining financial health and stability.

Strategic planning was also a priority, with the Supervisory Board approving LHV's long-term strategy, financial plans, and setting internal capital targets in response to the ECB's review. The Supervisory Board's proactive approach in amending various internal regulations and engaging with diverse reports – ranging from risk assessments to employee surveys – highlighted its comprehensive role in guiding LHV's direction and ensuring adherence to governance standards. The Supervisory Board also actively engaged in discussions related to the ECB and governance issues, reinforcing the importance of regulatory compliance and effective corporate governance within LHV's operations.

In 2023, the Supervisory Board's actions demonstrated a meticulous approach to governance, strategic planning, and regulatory compliance, ensuring LHV's operations were well-managed and aligned with both internal objectives and external regulatory requirements. The emphasis on detailed discussions and year-long activities with committees, the careful consideration of financial plan assumptions, and the continuous focus on risk management, the ECB, and governance topics underscored the Supervisory Board's diligent oversight and strategic vision for LHV. Overall, the Supervisory Board expressed satisfaction with the management and organization of LHV's economic activities in 2023.

2. Annual Report 2023

The Supervisory Board has thoroughly reviewed the 2023 Annual Report of LHV, as compiled by the Management Board, alongside the auditor's report. The Supervisory Board believes that the Annual Report adheres to the generally accepted accounting principles, international standards, and relevant regulatory statutes governing accounting practices.

Furthermore, the Supervisory Board endorses the Annual Report as prepared by the Management Board, expresses satisfaction with the auditor's performance in 2023, and hereby presents the 2023 Annual Report to the General Meeting of LHV's shareholders for their approval.