Offering of up to 745,294 shares

Price EUR 34 per share

Subscription period 15 September 2021 – 29 September 2021

SECONDARY OFFERING, LISTING AND ADMISSION TO TRADING PROSPECTUS

This Secondary Offering, Listing and Admission to Trading Prospectus (the **Prospectus**) has been drawn up and published by AS LHV Group (an Estonian public limited company, registered in the Estonian Commercial Register under register code 11098261, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia; the **Company**) in connection with the secondary offering, listing and admission to trading of up to 745,294 newly issued shares with the nominal value of EUR 1 (the **Offer Shares**) by the Company to the existing shareholders (the **Offering**) by virtue of a rights issue on terms and conditions as described in this Prospectus. The Offering comprises of an offering to retail investors in Estonia and of an offering to institutional investors in and outside of Estonia to qualified investors within the meaning of Article 2(e) of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the **Prospectus Regulation**) and other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made. A public offering will be carried out only in Estonia and there will not be any public offering in any other jurisdiction.

The shareholders of the Company entered into the shareholders list of the Company on 8 September 2021 at the end of the business day of the settlement system of the Estonian Register of Securities (the **ERS**) shall be granted a preferential right to subscribe for the Offer Shares (the **Subscription Rights**). The Offer Shares are offered for the price of EUR 34 per one Offer Share (the **Offer Price**), of which EUR 1 is the nominal value of one Offer Share and EUR 33 is the issue premium. The Offer Shares may be subscribed for during the period commencing on 15 September 2021 and ending on 29 September 2021 (the **Subscription Period**) in accordance with the terms and conditions described in this Prospectus. The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

The Company's shares (the **Shares**) have been admitted to trading on the Baltic Main List of the Nasdaq Tallinn Stock Exchange as of 23 May 2016. In connection with the Offering, the Company has applied for the listing and admission to trading of the Subscription Rights and will apply for the listing and the admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Trading with the Subscription Rights is expected to commence on 15 September 2021 and will conclude on 27 September 2021. It is estimated that trading with the Shares will commence on or about 18 October 2021 following the registration of the Offer Shares at the Estonian Commercial Register.

After registration of the Offer Shares with the Estonian Commercial Register, the Offer Shares will rank *pari passu* with all the existing Shares and the Offer Shares will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2021, and for any dividends declared and paid for any subsequent financial period.

10 September 2021

This Prospectus has been approved by the Estonian Financial Supervision and Resolution Authority (the **EFSA**) on 13 September 2021 under registration number 4.3-4.9/4348. The Prospectus has been drawn up as simplified prospectus for secondary issuances in accordance with Article 14 of the Prospectus Regulation.

Investing into the Offer Shares involves risks inherent to investments in capital market equity instruments and risks connected with the Company's and its subsidiaries' (the Group) operations and business environment. While every care has been taken to ensure that this Prospectus presents a fair and complete overview of the risks related to the Company, the operations of the Company and its subsidiaries and to the Offer Shares, the value of any investment in the Offer Shares may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus. The contents of this Prospectus are not intended to be construed as legal, financial or tax advice. Each prospective investor should consult its own legal advisor, financial advisor of tax advisor for such advice.

NOTICE TO ALL INVESTORS

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire the Subscription Rights or Offer Shares offered by any person in any jurisdiction in which such an offer or solicitation is unlawful, in particular in or into the **Restricted Territories** or the **Excluded Territories** (both as defined in Section 14. "Glossary"). The Subscription Rights or Offer Shares have not been and will not be registered under the relevant laws of any state, province or territory other than Estonia and may not be offered, sold, transferred or delivered, directly or indirectly, within any other jurisdiction than Estonia, except pursuant to an applicable exemption.

Distribution of copies of the Prospectus or any related documents are not allowed in those countries where such distribution or participation in the Offering requires any extra measures or conflicts with the laws and regulations of these countries. Persons who receive this Prospectus or any related document should inform themselves about any restrictions and limitations on distribution of the information contained in this Prospectus and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into the Restricted Territories or the Excluded Territories. No action has been taken by the Company in relation to the Offer Shares or Subscription Rights thereto or possession or distribution of this Prospectus in any jurisdiction where action is required, other than in Estonia. The Company is not liable in cases where persons or entities take measures that are in contradiction with the restrictions mentioned in this Prospectus.

INFORMATION FOR UNITED STATES INVESTORS

The Subscription Rights and the Offer Shares have not been approved or disapproved by any United States' regulatory authority. The Subscription Rights to be issued to the existing shareholders of the Company in connection with the Offering and the Offer Shares will not be, and are not required to be, registered with the SEC under the US Securities Act of 1933, as amended (the **U.S. Securities Act**) or on a United States securities exchange. The Company does not intend to take any action to facilitate a market for the Subscription Rights and/or the Offer Shares in the United States. The Subscription Rights and the Offer Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

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1. INTRODUCTORY INFORMATION

1.1. Applicable Law and Jurisdiction

The Prospectus has been drawn up in accordance with the Prospectus Regulation and in accordance with the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (the **Delegated Regulation**), in particular the Annexes 3 and 12 thereof. This Prospectus has been drawn up as a simplified prospectus for secondary issuances in accordance with Article 14 of the Prospectus Regulation.

This Prospectus is governed by Estonian law. Any disputes arising in connection with the Offering shall be settled by Harju County Court (*Harju maakohus*) in Estonia unless the exclusive jurisdiction of any other court is provided for by the provisions of law, which cannot be derogated from by an agreement of the parties.

Before reading this Prospectus, please take notice of the following important introductory information.

1.2. Persons Responsible and Limitations of Liability

The person responsible for the information given in this Prospectus is the Company. The Company accepts responsibility for the fullness and correctness of the information contained in this Prospectus as of the date hereof. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts, and contains no omission likely to affect its import.

/signed digitally/

Madis Toomsalu

AS LHV Group

Member of the Management Board

Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely based on the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid the investors when considering whether to invest in the Offer Shares.

1.3. Presentation of Information

<u>Currencies.</u> In this Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

<u>Date of Financial Information.</u> The annual financial information included in this Prospectus has been extracted or derived from the consolidated audited financial statements of and for the year ended 31 December 2020, including the comparative financial information as of and for the year ended 31 December 2019 (the **Audited Financial Statements**) of the Group prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (the **IFRS**) and the Estonian Accounting Act. The Audited Financial Statements have been audited by KPMG Baltics OÜ.

The Audited Financial Statements, together with the audit report thereon, are incorporated to this Prospectus by reference.

The interim financial information included in this Prospectus as of and for the six months ended 30 June 2021, including the comparative financial information as of and for the six months ended on 30 June 2020, has been extracted or derived from the unaudited consolidated interim financial statements (the **Interim Financial Statements**) prepared in accordance with the International Accounting Standards (the **IAS**) 34. The Audited Financial Statements, together with the Interim Financial Statements are referred as the **Financial Statements** in this Prospectus.

Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the date of the Prospectus. Where information is presented as of a date other than the date of this Prospectus, this is identified by specifying the relevant date.

Change in Accounting Policies. In 2020, the Company received confirmation that the IFRS Interpretations Committee had decided not to accept the 20-year income tax deferral practice in Estonia. This resulted in the immediate assumption of the income tax liability associated with the planned dividend from subsidiaries in the following years. This resulted in income tax on future dividends of EURM 2.4 being included in the Group's income tax expense in 2020.

Rounding of Numbers. Numerical and quantitative values in this Prospectus (e.g., monetary values, percentage values, etc.) are presented with such precision that is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100% because of rounding. Exact numbers may be derived from the Financial Statements to the extent that the relevant information is reflected therein.

Third Party Information and Market Information. For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Group operates is based on the best assessment made by the **Management** (as defined in Section 14. "Glossary"). With respect to the industry in which the Group is active and certain jurisdictions in which it conducts its operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide the best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant.

Updates. The Company will update the information contained in this Prospectus only to such extent and at such intervals and by such means as required by the applicable law or considered necessary and appropriate by the Management. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus (please refer to Section 1.7. "Forward-Looking Statements" below).

Definitions of Terms. In this Prospectus, capitalised terms have the meaning ascribed to them in Section 14. "Glossary", except for such cases where the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

Alternative Performance Measures. This Prospectus contains certain financial measures that are not defined or recognised under IFRS, and which are considered to be "alternative performance measures" as defined in the "ESMA Guidelines on Alternative Performance Measures" issued by the European Securities and Markets Authority on 5 October 2015 (the **Alternative Performance Measures**, the **APMs**). These APMs are not defined by, or presented in accordance with, IFRS. The APMs are unaudited and are not measurements of the Company's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Company's liquidity. The Company's use and method of calculation of APMs may vary from other companies' use calculation of such measures.

Hyperlinks to Websites. This Prospectus contains hyperlinks to websites. The information on the websites does not form part of the Prospectus and has not been scrutinised or approved by the EFSA, except for hyperlinks to information that is incorporated by reference.

References to the Website of the Company. This Prospectus contains references to the website of the Company at https://investor.lhv.ee/en/. The Company is not incorporating by reference into this Prospectus any information posted on the website of the Company.

Validity of the Prospectus. The Prospectus is valid until the end of the Offer Period or commencement of trading with the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange, whichever occurs later. The Company is obligated to update the Prospectus by publishing a supplement only in case a significant new factor, material mistake or material inaccuracy occurs, and such an obligation does not apply after the end of the validity period of the Prospectus.

1.4. Information Incorporated by Reference

The following documents are incorporated in this Prospectus by reference:

(i) the Audited Financial Statements, including the independent auditor's report, available at https://nasdaqbaltic.com/market/upload/reports/lhv/2020_ar_en_eur_con_00.pdf and also available on the website of the Company at https://investor.lhv.ee/assets/files/LHV_Group_Annual_Report_2020-EN.pdf;

(ii) the Interim Financial Statements, available at https://nasdaqbaltic.com/market/upload/reports/lhv/2021_q2_en_eur_con_00.pdf and also available on the website of the Company at https://investor.lhv.ee/assets/files/LHV_Group_Interim_Report_2021_Q2-EN.pdf.

1.5. Documents on Display

In addition to this Prospectus, the following documents are on display on the website of the Company at https://investor.lhv.ee/en/:

(i) the Articles of Association available at https://investor.lhv.ee/assets/files/AS_LHV_Group_Articles_of_Association-EN-2020.pdf;

(ii) the historical financial information of the Group available at https://investor.lhv.ee/en/reports/;

(iii) the information published as company announcements via the information system of the Nasdaq Tallinn Stock Exchange available at https://investor.lhv.ee/en/announcements/#stock-exchange-announcements. These announcements are also available on the webpage of Nasdaq Baltic (https://nasdaqbaltic.com/) and can be found in section "Market News".

In addition, the Memorandum of Association is available at https://investor.lhv.ee/assets/files/AS_LHV_Group_Memorandum_of_Association-EN.pdf and the Memorandum of Association Amendment is available at https://investor.lhv.ee/assets/files/AS_LHV_Group_Memorandum_of_Association-Amendment-EN.pdf. Investors are advised that according to the Estonian Commercial Code, the articles of association shall be amended after entry in the commercial register and the memorandum of association shall not require amendment, which means that the information contained in Memorandum of Association and Memorandum of Association Amendment has not been updated after 2004 and therefore it is not relevant at the date of this Prospectus.

1.6. Accounting Principles

The Audited Financial Statements have been prepared in accordance with IFRS as adopted by the European Union. The Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

1.7. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under Sections' 2. "Summary", 3. "Risk Factors", 5. "Reasons for Offering and Use of Proceeds" and 9. "General Corporate Information and Principal Activities"). Such forward-looking statements are based on current expectations and projections about future events, which are based on the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties, and assumptions about the future operations of the Group, the macroeconomic environment, and other similar factors.

In particular, such forward-looking statements may be identified by the use of words such as "strategy", "expect", "plan", "anticipate", "believe", "will", "continue", "estimate", "intend", "project", "goals", "targets" and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a highly competitive business. This business is affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and technological developments and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business, or financial results of the Group (please refer to Section 3. "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

1.8. Use of Prospectus

This Prospectus is prepared solely for the purposes of the Offering of the Offer Shares and listing and the admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. No public offering of the Offer Shares is conducted in any jurisdiction other than Estonia and consequently the dissemination of this Prospectus in other countries may be restricted or prohibited by law. This Prospectus may not be used for any other purpose than for making the decision of participating in the Offering or investing into the Shares. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

1.9. Approval of Prospectus

This Prospectus has been approved by the EFSA on 13 September 2021 under registration number 4.3-4.9/4348, as competent authority under the Prospectus Regulation. The EFSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be regarded as endorsement of the Company or the Offer Shares. Investors should make their own assessment as to the suitability of investing in the securities. The Prospectus has been drawn up as part of a simplified Prospectus in accordance with Article 14 of the Prospectus Regulation.

1.10. Availability of the Prospectus

This Prospectus will be published by means of a stock exchange announcement through the information system of Nasdaq Tallinn Stock Exchange (https://nasdaqbaltic.com/). The Prospectus is also available in an electronic form on the website of the EFSA (https://www.fi.ee/) and on the website of the Company (https://investor.lhv.ee/en/). Any interested party may request delivery of an electronic copy of the Prospectus from the Company without charge. Paper copy of the Prospectus shall be delivered to any interested parties upon request. Delivery of the Prospectus by the Company is limited to the jurisdictions in which the offering to the public is being made, i.e., to Estonia.

2. SUMMARY

Introduction and warnings	
This Summary (the **Summary**) should be read as an introduction to Prospectus and any decision to invest in the Offer Shares by the investors should be based on consideration of the Prospectus as a whole. The information in the Summary is presented as of the Prospectus registration date, unless indicated otherwise. Civil liability in relation to this Summary attaches only to those persons who have tabled the Summary, including any translation thereof, but where the Summary is misleading, inaccurate of inconsistent when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Offer Shares. Investment into Offer Shares involves risks, and the investor may lose all or part of the investment. The investor may be required under national law to bear the costs of translating the Prospectus before being able to bring a claim to the court in relation to this Prospectus.	
Name and international securities identification number (ISIN) of the Offer Shares	**LHV Group Share, ISIN EE3100073644**
The identity and contact details of the issuer, including its legal entity identifier (LEI)	The business name of the issuer is AS LHV Group (the **Company**). The Company is registered at the Estonian Commercial Register under registry code 11098261. The contact details of the Company are the following: address Tartu mnt 2, 10145 Tallinn, Estonia, phone +372 6 800 400, e-mail group@lhv.ee. The Company's LEI is 529900JG015JC10LED24.
The identity and contact details of the competent authority approving the prospectus, date of approval of the prospectus	This Prospectus has been approved by the Estonian Financial Supervision and Resolution Authority (the **EFSA**) under registration number 4.3-4.9/4348 on 13 September 2021. The contact details of the EFSA are the following: address: Sakala 4, 15030, Tallinn, Estonia, phone +372 668 0500, e-mail info@fi.ee.

Key information on the issuer

Who is the issuer of the securities?

The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term. The Company is the holding company of the group. The Company's group includes the following subsidiaries (the **Group**): 100% owned AS LHV Pank (**LHV Pank**), AS LHV Varahaldus (**LHV Varahaldus**), LHV UK Limited (**LHV UK**), Cuber Technology OÜ (in liquidation) (**Cuber Technology (in liquidation)**) and 65% owned AS LHV Kindlustus (**LHV Kindlustus**) and AS LHV Finance (**LHV Finance**). The Company's own operations are limited to engaging in investor relations management and ensuring necessary capitalisation for the Group companies. LHV Pank acts as an Estonian licensed credit institution offering banking services to corporate and retail clients. LHV Varahaldus operates as an Estonian licensed fund manager, managing traditional funds as well as Estonian compulsory and voluntary pension funds. LHV Kindlustus is an Estonian non-life insurance provider offering most of non-life insurance products in the Estonian market. LHV Finance is an Estonian financial institution offering consumer loans in the Estonian market. Cuber Technology (in liquidation) was established as a start-up company in 2015 with the purpose to innovate financial services using Blockchain technology, but due to the lack of economic operations, the Company as the sole shareholder decided to dissolve the company and initiate liquidation proceedings. The Group's business segments are (i) banking; (ii) asset management; (iii) hire-purchase and consumer finance; and (iv) insurance.

As at the date of this Prospectus, the shareholders holding over 5% of all Shares in the Company are the following:

Name of Shareholder	Number of Shares	Proportion	Person directly or indirectly controlling the Shareholder
AS Lõhmus Holdings	3,618,920	12.43%	Mr Rain Lõhmus, the Chairman of the Supervisory Board of the Company
Mr Rain Lõhmus	2,538,367	8.72%	N/A
Viisemann Investments AG	2,186,432	7.51%	Mr Andres Viisemann, Member of the Supervisory Board of the Company
Ambient Sound Investments OÜ	1,653,709	5.68%	Ahti Heinla, Annika Tallinn, Jaan Tallinn, Priit Kasesalu, Toivo Annus, Adelia Annus, Emilia Annus, Georg Annus, Jekaterina Annus (based on Estonian Commercial Register beneficial ownership data)

The Management is not aware of any person directly or indirectly controlling the Company, nor of any arrangements or circumstances, which may at a subsequent date result in a change in control over the Company.

In accordance with the Estonian law, the operational management of the Company is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and is authorised to represent the Company based on the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and for supervising the activities of the Management Board.

As at the date of this Prospectus the Company has one member of the Management Board – Mr Madis Toomsalu. The authorities of Mr Madis Toomsalu as the member of the Management Board commenced on 5 December 2016 and will remain valid until 5 December 2021. The Supervisory Board of the Company includes seven members – Mr Rain Lõhmus (the Chairman of the Supervisory Board; since 21 May 2014), Mr Raivo Hein (since 18 January 2010), Mr Heldur Meerits (since 18 December 2008), Mrs Tiina Mõis (since 8 December

2006), Mr Tauno Tats (since 21 May 2014), Mr Andres Viisemann (since 7 September 2004) and Mr Sten Tamkivi (since 29 April 2015). The authorities of all referred persons as the members of the Supervisory Board will remain valid until 29 March 2023.

KPMG Baltics OÜ (registry code 10096082; having its registered address at Narva mnt 5, 10117 Tallinn, Estonia) is acting as the statutory auditor of the Company for the financial years 2020 – 2022. KPMG Baltics OÜ is a member of The Estonian Auditors' Association.

What is the key financial information regarding the issuer?

The Table 1 and Table 2 set forth the key financial information as at the end of each of the financial years ended 31 December 2020 and 31 December 2019 and the six months ended 30 June 2021 and 30 June 2020 which have been extracted or derived from the Audited Financial Statements and Interim Financial Statements incorporated to this Prospectus by reference. The information has been presented in accordance with Annex III of the Commission Delegated Regulation (EU) 2019/979 as deemed most appropriate in relation to the Offer Shares by the Company.

Table 1 *Consolidated Statement of Comprehensive Income*

(*in TEUR*)	Financial year ended on 31.12.2020 *audited*	Financial year ended on 31.12.2019 *audited*	6m ended on 30.06.2021 *unaudited*	6m ended on 30.06.2020 *unaudited*
Net interest income	68,492	47,388	43,229	31,869
Net fee and commission income	33,349	25,677	17,742	12,695
Impairment losses on loans and advances	-10,898	-3,210	-810	-8,682
Net gains from financial assets	1,584	670	-83	-67
Net income from insurance activities	0	0	506	0
Profit before income tax	48,672	31,341	29,104	13,998
Income tax expense	-8,826	-4,249	-4,773	-2,964
Net profit	39,846	27,092	24,331	11,034
Earnings per share[1]	1.32	0.87	0.81	0.35

Notes
[1]Calculated using number of shares outstanding at the end of the period.

Table 2 *Consolidated statement of financial position*

(in TEUR)	31.12.2020 *audited*	31.12.2019 *audited*	30.06.2021 *unaudited*
Loans and advances to customers (net)	2,208,823	1,687,034	2,401,337
Total assets	4,971,407	3,031,912	5,861,667
Deposits from customers[1]	4,119,770	2,700,915	4,921,494
Senior debt	468,442	25,643	465,681
Senior non-preferred debt	0	0	40,000
Subordinated debt	110,000	75,000	110,000
Total equity	245,276	206,028	262,044
Tier 1 capital ratio[2] (%)	15.56	13.88	15.26
Capital adequacy[2] (%)	20.50	17.97	19.66
Leverage ratio[2] (%)	4.75	6.15	4.39

Notes
[1]Includes also accrued interest
[2]Calculated in accordance with the capital requirements regulation (EU) No 575/2013 (the CRR) and capital requirements directive No 2013/36/EU (the CRDIV) and other legislative acts. The ratios have not been audited.

What are the key risks that are specific to the issuer?

- Counterparty Credit Risk. The Group may suffer losses from its counterparties' inability to meet its obligations to the Group.
- Concentration Risk. The Group's operations are concentrated to the highly competitive Estonian market, with a large portion of the loan portfolio being concentrated in the real estate, manufacturing and financial and insurance services sectors. Therefore, adverse developments (including uncertainty due to the COVID-19 pandemic) or further increase of competition in Estonia or in the above sectors may have a material adverse effect on the Group.
- Market Risk. The Group's is exposed to market risk due to its trading and investment activities in the financial markets, primarily in interest rate products, foreign exchange and stock markets as well as from borrowing activities and other means of taking in financial resources. The market value of financial instruments may be adversely affected by the volatility of financial markets arising from numerous market variables beyond the control of the Group, for example, as a result of COVID-19, the financial markets have been

very volatile. Due to such volatility, the value of the financial instruments held by the Group may decrease more than it is able to foresee, and therefore result in write-downs of certain assets.

- Liquidity Risk. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Group's risk policies and internal procedures may not be adequate or sufficient in order to ensure the Group's access to funding resources when needed, to the extent needed or on favourable terms in order to ensure sufficient liquidity.
- Risk Associated with Dependence on Access to Funding on Favourable Terms. The Group's business is reliant on its ability to finance its current operations at reasonable terms. Access to, and the cost of, financing raised by the Group through the money and capital markets are affected, among other things, by general interest rate levels, the situation on the financial markets, or a downturn in the performance of market participants and the Group companies' own capital adequacy and credit rating.
- Operating Risk. The Group is exposed to operational risk, which is a risk of potential loss caused by human, process or information system failures and flaws. In addition, the operational risk embraces risk of corporate fraud and misconduct.
- Dependency on Information Technology Systems and Risk of Cyber-Attacks. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. Failures of or significant disruptions to the Group's information technology systems could prevent it from conducting its operations. Furthermore, should the Group experience a cyber-attack, significant security breakdown or other significant disruption to its information technology systems, sensitive information could be compromised.
- Dependency on Qualified Staff. The results of operations of the Group companies depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees.
- Strategic Risk. The Group is exposed to losses that might arise from the pursuit of wrong strategic decisions. For reasons of corporate growth, the Group's strategic risk is estimated to exceed the strategic risk of a bank positioned in a stable stage.
- Reputational Risk. The Group may bear losses resulting from any deterioration of the Group's reputation. Reputational risk can, above all, be attributed to the materialisation of other risks, such as operational, strategic, compliance risks or exposure to civil liability.
- Material Adverse Effect by the COVID-19. The COVID-19 pandemic and the emergency measures applied in response to the pandemic have impacted the Group's business, financial condition, and results of its operations in 2020 and to date in 2021 and could continue to do so. There has been an increase in LHV Pank's non-performing loans and LHV Varahaldus has been affected by the pandemic due to a decline in the value of its assets under management in the early phase of the pandemic, which resulted from falls of asset prices in the financial markets.
- Changes in Economic Environment**.** Each of the Group's operating segments is affected by general economic and geopolitical conditions. Any deterioration in the economic environment of the countries where the Group operates, in particular in Estonia, could have a direct negative impact on the financial position and profitability of the Group.
- Exposure to Regulative Changes. The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice, which are subject to changes. In particular, the pension funds management sector has been subject to frequent regulatory changes. For example, in January 2020 the Estonian Parliament adopted a law to change the Estonian compulsory pension funds system in a manner (i) allowing fund investors to exit from the compulsory pension system before retirement upon request and to draw out already collected savings and (ii) further reducing the administrative fees of pensions funds. This will have a significant adverse effect on the profitability and operations LHV Varahaldus and the Estonian pension system in general.
- Maintaining Capital Adequacy Ratios. Credit institutions and investment firms as well as their holding companies are subject to strict capital adequacy requirements subject to frequent reforms and changes. Ensuring compliance with new rules brings about implementation costs which may impact the profitability of the Group.
- Exposure to Regulatory Actions and Investigations. The Group provides various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group's business. Any determination by the authorities that the Group has not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group.

Key information on the securities

What are the main features of the securities?

The Company's registered share capital is EUR 29,118,873, which is divided into 29,118,873 ordinary shares with the nominal value of EUR 1 (the **Shares**). The Company has one class of shares. In the course of the Offering, the Company is offering up to 745,294 newly issued ordinary shares (the **Offer Shares**) which are of the same class. The Shares are registered in the ERS under ISIN code EE3100073644 and kept in book-entry form. The Shares are governed by the laws of the Republic of Estonia. The Shares are freely transferrable. The Shares are listed on Nasdaq Tallinn Stock Exchange as of 23 May 2016. Once the Offer Shares are registered with the Estonian Commercial Register, the Offer Shares will rank *pari passu* with all the existing Shares and the Offer Shares will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2021, and for any dividends declared and paid for any subsequent financial period.

Right to Participate in Corporate Governance. The shareholders of the Company are entitled to take part in the corporate governance of such company through the general meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as the amendment of the articles of association, the increase and decrease of the share capital, the issue of convertible bonds, the election and removal of the members of the supervisory board and the auditor, the approval of annual reports and the distribution of profit, the dissolution, merger, division or transformation of the company, and certain other matters. Each Share entitles its holder to one vote at the Company's general meeting of shareholders (the **General Meeting**). The General Meeting is the highest governing body of the Company.

The agenda of the General Meetings is generally determined by the Supervisory Board of the Company. The Management Board or one or more shareholders, whose shares represent at least 1/20 of the share capital of the Company are entitled to request that additional items be included on the agenda of an ordinary General Meeting. In addition, they can make resolution proposals on items listed in the agenda.

In order to have the right to attend and vote at a General Meeting, a shareholder must be registered in the shareholders' register on the cut-off date, which is seven days before the meeting. A shareholder whose shares are registered in the name of a nominee may exercise the voting rights only if the nominee account holder has given a power of attorney to the shareholder. At a General Meeting, resolutions generally require the approval of a majority of the votes represented at the meeting. However, pursuant to law or the Articles of Association of the Company certain resolutions require a higher majority (e.g., of 2/3 or 3/4) of the votes represented at the General Meeting.

Right to Subscribe for New Shares. Pursuant to the Estonian Commercial Code, existing shareholders of a public limited company have, upon the increase of the share capital of the company and the issue of the new shares of the company, the preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in the company. Such preferential right can be excluded by the respective resolution of the general meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders.

Right to Information. Pursuant to the Estonian Commercial Code, the shareholders of a public limited company have the right to receive information on the activities of the company from the management board at the general meetings of shareholders. However, management board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the company. In the event the management board refuses to give information, shareholders may require the general meeting of shareholders to decide on the legality of such refusal or submit a respective claim to the competent court.

Right to Dividends. All shareholders of a public limited company have the right to participate in the distribution of profit of the company and have the right to receive dividends proportionally to their shareholding in the company. Under the Estonian Commercial Code, the distribution and payment of dividends is resolved by the general meeting. The management board must present a profit distribution proposal to the general meeting together with submitting an annual report. The supervisory board has the right to make changes to the proposal of the management board before submission to the general meeting.

According to the Company's dividend policy as approved by the General Meeting on 20 April 2016 and specified by the General Meeting on 29 March 2017, it is the intention of the Company to distribute profit and pay dividends to shareholders in the ratio of at least 25% of the profit before taxes. The Company has paid dividends for the previous years as follows: (i) in 2019, the Company paid dividends in the net sum of 21 cents per one share, (ii) in 2020, the Company paid dividends in the net sum of 19 cents per one share and (iii) in 2021 the Company paid dividends in the net sum of 29 cents per one share. Such dividend policy is planned to be followed, provided that the operating needs of the Group as determined by the Supervisory Board are covered and that after the distribution of profit all Group companies comply with all internal and external capital and liquidity requirements in full. The Company reserves itself the right to reduce the amount of profit distributed and dividends paid or not to distribute profit and pay dividends if there is a credible investment opportunity, which is expected to result in significant increase of the value of the Group in a long-term perspective.

Shares in Case of Applicability of Bail-in Measures. The Company as a financial holding company and its subsidiaries are subject to the Financial Crisis Prevention and Resolution Act (the **FCPRA**) implementing the bank recovery and resolution directive (No) 2014/59/EU (the **BRRD**) into Estonian law. This means that the EFSA may subject the Group to crisis prevention and resolution measures, if the EFSA assesses it to be likely that the financial situation of the Group may rapidly deteriorate or if it is likely that the Group is insolvent or may become insolvent in the future. If resolution measures are applied, the EFSA has a right to require in respect of the Company or its subsidiaries, inter alia, (i) the write-down or cancellation of Shares (ii) the transfer of Shares or all assets, rights and liabilities, (iii) the revocation of the subscription rights to acquire additional Shares or other instruments of ownership, (iv) the issue of new Shares or other capital instruments, (v) suspending or terminating trading or listing of Shares. Therefore, should the Group be subject to crisis prevention measures, such measures may be detrimental to the interests of the Company's shareholders and the financial situation of the Group.

Where will the securities be traded?

The Shares have been admitted to trading on the Baltic Main List of the Nasdaq Tallinn Stock Exchange as of 23 May 2016. In connection with the Offering, the Company will apply for the listing and the admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. It is estimated that trading with the Offer Shares will commence on or about 18 October 2021 following the registration of the Offer Shares at the Estonian Commercial Register.

What are the key risks that are specific to the securities?

- Volatility and Limited Liquidity of Securities Listed on Nasdaq Tallinn Stock Exchange. The Company will apply for the listing and admission to trading of the Subscription Rights and the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Though every effort will be made to ensure that listing and admission to trading will occur, the Company cannot provide any assurance that the Subscription Rights and the Offer Shares will be listed and admitted to trading, in addition, the price of the Shares may be subject to volatility.
- Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Shares or receiving dividends may result in an increased tax burden of the shareholders and may therefore have adverse effect on the rate of return from the investment into the Shares.
- Payment of Dividends**.** The Company's ability to pay dividends in the future is not guaranteed. The payment of dividends and the amount thereof will be subject to the ultimate discretion of the majority of the Company's shareholders.
- Bail-in Risk. The Company as a financial holding company and its subsidiaries are subject to the FCPRA implementing the BRRD into Estonian law. This means that the EFSA may subject the Group to crisis prevention and resolution measures *inter alia*, (i) the write-down or cancellation of shares (ii) the transfer of shares or all assets, rights and liabilities, (iii) the revocation of the subscription rights to acquire additional shares or other instruments of ownership, (iv) the issue of new shares or other capital instruments, (v) suspending or terminating trading or listing of shares. Crisis prevention measures may also be applied to the debt obligations owed by the subsidiaries to the Company.
- Shareholders in Certain Jurisdictions may not be Able to Participate in Future Equity Offerings. Estonian Commercial Code provides for pre-emptive rights (in Estonian: ***eesõigus***) to be granted to existing shareholders of the Company in case of future issue of shares by the Company, which can be disapplied, subject to a decision supported by a majority of at least 3/4 of the votes represented at the general meeting. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders in future offerings.

- Dilution. The proportion of shareholding held by the Shareholders in the Company may be diluted if the share capital of the Company is increased and new Shares are issued in the future.
- Lack of Adequate Analyst Coverage. There is no guarantee of continued analyst research coverage for the Company.
- Cancellation of Offering. Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Shares they subscribed for. The Company may cancel the Offering either in full or partly.

Key information on the offer of securities to the public and/or the admission to trading on a regulated market

Under which conditions and timetable can I invest in this security?

The Company is offering up to 745,294 Offer Shares to the existing shareholders (the **Offering**) by virtue of a rights issue on terms and conditions as described in this Prospectus. The Offering comprises of an offering to retail investors in Estonia and of an offering to institutional investors in and outside of Estonia to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made. A public offering will be carried out only in Estonia and there will not be any public offering in any other jurisdiction. For the purposes of the Offering, a person is considered to be "in Estonia" and has a right to participate in the Offering if such person has an operational securities account with the ERS and such person submits a Subscription Undertaking (as defined below) in relation to Offer Shares via that securities account.

The Company's shareholders fixed in the share register on 8 September 2021 at the end of the business day of the settlement system of the ERS shall be granted the pre-emptive right to subscribe for the Offer Shares (the **Subscription Right**). One Subscription Right per each 40 Shares shall be issued. If the number of shares held by the shareholder does not grant a whole number of Subscription Rights, the number of Subscription Rights shall be rounded to the nearest mathematical whole number, whereas fractions under one shall be rounded to one. Based on the share ledger as at 8 September 2021, the total number of Subscription Rights to be issued is 734,586. The Subscription Rights shall be transferred on 15 September 2021 at the latest to those securities accounts where the Shares were registered on 8 September 2021 at the end of the business day of ERS settlement system. Provided the Offering is not cancelled, each Subscription Right will entitle the investor to subscribe to and receive in allocation 1 Share. If a shareholder does not exercise any or all of the Subscription Rights by submitting a Subscription Undertaking or does not sell the Subscription Rights on or prior 27 September 2021, such shareholders Subscription Rights to subscribe for Offer Shares will lapse with no value and the holder will not be entitled to compensation.

Indicative timetable of the Offering

15 September 2021	Start of Subscription Period, start of trading with Subscription Rights on Nasdaq Tallinn Stock Exchange
27 September 2021	Trading with Subscription Rights on Nasdaq Tallinn Stock Exchange ends
29 September 2021	End of Subscription Period
On or about 30 September 2019	Announcement of the results of the Offering
On or about 1 October 2021	Settlement of the Offering (during the settlement, the Offer Shares will carry a temporary ISIN)
On or about 13 October 2021	Registration of the Offer Shares in the Estonian Commercial Register
On or about 18 October 2021	The Offer Shares will receive the permanent ISIN EE3100073644
On or about 18 October 2021	First trading day of the Offer Shares on Nasdaq Tallinn Stock Exchange

Trading in Subscription Rights

The Company has made an application to list and admit the Subscription Rights to trading on the Baltic Main List of Nasdaq Tallinn Stock Exchange. Trading in the Subscription Rights is expected to commence on 15 September 2021 and is expected to end on 27 September 2021. The ISIN code for the Subscription Rights is EE3700080734.

Offer Price

The Offer Price is EUR 34 per one Offer Share, of which EUR 1 is the nominal value of one Offer Share and EUR 33 is the issue premium.

Subscription Period

The Subscription Period is the period during which the persons who have the right to participate in the Offering may submit Subscription Undertakings for the Offer Shares. The Subscription Period commences on 15 September 2021 at 10:00 local time in Estonia and terminates on 29 September 2021 at 16:00 local time in Estonia.

Subscription Undertakings

The Subscription Undertakings may be submitted only during the Subscription Period. An investor participating in the Offering may apply to subscribe for the Offer Shares only for the Offer Price. All investors participating in the Offering can submit Subscription Undertakings denominated only in euro. An investor shall bear all costs and fees charged by the respective custodian of the ERS accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking. Holders of nominee accounts are considered legal owners of the Shares and the Subscription Rights are transferred on the nominee accounts, hence the investors holding Shares on nominee accounts or wishing to receive Shares on nominee accounts during the allocation process, must submit the Subscription Undertakings via nominee account holder and must ensure the Subscription Undertaking includes the number of the same securities account (nominee account). In order to subscribe for the Offer Shares, an investor must have a securities account with the ERS. Such securities account may be opened through any custodian of the ERS.

An investor wishing to subscribe for the Offer Shares should contact a custodian that operates such investor's ERS securities account and submit a Subscription Undertaking in the form set out below. Due to the technical process used in distributing the Offer Shares, the Subscription Undertaking must detail the information of the Subscription Rights (and not the Offer Shares), as provided below. The Subscription Undertaking must be submitted to the custodian by the end of the Subscription Period. The investor may use any method that such investor's custodian offers to submit the Subscription Undertaking (e.g., physically at the client service venue of the custodian, over the internet or by other means).

The Subscription Undertaking for the Offer Shares must include the following information:

Owner of the securities account:	name of the investor

Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	LHV Group subscription rights
ISIN code:	EE3700080734[(1)]
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per one offer Share):	EUR 34
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by the Offer Price
Value date of the transaction**:**	1 October 2021
Type of transaction:	"subscription"
Type of settlement:	"payment free of delivery" (PFOD)

<u>Note</u>

(1) ISIN of the Subscription Right and not the Offer Shares should be included in the Subscription Undertaking due to the technical process applicable to offerings carried out as a rights issue.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ERS receives a duly completed transaction instruction from the custodian of the respective investor. In case the investor does not hold Subscription Rights or wishes to subscribe for more Offer Shares than the number of Subscription Rights held by such investor, the Subscription Rights on the investors securities account will not be blocked, however no Offer Shares shall be allocated or issued to persons who do not hold Subscription Rights on 27 September 2021 at the end of the business day of the settlement system of the ERS.

An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorised (in the form required by law) to submit the Subscription Undertaking.

By submitting a Subscription Undertaking every investor:

(i) accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;
(ii) acknowledges that the Offering does not constitute an offer of the Offer Shares by the Company within the meaning of section 16(1) of the Estonian Law of Obligations Act or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares between the Company and the investor;
(iii) accepts that the number of the Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Offer Shares, which the investor wishes to acquire (the Maximum Amount) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount;
(iv) undertakes to acquire and pay for any number of Offer Shares allocated to it in accordance with these terms and conditions up to the Maximum Amount;
(v) authorises and instructs its custodian to forward the registered transaction instruction to the registrar of the ERS;
(vi) authorises the custodian and the registrar of the ERS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify the number of the Offer Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor;
(vii) authorises the Issuer, the registrar of the ERS, the custodians and their respective advisors to process forward and exchange information on the identity of the investor and the contents of the investor's Subscription Undertakings and the amount of Subscription Rights before, during and after the Offer Period;
(viii) confirms, that he/she/it is not subject to the laws of any other jurisdiction which would prohibit the placing of the Subscription Undertaking or allocation of the Offer Shares to him/her/it and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus.

An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Subscription Period.

<u>*Payment*</u>

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Offer Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its ERS securities account or its securities account to cover the whole transaction amount for that particular Subscription Undertaking.

<u>*Distribution and Allocation*</u>

The Company will decide on the allocation of the Offer Shares after the expiry of the Subscription Period on or about 30 September 2021. Offer Shares will be allocated only to those persons who hold the respective number of Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS and have submitted a Subscription Undertaking.

The Offer Shares will be allocated to the investors participating in the Offering in accordance with the following principles:

(i) all persons who hold the respective number of Subscription Rights on their securities accounts on 29 September 2021 at the end of the business day of the settlement system of the ERS are guaranteed to receive the respective number of Offer Shares (i.e., the number of the Subscription Rights held by the investor and the number of Offer Shares subscribed for by such investor). An investor may receive the Offer Shares to the securities account(s) detailed on the Subscription Undertaking(s);
(ii) if the number of Offer Shares allocated in accordance with the principle in subsection (i) above is smaller than 745,294, the remaining Offer Shares shall be allocated to persons who held Subscription Rights on their securities account on 29 September 2021 at the end of the business day of the settlement system of the ERS proportionally, insofar as mathematically possible, to the number of Subscription Rights held, but in a number not larger than the number of Offer Shares that they subscribed for (for avoidance of doubt, the number of guaranteed shares allocated in subsection (i) taken into account).

Subscription Rights held on the investor's multiple securities accounts and the investor's multiple Subscription Undertakings shall be merged and compared for the purposes of allocation, however the investor shall receive the Offer Shares to the securities account(s) detailed on the Subscription Undertaking(s) insofar as mathematically possible, to the number of Subscription Rights held, but in a number not larger than the number of Offer Shares that the investor subscribed for.
The investor may receive the Offer Shares to the nominee account if the investor submits a Subscription Undertaking via the nominee account holder. The investor will be eligible to receive the Offer Shares to the nominee account only if the holder of the nominee account has disclosed the identity of the investor to the registrar of the ERS and the Company in writing. Among other information it is also requested to disclose the name, personal identification code or registry code, the number of Subscription Rights held and the Offer Shares that the investor subscribed for.

In case the investor submits a Subscription Undertaking through a nominee account and the holder of the nominee account has disclosed the requested information to the registrar of the ERS and the Company, each such investor subscribing via a nominee account is considered as an independent investor during the allocation process. Nevertheless, the nominee account holder is responsible for the allocation of the Offer Shares to the investor.

The Company expects to announce the results of the allocation process through the information system of the Nasdaq Tallinn Stock Exchange and at the Company's website https://investor.lhv.ee/en on or about 30 September 2021.

Settlement

The Offer Shares will be registered in book entry form in the ERS under ISIN EE3100073644. During the settlement of the Offering, the Offer Shares will carry a temporary ISIN, which will be changed to the permanent ISIN EE3100073644 after registration of the Offer Shares in the Estonian Commercial Register. The Offer Shares allocated to investors will be transferred to their securities accounts on or about 1 October 2021 through the "payment free of delivery" method at the same time as the payment for Offer Shares from the investors' account connected with the securities account.

Cancellation of the Offering

The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

Dilution

Following the completion of the Offering assuming that (i) all offered Offer Shares will be subscribed for and issued, (ii) all shareholders choose to transfer their Subscription Rights to third parties and not use those for Subscribing to any Offer Shares, (iii) such third parties will use the Subscription Rights to subscribe for the Offer Shares, the shareholdings in the Company prior to the Offering will be diluted by up to 2.4956% as a result of the Offering.

Why is this Prospectus being produced?

The purpose of the Offering is to strengthen the capital structure of the Group and ensure stable access to additional capital to support the further growth and market position of the Group, increase the business volumes of the Group and ensure conservative capital buffer for the Group. The Company plans to use the net proceeds of the Offering in line with the overall purpose of the Offering. In particular, up to EURM 15,145 of the net proceeds are planned for capitalizing LHV UK's business line and up to EURM 10,145 of the net proceeds are planned for supporting the growth of LHV Pank's loans portfolio.

Provided that the Offering is successful and that all the Offer Shares (altogether 745,294 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is about EURM 25.34. Expenses directly related to the Offering are estimated to be approximately EUR 50,000, therefore, the net proceeds of the Offering are expected to be EURM 25.29.

According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

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3. RISK FACTORS

3.1. Introduction

Investing into the Shares issued by the Company entails various risks. Each prospective investor in the Shares should thoroughly consider all the information in this Prospectus, including the risk factors described below. Any of the risk factors described below, or additional risks not currently known to the Management or not considered significant by the Management, could have a material adverse effect on the business, financial condition, operations or prospects of the Group and result in a corresponding decline in the value of the Shares. As a result, investors could lose a part or all of the value of their investments. The Management believes that the factors described below present the principal risks inherent in investing into the Shares. The risk factors are listed in certain categories whereas the most material risk factors, based on the significance or probability, are mentioned first and the reminder of the risk factors are not presented in any order of priority.

The principles of risk management of the Group, the respective facts and figures have been described in detail in section “Risk Management” of the Audited Financial Statements.

This Prospectus is not, and does not purport to be, investment advice or an investment recommendation to acquire the Shares. Each prospective investor in the Shares must determine, based on its own independent review and analysis and such professional advice as it deems necessary and appropriate, whether an investment into the Shares is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc.

3.2. Business Risks

<u>Counterparty Credit Risk.</u> Counterparty credit risk is inherent to the core operations of the Group – counterparty credit risk is the risk of potential loss which may arise from counterparty’s inability to meet its obligations to the Group companies. Credit risk affects cash and cash equivalents held with third parties (such as deposits with banks and other financial institutions), bonds, derivatives, but mostly credit exposures to customers, including outstanding loans, cover for guarantees, as well as other receivables and commitments. As at 31 December 2020 the Group’s total maximum credit risk exposure was EURM 5,387 (of which EURM 2,209 was loans and advances to customers), compared to EURM 3,370 as at 31 December 2019 (of which EURM 1,687 was loans and advances to customers). As at 30 June 2021 the respective amount was EURM 6,384 (of which EURM 2,401 was loans and advances to customers). The Group’s non-performing loans (calculated in accordance with the definition of default in Article 178 of the CRR (as defined in Section 14. “Glossary”), which are all loans past due as well as certain other loans (the NPLs) were EURM 20.4 as at 30 June 2021 compared to EURM 13.5 as at 31 December 2020 and EURM 4.4 as at 31 December 2019 and its allowance for impairments in respect of its loan portfolio amounted to 0.7% of the value of its loan portfolio as at 30 June 2021, 0.8% of the value of its loan portfolio as at 31 December 2020 and to 0.4% of the value of its loan portfolio as at 31 December 2019.

Credit risk is one of the largest risks relating to the Group’s operations. Although the Group makes provisions for potential credit losses in accordance with the applicable requirements, such provisions are made based on the available information, estimates and assumptions, which by definition are subject to certain amount of uncertainty. Therefore, there can be no assurance that provisions are sufficient to cover potential losses. Further, if the credit quality of loans or the financial health of any of the borrowers were to deteriorate, the Group may have to make provisions which could have a material adverse impact on the financial position of the Group. The recoverability of the credit provided to customers may be adversely affected by negative changes in the overall economic, political, or regulatory environment, affecting the ability of the Group's counterparties to repay loans and the effectiveness of enforcement proceedings, decrease in collateral values and other circumstances beyond the control of the Group. The uncertainty regarding the sufficiency of the provisions made is significantly higher, considering the potential further spread of the COVID-19 pandemic and its impact on the global economic and financial condition. Materialisation of credit risk may have material adverse effect on the Group's operations, financial condition, and results of operations.

Concentration Risk. The operations of the Group are subject to concentration risk, which by essence is a risk mainly related to LHV Pank and arising from the overall spread of outstanding accounts over the number and variety of clients. A small number of the Group's loans and advances to customers carry a large risk exposure, meaning that the Group's exposure under each loan exceeded 10% of its net own funds (broadly equal to its capital). As at 30 June 2021, the Group had large exposure loans outstanding to eleven individual customers or customer groups and these loans aggregated 149.7% of the Group's Tier 1 own funds. As at 30 June 2021, 23.2% of the corporate credit portfolio of LHV Pank included loans granted in real estate sector, which is traditionally the field that receives the greatest financing from commercial banks in Estonia. Due to the above concentration, the Group is significantly exposed to risks inherent the real estate sector and risk management measures applied may not be sufficient to avoid significant loan losses in case of a sharp downturn. The real estate sector is followed by companies in manufacturing industry (6.8% of corporate credit portfolio as at 30 June 2021) and companies pursuing wholesale and retail trade (4.5% of corporate credit portfolio as at 30 June 2021). Among sectors with higher-than-average credit risk, arts and entertainment sector comprise 2.5%, construction 2.8% and transport and storage 1.2% of the total corporate credit portfolio as at 30 June 2021. Loans to corporates comprise ca 61.8% of the entire credit portfolio while loans to private individuals amount to 38.2% of the credit portfolio. As a result of its exposure being concentrated to the above sectors, any developments (including uncertainty due to the COVID-19 pandemic) adversely affecting these sectors may have material adverse effect on the Group's operations, financial condition and results of operations.

Geographical Markets Risk. The Group operates on two geographical markets – Estonia and United Kingdom, whereas most of the activities and services of the Group are concentrated to the Estonian Market. In the first half of 2021, the Group's interest income on loans (i.e. interest on bank balances and bonds excluded) is 100% attributable to the Estonian market. From gross fee and commissions income, in the first half of 2021 92.5% is related to Estonia and around 7.5% related to the United Kingdom. From assets and liabilities perspective, as at 30 June 2021 93.1% of total financial assets are related to Estonia, followed by United Kingdom with 4.4% of total financial assets, while 62.8% of total financial liabilities are related to Estonia, followed by United Kingdom with 15.5% of total financial liabilities. Therefore, any adverse event or development in Estonia may have material adverse effect on the Group's operations, financial condition and results of operations.

Market Risk. Market risk arises from the Group's trading and investment activities in the financial markets, primarily in interest rate products, foreign exchange and stock markets as well as from borrowing activities and other means of taking in financial resources. Market risk is the risk of potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. The market value of financial instruments may be adversely affected by the volatility of financial markets arising from numerous market variables beyond the control of the Group, for example, as a result of COVID-19, the financial markets have been very volatile. Due to such volatility, the value of the financial instruments held by the Group may decrease more than it is able to foresee, and therefore result in write-downs of certain assets. Within the Group, internal judgement and know-how is used to assess and avoid potential market losses; however, such internal judgement may turn out to be inaccurate due to changes in the financial markets not foreseen at the time of making the judgement.

Despite the measures taken by the Group, the market risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Foreign Currency Risk. Foreign currency risk arises primarily from the acquisition of securities denominated in foreign currencies or from foreign currency receivables and liabilities. As at 30 June 2021 5.06% of the Group's total assets bearing currency risk bore non-EUR currency risk, whereas 7.14% of the Group's total liabilities bearing currency risk bore non-EUR currency risk. As at 30 June 2021, the open foreign currency position of the Group was EUR 243,451. Foreign exchange rates may be affected by complex political and economic factors, including relative rates of inflation, interest rate levels, the balance of payments between countries, the extent of any governmental surplus or deficit, and from the monetary, fiscal and trade policies pursued by the governments of the relevant currencies. Devaluation, depreciation or appreciation of foreign currency may have significant adverse effect on the value of the Group's assets denominated in foreign currency or increase the euro value of the Group's foreign currency liabilities. Therefore, foreign currency risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Price Risk. The Group holds positions in different financial instruments, which are subject to fluctuations in market price arising from various circumstances beyond the control of the Group. In order to mitigate the price risk, the Group has established internal rules setting forth limits to the size of trading and investment portfolios and requirements to acceptable credit quality ratings. Due to the fact that such internal rules are established based on historical market data, such rules may not be adequate or sufficient to mitigate potential losses arising from adverse changes in the market prices of the financial instruments held by the Group companies. The price risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Interest Rate Risk. The operations of the Group and foremost the operations of LHV Pank are inherently exposed to interest rate risk. The Group keeps a low interest rate risk position, where only very few positions are longer than one year re-fixing period. The amount of net interest income earned by the Group companies materially affects the revenues and the profitability of the operations of the Group. Further, due to the fluctuations of market interest rates there may be a mismatch between the interest income earned from the lending and crediting operations of the Group and the interest costs paid on the interest-bearing liabilities, which may have material adverse effect on the Group's operations, financial condition and results of operations.

Liquidity Risk. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time. The liquidity risk arises from the difference between the assets (loans provided to the clients) and the liabilities (deposits) and is mainly related to LHV Pank. The Group's liquidity coverage ratio level as at 30 June 2021 was 125.7% (in comparison to 147.9% as at 31 December 2020). At 30 June 2021 the ratio of the Group's loans to deposits was 45% (in comparison to 49% in 31 December 2020). The volume of such liquidity is, however, dependent on factors that are beyond the Group's control, such as changes in household savings ratios, the propensity to save by making bank deposits and changes in the tax regime applicable to bank deposits and continued spread of the COVID-19 pandemic and the economic uncertainty resulting from it.

The Group has historically principally relied on deposits from customers, which are mainly repayable on demand or short-term and generally low cost in nature, to meet most of its funding needs. For example, as at 30 June 2021 and 31 December 2020, demand and term deposits from customers amounted to 87.9% and 87.2%, respectively, of the Group's total liabilities. The availability of deposits is subject to fluctuation due to factors outside of the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Group to increase the return paid on its deposits to ensure that it retains sufficient deposits.

The Group's liquidity and funding plan are based on assumptions on client behaviour (the deposit base and durations), especially with regard to the trend of short-term deposits. Despite such risk policies and internal procedures, the liquidity may not always be readily available. Especially in critical, exceptional situations there is risk that the relevant behavioural assumptions used for the simulation scenarios prove to be incorrect, resulting in considerable unplanned liquidity outflows. This situation may arise due to circumstances that the Group is unable to control, such as continued market disruption or loss of confidence in the financial markets. The realisation of the liquidity risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Risk Associated with Dependence on Access to Funding on Favourable Terms. The Group's business is reliant on its ability to finance its current operations at reasonable terms. Access to, and the cost of, financing raised by the Group through the money and capital markets are affected, among other things, by general interest rate levels, the situation on the financial markets, or a downturn in the performance of market participants and the Group companies' own capital adequacy and credit rating. In particular, as part of the Group's long-term strategy to issue covered bonds to replace the deposits collected via deposit platforms with covered bonds to decrease the cost of financing, LHV Pank has stopped as of June 2020 the collection of deposits through the deposit platforms and has issued covered bonds in an amount of EURM 250, the total volume of the covered bonds program established in May 2020 is EUR 1 billion. Additionally, LHV Group completed an issue of EUR 1 billion of senior unsecured, unsubordinated bonds in September 2021. LHV Pank currently has a long-term bank deposits rating of Baa1 with a stable outlook from Moody's, this credit rating is an important factor in determining LHV Pank's cost of borrowings. The interest rates charged on the Company's borrowings are also partly dependent on its credit rating. Therefore, the Group companies may not be able to raise funds from the money and capital markets at the expected terms, and it may have an adverse effect on the Group's business operations, its performance or its financial position.

Operating Risk. Operating risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition to human, process or information system failures and flaws, the operating risk embraces risk of corporate fraud and misconduct. When completing transactions, transaction limits and competence systems are used to minimise potential loss and the principle of duality is used in the Group's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure. The constant monitoring of operating risk enables the Group to identify the flaws in systems, business processes or in the activities of the employees, helps to avoid making mistakes in the future and mitigate possible risks or define the terms of their acceptance. Despite measures taken, the risk of human and process losses cannot be eliminated altogether. As the Group operates in a heavily regulated area of business, operating risk events may have an unusually large negative impact on the Group. During the first half of 2021, the Group suffered losses resulting from the materialisation of the operating risk in the amount of EURT 64. The operating risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Dependency on Information Technology Systems and Risk of Cyber-Attacks. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. For example, the Group depends on its IT systems to process a large number of transactions on an accurate and timely basis and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's IT systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and its ability to compete effectively. The dependency on such systems is widespread as the Group and its customers use extensively online and mobile banking services, and cloud computing. This means that the Group is exceedingly open to risks over which it has no control, including system-wide failures of communication infrastructure, quality and reliability of equipment and software supplied by third parties and other similar risks. Failures of or significant disruptions to the Group's information technology systems could prevent it from conducting its operations.

Furthermore, should the Group experience a cyber-attack, sensitive information could be compromised, which in turn could result in civil and administrative liability of the Group companies before its customers, counterparties and state authorities, as well as in a general decrease in the trustworthiness of the Group and consequently in the demand for its services. Ensuring security and reliability of information technology systems is becoming more challenging in the environment where service providers are facing increasingly sophisticated and highly targeted attacks aimed at obtaining unauthorised access to confidential and sensitive information, disable or degrade service or sabotage information systems for other purposes. The Group has made significant investments into developing well-functioning and secure information technology systems and is constantly working on improving such systems and developing adequate contingency procedures; however, the Group may, despite its efforts, fail to mitigate all risks or fail to take appropriate and effective countermeasures if its information technology systems fall under attack, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

Dependency on Cash-Flows from **Subsidiaries** (as defined in Section 14. "Glossary"). The Company is the holding company of the Group and the operations are conducted through its Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to pay dividends to the Shareholders and meet its own obligations, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries, which in turn may be influenced by the need to comply with the capital adequacy ratios applicable in respect of certain Subsidiaries and subject to change from time to time. For the year 2020 the Company paid out dividends to its Shareholders in the sum of EURM 8,358 and received dividends in the sum of EURM 4.4 from LHV Varahaldus and EURM 2.7 from LHV Pank. Approximately EURM 1.3 of the dividend amount received from Subsidiaries was used to cover the negative net interest income and operating expenses of the Company on a solo level for the year 2020.

The Company may have to commit additional investments into its existing subsidiaries or any new businesses that it may launch in the future. For example, the Company has in 2021 established a new subsidiary in the United Kingdom which is applying for a banking license in the United Kingdom. The Company will have to commit appropriate capital to cover the costs of starting up and expanding the subsidiary's business as envisaged in its business plan.

Nevertheless, according to Estonian law, a company may only pay dividends or make other distributions if its current profits and retained earnings are sufficient for such distribution. Therefore, the Group's financial position and ability to pay dividends to its Shareholders remains dependent on the Subsidiaries' profit and financial position which, in turn, will depend on the future performance of the Subsidiary concerned which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that may be beyond its control. In addition, any such subsidiary may be subject to restrictions on the making of such distributions contained in applicable laws and regulations or in contractual agreements entered into by it.

Dependency on Qualified Staff. The results of operations of the Group depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees. Regulatory restrictions, such as the limits on certain types of remuneration paid by credit institutions and investment firms set forth in CRD IV[1] and further developed in CRD V[2], could adversely affect the Group's ability to attract new qualified personnel and retain and motivate existing employees. Any loss of the services of key employees, particularly to competitors, or the inability to attract and retain highly skilled personnel may have material adverse effect on the Group’s operations, financial condition, and results of operations.

The Group also depends on the efforts, skill, reputation, and experience of its management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies and the Group may not be able to replace any such lost personnel easily or quickly. The Group has crime and professional indemnity insurance cover in relation to its key personnel but is not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

Strategic Risk. Strategic risk is a possible source of loss that might arise from the pursuit of wrong strategic decisions. For reasons of corporate growth, the Group’s strategic risk is estimated to exceed the strategic risk of a bank positioned in a stable stage. For example, to facilitate growth, recently the Group has decided to issue covered bonds, to establish LHV Kindlustus to expand the variety of its services and to start offering insurance products to its clients, and to establish a subsidiary LHV UK Limited in order to apply for a banking license in the United Kingdom, however the success of these strategic decisions remains unclear. The Group also has to carefully plan its strategy on how to successfully overcome the economic uncertainty resulting from the COVID-19 pandemic. The Group takes measures to mitigate the risk of pursuing wrong strategic directions, including employing people with sufficient knowledge and long-term experience in the fields of operations of the Group companies and engaging respective experts. However despite the measures taken, the materialisation of strategic risk whether due to lack of profitability or a changed profile of risks that the Group is not able to manage at a sufficient level may have material adverse effect on the Group’s operations, financial condition and results of operations.

Reputational Risk. Reputational risk is a risk of loss resulting from any deterioration of the Group’s reputation before its clients, investors and general public. Deterioration of reputation of the Group may negatively affect the competitive position of the Group, result in outflow of deposits, reduce the Group’s customer base and influence its prospects in raising capital and therefore influence the financial condition of the Group. Reputational risk can be attributed to the materialisation of other risks, such as operational, strategic, compliance risks or exposure to civil liability. In addition to factors directly attributable to the Group and its employees (e.g., systems’, processes’ or human failures, noncompliance with regulatory requirements), the reputation of the Group is also affected by circumstances beyond the control of the Group, such as the conduct of its joint venture or business partners or external factors that influence the reputation of the financial sector in general (e.g. administrative proceedings or fines in the financial sector). Reputational risk may also arise from servicing virtual assets service providers whom LHV Pank offers regular banking services. Any deterioration of the Group’s reputation in the eyes of customers, business partners, owners, employees,

[1] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

[2] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

investors or supervisory authorities may have material adverse effect on the Group's operations, financial condition and results of operations.

Competitive Market. The Group is mainly competing with the licensed credit institutions and branches of foreign banks present in the geographical markets where the Group operates (i.e., in Estonia and the United Kingdom). In Estonia, the Group's competitors are the subsidiaries of large Scandinavian banking groups as well as Estonian based credit institutions, which are providing services in all areas of universal banking. As at 31 December 2020, the market share of LHV Pank as to deposits was 17%, the volume of securities portfolio 18% and the volume loan portfolio 11%.[3] The market share of LHV Varahaldus as at 31 December 2020 as to the volume of fund assets was 26%.[4] The market participants compete to offer the best terms of credit and related costs as well as the most convenient and user-friendly banking solutions. Such competition defines two main goals for the Group – engage capital in best possible terms and constantly develop its information technology systems. Failure to meet these goals could have negative impact on the customer base and thus to the market share of the Group as well as on the financial condition of the Group. The Group is also competing with market participants who are not subject to regulatory and capital requirements as burdensome as the Group companies (e.g., non-bank lenders, payment institutions, fund managers), and who therefore may have a competitive advantage on the relevant market (e.g., lower capital needs and compliance costs enabling them to offer services to customers on more favourable terms). Furthermore, recent trends in the crediting and lending market may be characterised by the rise of fintech companies providing new products and technological solutions (e.g., online financial services), which compete with the more conservative and traditional products and services offered by the Group. Often such alternative service providers are able to offer more favourable terms, which may result in price pressure on the products and services offered by the Group. If the Group fails to respond to the competitive environment in its target markets by offering attractive and profitable products and services, it may face a decrease of its market share, growth potential and customer base and therefore the overall profitability and financial condition of the Group may suffer. For further information, please refer to Section 11.2. "Factors and Public Policies Affecting Operations".

Exposure to Conduct of Other Market Participants. The Group's access to financing, investment and derivative transactions may be adversely affected by market practises of other market participants. Financial and securities markets are interrelated and defaults and failures to conduct sound business by other market players could lead to market-wide liquidity problems or other market-wide issues, which could adversely affect the Group's access to capital resources. For-example, money laundering issues in the banking sector generally and especially when relating to the Estonian and Baltic markets may adversely affect the Group companies' access to capital resources and the cost of such resources. Further, the Group companies have exposure to many counterparties arising from trading, clearing, funding or other relationships with them. Failure of such market participants to meet their obligations may result in the default of the Group before other counterparties and clients, which in turn may have material adverse effect on the Group's operations, financial condition, and results of operations.

Control over Joint Venture. Currently, the Company holds interests in two joint ventures – LHV Kindlustus and LHV Finance. The Company holds a 65% shareholding in both LHV Finance and LHV

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[3] Statistics published by the Estonian Financial Supervision and Resolution Authority. Available at: https://www.fi.ee/sites/default/files/fi_eft_12_2020_eng.pdf.

[4] Statistics published by the Estonian Financial Supervision and Resolution Authority. Available at:: https://www.fi.ee/sites/default/files/fi_eft_12_2020_eng.pdf.

Kindlustus, and is therefore the controlling shareholder of the joint ventures. Although due care is taken by the Company and in case of LHV Finance by LHV Pank in order to ensure effective control over LHV Finance and LHV Kindlustus and to ensure that both of the companies are managed prudently and effectively, the operations of LHV Finance and LHV Kindlustus may still be adversely affected by their joint venture partners. Despite the shareholders' agreements in place in respect of both companies, it cannot be excluded that the joint venture partners exercise their voting rights contrary to parties' agreements. Furthermore, the joint venture partners may understand the terms of the shareholders' agreement differently from LHV Pank or the Company, which in turn could lead to contractual disputes or fails to perform the shareholders' agreement. Although the Management has high confidence and trust in its joint venture partners, such behaviour by the joint venture partners, in theory, cannot be excluded or prevented, and may have adverse effect on the financial position and results of operations of LHV Finance or LHV Kindlustus. This may have material adverse effect on the Group's operations, financial condition, and results of operations.

3.3. Political, Economic and Legal Risks

Material Adverse Effect by the COVID-19. In March 2020, the World Health Organisation declared the outbreak of COVID-19, caused by the severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2), to be a global pandemic. COVID-19 was first identified in China in December 2019 and spread rapidly in almost all regions around the world, and resulted in a rapid deterioration of the political, socio-economic, and financial situation globally. As a result of the COVID-19 pandemic and the restrictions imposed to curb it, countries around the world experienced a significant reduction in economic activity. COVID-19 pandemic has affected the Group's customers, including private individuals and corporate customers. Some economic sectors such as tourism and service industries have felt the impact much harder than others. As a result of these developments, there has been an increase in LHV Pank's non-performing loans and the LHV Pank's has increased its loan loss provisions in order to reflect potential future loan losses. LHV Varahaldus has been affected by the pandemic due to a decline in the value of its assets under management in the early phase of the pandemic, which resulted from falls of asset prices in the financial markets. As at the date of this Prospectus, the effect of the pandemic is still unclear and the Company is continuing to monitor the impact which COVID-19 has had and could continue to have on the Group's operations, the markets in which it operates and more broadly on the macroeconomic outlook as further cases emerge and governments and international agencies continue to impose a range of measures to deal with the outbreak. Whilst as at the date of this Prospectus it is difficult to predict how long the pandemic will last and what the long-term impact on the economy will be, any sustained significant increase in infection rates could have a material adverse effect on the Group's operations. The COVID-19 pandemic and the emergency measures applied in response to the pandemic have impacted the Group's business, financial condition, and results of its operations in 2020 and to date in 2021 and could continue to do so. In particular:

- the Group's ability to receive and claim payments from borrowers has been and may continue to be negatively impacted by the pandemic and measures (governmental or other) taken in response to the pandemic and the associated economic downturn, resulting in increased impairments and loan restructurings which have reduced and could continue to reduce its future net interest income and net profit;
- uncertainty in financial markets has increased the Group's liquidity risk due to its dependence on external funding sources. In the event that there is a decrease in deposits as customers withdraw money from accounts with LHV Pank to increase their liquidity or the confidence of

investors in the financial markets reduces, this could have a detrimental effect on the Group's ability to secure stable and continuous funding; and

- fluctuation of asset prices such as stocks and bonds in financial markets could negatively affect the net asset values of the investment funds managed by LHV Varahaldus. This could result in a reduction in assets under management which would decrease the fee income of the Group.

In 2020, LHV Pank decided on a voluntary basis to apply the Estonian Banking Association's uniform policy for the granting of repayment moratoria in connection with the emergency situation declared in relation to the COVID-19 pandemic. In 2020, LHV Pank provided payment holidays worth EURM 350. While most of the payment holidays granted under the uniform policy have now expired, the Group continues offering payment holidays to customers affected by COVID-19 on a case-by-case basis. As at 30 June 2021, LHV Pank's total balance of loans for which a grace period has been granted and where the grace period has not yet expired amounted to EURM 39, out of which loans granted to corporates comprised EURM 28 and loans granted to private individuals EURM 11.

Any of the above listed effects, as well as effects which may not be identifiable at the date of this Prospectus, could affect the Group's operations.

<u>Changes in Economic Environment.</u> Each of the Group's operating segments is affected by general economic and geopolitical conditions, the worsening of which is outside of the Group's control. Any deterioration in the economic environment of the countries where the Group operates, in particular in Estonia, where most of the Group's services and products are focused, could have a direct negative impact on the financial position and profitability of the Group. The Estonian economy is a small open economy that is closely linked to the global economy and especially the macroeconomic conditions in the Eurozone countries and Russia.

The main driver of growth in Estonia's economy has been domestic demand, led by private consumption and investments. Estonia experienced healthy economic growth for several years until the beginning of the COVID-19 pandemic. The restrictions that were introduced to curb COVID-19 significantly adversely affected economic activity in Estonia and in the countries that are Estonia's major trading partners. In particular, GDP in Estonia contracted by 2.9 % in 2020 according to the Estonian Statistical Office[5].

It is not known what the longer-term outcome of the COVID-19 pandemic will be and there can be no assurance that Estonia's economy will return to growth at rates seen before the COVID-19 pandemic or at all. Any prolonged depression or further deterioration in the Estonian economy could have a direct negative impact on the financial position and profitability of the Group.

<u>Exposure to Regulative Changes.</u> The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice. Since the global financial crisis, financial services regulation has changed materially and may continue to develop in the future.

General regulatory changes. Considering the recent reforms and changes in the regulatory framework applicable in respect of the operations of the Group, the Group cannot predict to what extent laws and policies or their interpretations will change in the future nor the impact of such changes. In addition to numerous regulatory initiatives concerning capital adequacy requirements (CRR/CRD IV both as defined in Section 14. "Glossary") and resolution framework (BRRD (as defined in Section 14.

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[5] Statistics published by the Statistics Estonia. Available at: http://andmebaas.stat.ee/Index.aspx?lang=en&DataSetCode=RAA0012.

"Glossary"/SRMR[6]), introduced as a result of the global financial and economic crises of 2007 – 2009 and the amendment proposals thereof, the recent years have seen further significant developments in the regulatory framework in the fields where the Group companies operate, such as the tightening requirements on anti-money laundering and antiterrorism financing, PSD2[7], MiFiD II[8]/ MiFiR[9], GDPR[10], further tightening of the capital adequacy requirements from December 2020 and mid-2021 (respectively, CRD V[11] and CRR II[12]) and amendments to the bank resolution and recovery framework applicable from December 2020 (BRRD II[13]/SRMR II[14]) etc. In addition, changes in accounting standards may impact the financial situation and results presented in the financial statements of the Group. As the Group has entered to the market of the United Kingdom, it may also become subject to additional legal requirements as a result of the United Kingdom's withdrawal from the European Union. Further, as LHV Pank is in the list other systemically important institutions (O-SIIs), the Group has, among others, been subjected to an additional capital buffer requirement. The Group has duly and timely complied with the new requirements, internal procedures have been introduced for the assessment, evaluation, and implementation of changes in legislation; nevertheless, the Group still assesses regulatory changes, both on the level of the European Union and on the level of jurisdictions where the Group operates, as a high risk.

Regulatory changes related to pension funds. The pension funds management sector has been subject to frequent regulatory changes and further changes can be expected in the future. Firstly, the fees related to compulsory pension funds have been subject to several reforms over the recent years, each decreasing the fund management or other fees relating to compulsory pension funds. For example, in December 2018, Riigikogu (the Estonian Parliament) adopted an amendment to the law lowering the management fee thresholds of compulsory pension funds from current level of 2% to 1.2% and establishing further rules for reductions of management fees calculated on the volume of funds. In a longer perspective, the management fee for compulsory pension funds is intended to be decreased to the average level of European Economic Area or the Organisation for Economic Co-operation and

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[6] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (the **SRMR**).

[7] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (the **PSD2**).

[8] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (the **MiFID II**).

[9] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (the **MiFiR**).

[10] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (the **GDPR**).

[11] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (the **CRD V**).

[12] Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (the **CRR II**).

[13] Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (the **BRRD II**).

[14] Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (the **SRMR II**).

Development (OECD) countries, i.e., to approximately 0.5 to 0.7%.[15] Starting from February 2021, management fees for pension funds under LHV Varahaldus' active management were not higher than 0.58% per annum.

Further, in 2020 the Estonian Parliament adopted a law to change the Estonian compulsory pension funds system in a manner (i) allowing fund investors to exit from the compulsory pension system before retirement upon request and to draw out already collected savings and (ii) further reducing the administrative fees of pensions funds. This will have a significant adverse effect on the profitability and operations LHV Varahaldus and the Estonian pension system in general. In particular, the size of assets under management would become difficult to predict, meaning also changes to investment strategies and shorter investment horizons. Smaller fund sizes could also bring about an upward pressure to management fees.

However, funds will know the number of clients exiting the second pillar five months in advance and will have time to ensure that there is enough liquidity for payments. As of the date of this Prospectus, it is clear that the people most interested in leaving the second pillar did so at the first opportunity, as the exit rate has been much lower starting from April 2021. As of the end of August 2021, slightly less than 20% of active LHV Varahaldus' clients exited the second pillar and assets under management decreased by about EURM 320.

In addition to the above, because of the COVID-19 pandemic the Estonian Government decided to suspend the contributions by the state to the compulsory pension funds from July 2020 until August 2021 which slowed down the growth of the volume of funds. Payments will be resumed.

Maintaining Capital Adequacy Ratios. Credit institutions and investment firms must adhere to strict capital adequacy requirements subject to frequent reforms and changes.

Ensuring compliance with new rules brings about implementation costs which may impact the profitability of the Group. Recently a new legislative package for further reduction of banking risk was adopted, which became effective from December 2020 to mid-2021 (CRR II/CRD V/BRRD II). Implementation of the CRD V/CRR II requirements will cause significant changes to the procedures, rules and reporting systems applicable in the Group, as well as to the calculation systems of the capital requirements applicable to the Group. It is foreseen that the direct technical cost (including salary cost of involved employees) of implementation of the above requirements will be approximately EURM 2.

Currently the capital of banks and investment firms in the European Union are subject to the legal framework of CRR/CRD IV/BRRD and the most restrictive ratio for the Group is the minimum requirement for own funds and eligible liabilities (MREL). The ratio is a part of the crisis resolution plan provided for in the BRRD, as implemented into the Estonian laws, and obliges the banks to have sufficient own funds and unsecured long-term liabilities that can be used to cover losses under the crisis resolution plan. In June 2021 the EFSA set two separate MREL ratios for LHV Group, one MREL-TREA is calculated against total risk weighted assets and another MREL-LRE against total assets. Both these ratios have transition time till 1 January 2024 and were set respectively at 21.42% and 5.91%. Additionally, mid-term targets were set at 19.08% and 5.91%, which LHV Group must fulfil by 1 January 2022. The previous limit set by the EFSA was 5.79% (against total assets). As at 30 June 2021 the MREL level of the Group is 6.74% and the Group aims to increase it to the required level. LHV Pank is other systemically important institution (O-SII) and the Group is therefore subject to other systemically

[15] Explanations to the amendment proposal of Investment Funds Act and related acts. Available at: http://eelnoud.valitsus.ee/, dossier 18-0566.

important institutions buffer which was lowered from 1% to 0.0% as of 1 May 2020 by the Bank of Estonia and it is reviewed annually. The cut was made to cover possible credit losses and provide additional credit support in response to the expected economic downturn as a consequence of the COVID-19 pandemic. The buffer requirement applies to the total risk exposure of systemically important institutions and must be met by common equity Tier 1 own funds.

So far, the Group has complied with all applicable capital requirements. However, the capital requirements adopted in Estonia and the European Union may change, whether as a result of further changes of the European Union or Estonian legislation, global standards or interpretation thereof. Such changes, either individually or in combination, may lead to unexpected increased requirements and have a material adverse effect on the business LHV Pank and of the Group. This may result in the need to increase capital, reduce leverage and risk weighted assets, modify the Group's legal structure or even change the Group's business model. Failure to comply with the capital adequacy requirements could have serious legal and reputational consequences as well as a material adverse effect on the Group's operations.

Tax Regime Risks. Tax regimes of the geographical markets where the Group operates are from time to time subject to change, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable. For example, as a result of a separate corporate income tax ("**CIT**") regime targeted specifically at Estonian resident credit institutions, credit institutions are required to make quarterly advance payments of income tax on the profit earned in the previous quarter while the companies operating in other sectors remain subject to the corporate income tax regime whereunder profit is subject to taxation only upon distribution. Such advance payments are made at a reduced CIT rate of 14%. The quarterly profit of credit institutions, on the basis of which the advance CIT is calculated, is reduced by the amount of the tax-exempt dividends received by the credit institution in that quarter, as well as by the amount of loss gained during the preceding 19 quarters (loss carry forward for five years). Credit institutions have the right to set-off the CIT payable from dividend distributions (including from regular dividends) or distributions from the company's equity capital, against the advance CIT payments that had been previously made to the tax authority under the above-described advance payment arrangement. The advance CIT has a more significant impact on credit institutions in the active growth phase, such as LHV Pank, as it reduces the own funds of the bank. Similar changes or any other changes in the tax regimes in the jurisdictions where the Group companies operate or in the interpretation of such tax laws, regulations or treaties may have material adverse effect on the Group's operations, financial condition, and results of operations.

Exposure to Regulatory Actions and Investigations. The Group provides various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group's business, including, but not limited to regarding capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting, corporate governance, etc. Any determination by the authorities that the Group has not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even lead to business disruption in the respective fields. Any of these consequences may have material adverse effect on the Group's operations, financial condition and results of operations.

Risks Related to Money Laundering and Financing of Terrorism. The Group's products and services may be used for illegal purposes, including money laundering and financing of terrorism, which exposes the Group companies to several risks, above all, risk of regulatory investigations and actions and reputational risk. Anti-money-laundering and prevention of financing of terrorism regulations are subject to rapid development and constant change, both on local and the European Union level, which force the market participants to review and improve their internal procedures, processes and information technology systems to discover and prevent illegal action. If financial market conditions, both globally and regionally, deteriorate, there is a risk that incidents involving money laundering may increase and this may affect the Group's ability to monitor, detect and respond to such incidents.

Additionally, one of the core business areas of the Group is offering services to financial intermediaries such as payment service providers and virtual asset service providers. The services being offered include accounts, payments (including real time EUR and GBP payments), acquiring, working capital finance and foreign currency exchange services. Servicing such financial intermediary clients entails a higher risk of fraud and money laundering compared to regular retail and non-financial corporate clients due to the large number of end customers serviced by the financial intermediaries. In addition, financial institutions are required to comply with a number of international sanctions regimes, including those of the European Union, the United Nations, the United States and a number of other individual countries. A wide range of countries, organisations and individuals may be subject to sanctions under these regimes and the complexity of banking operations means that steps taken to screen transactions against sanctions lists may not always be effective.

Although due care is taken by the Group companies to fully comply with regulatory requirements for the prevention of money laundering and financing of terrorism, it cannot be fully excluded that the products and services of the Group companies are used for illegal purposes and this may have adverse effect on Group's operations, financial condition and results of operations.

Contractual Risks and Exposure to Civil Liability. The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group, high volumes of these agreements are based on standard templates. These transactions and agreements may be subject to the laws of Estonia or to the laws of other countries where the Group companies operate. The Group qualifies as material agreements the shareholder's agreements regarding the joint ventures of LHV Finance and LHV Kindlustus (described in Section 9.6. "Material Agreements") as these companies belong to the consolidation group of the Group and any business disruption of the joint ventures could also have material adverse effect on the Group. While due care is taken to ensure that the terms of these transactions and agreements are fully enforceable under the laws applicable to them, occasional contradictions and variations of interpretation may occur. Consequently, the Group companies may not be able to always enforce their contractual rights. Particularly in the context of a template agreement which has been replicated extensively, this could have a material adverse effect on the Group.

In the ordinary course of its business, the Group is exposed to a significant risk of claims, disputes and legal proceedings. In many cases, the Group will be the plaintiff, typically seeking to recover money advanced and it may not always be successful in this endeavour and, even where it is successful, the costs involved in the litigation will reduce its recoveries. In cases where the Group is a defendant, in addition to the cost of defending the claim the Group may be required to pay significant damages and the dispute could also negatively affect the Group's reputation. Moreover, the legal environment where such transactions are affected and agreements are entered into, which is primarily that of the Baltic states, is subject to changes, both through the enactment of new laws and regulations and through changes in interpretation by the competent authorities and courts. The results of such disputes are inherently difficult to predict.

Therefore, it cannot be fully excluded that certain terms of the transactions and agreements entered into by the Group companies turn out to be unenforceable or might have negative effect on the Group's reputation, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

3.4. Risks Related to Shares, Offering and Listing

Volatility and Limited Liquidity of Securities Listed on Nasdaq Tallinn Stock Exchange. The Company will apply for the listing and admission to trading of the Subscription Rights and the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Though every effort will be made to ensure that listing and admission to trading will occur, the Company cannot provide any assurance that the Subscription Rights and the Offer Shares will be listed and admitted to trading. The total trading turnover of the Baltic Main list the Nasdaq Baltic Stock Exchanges in 2020 for the Group was EURM 36.1.[16] As at 30 June 2021 a total of 32 companies were listed on the Baltic Main List of the Nasdaq Baltic Stock Exchange.[17] Further, there have been only a limited number of subscription rights admitted to trading on the Nasdaq Baltic Stock Exchange. Consequently, the Baltic Main List of the Nasdaq Tallinn Stock Exchange, as well as Nasdaq Tallinn Stock Exchange in general, is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of shareholders and holders of Subscription Rights to sell the Shares and Subscription Rights on the Nasdaq Tallinn Stock Exchange, or could increase the volatility of the price of the Shares and the Subscription Rights. The delisting of any of the large companies listed on the Nasdaq Tallinn Stock Exchange would be likely to have a negative effect on the market capitalisation and liquidity of the Nasdaq Tallinn Stock Exchange as a whole. Since the Nasdaq Tallinn Stock Exchange is characterised by relatively low investor activity, the impact of individual transactions on the market price of securities may be significant. Lower investor activity may lead to wider spreads between the bid and ask prices and a correspondingly lower liquidity of traded securities.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Shares or receiving dividends may result in an increased tax burden of the shareholders and may therefore have adverse effect on the rate of return from the investment into the Shares.

Payment of Dividends. The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. The Management's recommendations for the distribution of profit will be based on financial performance, capital adequacy requirements, reinvestment needs and strategic considerations which may not necessarily coincide with the short-term interests of all shareholders. The payment of dividends and the amount thereof will be subject to the ultimate discretion of the majority of the Company's shareholders.

Bail-in Risk. The Company as a financial holding company and its subsidiaries are subject to the FCPRA implementing the BRRD into Estonian law. This means that the EFSA may subject the Group to crisis prevention and resolution measures, if the EFSA assesses it to be likely that the financial situation of the Group may rapidly deteriorate or if it is likely that the Group is insolvent or may become insolvent in the future. Resolution measures are applied only in extraordinary circumstances, upon the fulfilment of a number of specific criteria and as a last resort. If resolution measures are applied, the EFSA has a right to require in respect of the Company or its subsidiaries, *inter alia*, (i) the write-down or cancellation of shares (ii) the transfer of shares or all assets, rights and liabilities, (iii) the revocation of the subscription rights to acquire additional shares or other instruments of ownership, (iv) the issue of new shares or other capital instruments, (v) suspending or terminating trading or listing of shares.

[16] Statistics published by Nasdaq Baltic Stock Exchange. Available at: https://nasdaqbaltic.com/statistics/en/statistics.
[17] Statistics published by Nasdaq Baltic Stock Exchange. Available at: https://nasdaqbaltic.com/statistics/en/statistics.

Additionally, unless the resolution for application of crisis prevention measures provides differently, the voting rights of the Company as a shareholder of LHV Pank and the authorisation of some or all of LHV Pank's management or supervisory board members will be suspended. Crisis prevention measures may also be applied to the debt obligations owed by LHV Pank to the Company, decreasing the income of the Company. Therefore, should the Group be subject to crisis prevention measures, such measures may be detrimental to the interests of the Company's shareholders and the financial situation of the Group.

<u>Shareholders in Certain Jurisdictions may not be Able to Participate in Future Equity Offerings.</u> Estonian Commercial Code provides for pre-emptive rights (in Estonian: *eesõigus*) to be granted to existing shareholders of the Company in case of future issue of shares by the Company, which can be disapplied, subject to a decision supported by a majority of at least 3/4 of the votes represented at the general meeting. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders in future offerings. In particular, holders of the Shares in the United States may not be entitled to exercise these rights, unless the Shares and any other securities that are offered and sold are registered under the U.S. Securities Act, or the Shares and such other securities are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. We cannot assure prospective investors that any exemption from such overseas securities law requirements would be available to enable U.S. or other shareholders to exercise their pre-emptive rights or, if available, that the Group will utilise any such exemption.

<u>Dilution.</u> The proportion of shareholding held by the Shareholders in the Company may be diluted if the share capital of the Company is increased and new Shares are issued in the future. In the future there may be a need to increase the share capital of the Company and issue new Shares in order to engage additional capital into the Company. Pursuant to the Estonian Commercial Code, existing shareholders of a public limited company have, upon the increase of the share capital of the company and the issue of the new shares of the company, the preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in the company. Such preferential right can, however, be excluded by the respective resolution of the general meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders. Therefore, there can be no assurance that the Shareholders will be entitled to subscribe for the new Shares, which may be issued in the future and therefore the proportion of their shareholding in the Company may decrease in the future.

<u>Lack of Adequate Analyst Coverage.</u> There is no guarantee of continued analyst research coverage for the Group. Over time, the amount of third-party research available in respect of the Group may increase or decrease with little or no correlation with the actual results of its operations as Group has no influence on the analysts who prepare such reports. Negative or insufficient third-party reports would be likely to have an adverse effect on the market price and the trading volume of Shares.

<u>Cancellation of Offering.</u> Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Shares they subscribed for. The Company shall be entitled to cancel the Offering on the terms and conditions described in Section 4.12. "Cancellation of Offering". The Offering may also be cancelled in the part not subscribed for in the course of the Offering. Considering the contemplated use of proceeds from the Offering as described in Section 5. "Reasons for Offering and Use of Proceeds", the cancellation of the Offering in the part not subscribed for in the course of the Offering may have a material negative effect on the operations of the Group.

4. TERMS AND CONDITIONS OF OFFERING

4.1. The Offering

The Company is offering up to 745,294 new Shares with the nominal value of EUR 1 each (the **Offer Shares**) to the existing shareholders (the **Offering**) by virtue of a rights issue on terms and conditions as described below. The Offering comprises of an offering to retail investors in Estonia and of an offering to institutional investors in and outside of Estonia to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made. A public offering will be carried out only in Estonia and there will not be any public offering in any other jurisdiction.

The Offering will involve the issue of new Shares in a volume corresponding to the number of the Offer Shares subscribed for in the course of the Offering and allocated to investors in accordance with the terms described in Section 4. “Terms and Conditions of Offering”. In order to conduct the Offering and issue the respective number of new Shares, increase of share capital of the Company was decided by the General Meeting of shareholders held on 23 August 2021. According to the resolution adopted by the General Meeting of shareholders, the Management has been authorised to issue up to 745,294 new Shares to conduct the Offering and the shareholders of the Company entered into the shareholders list of the Company on 8 September 2021 at the end of the business day of the settlement system of the ERS (the **Record Date**) shall be granted a preferential right to subscribe for the Offer Shares (the **Subscription Rights**). Based on the share ledger as at 8 September 2021, the total number of Subscription Rights issued is 734,586.

The Subscription Period for the Offer Shares commences on 15 September 2021 at 10:00 local time in Estonia and terminates on 29 September 2021 at 16:00 local time in Estonia. The Company has made an application to list and admit the Subscription Rights to trading on the Nasdaq Tallinn Stock Exchange. Trading in the Subscription Rights is expected to commence on the Nasdaq Tallinn Stock Exchange on 15 September 2021 and is expected to end on 27 September 2021.

The list of persons holding the Subscription Rights shall be fixed on 29 September 2021 at the end of the business day of the settlement system of the ERS. Each investor holding Subscription Rights on 29 September 2021 at the end of the business day of the ERS will receive at least the number of Offer Shares corresponding to the number of Subscription Rights, provided that it has submitted a Subscription Undertaking for at least the same amount of Offer Shares in accordance with Section 4.7. “Subscription Undertakings”. No Offer Shares shall be allocated or issued to persons who do not hold Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS.

If all of the 745,294 Offer Shares are not subscribed for using Subscription Rights due to the number of Subscription Rights being smaller than 745,294 (734,586) as a result of the exact composition of the share ledger of the Group on 8 September 2021, the Offer Shares not subscribed for using Subscription Rights shall be allocated between investors who both (i) hold Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS, and (ii) have submitted a Subscription Undertaking for a number of shares exceeding the number of Subscription Rights held by it. Allocation of such Offer Shares shall be made on *pro rata* basis based on the number of Subscription Rights held by each investor, provided that it does not exceed the number of Offer Shares subscribed for by each relevant investor. The total amount of Offer Shares may decrease in case any part of the Offering is cancelled – please refer to Section 4.12. “Cancellation of Offering” for further details.

The Offer Shares are expected to be registered in the Estonian Commercial Register on or about 18 October 2021. After registration of the Offer Shares with the Estonian Commercial Register, the Offer Shares will rank *pari passu* with all the existing Shares.

The timetable set forth below provides certain indicative key dates for the Offering:

15 September 2021	Start of Subscription Period, start of trading with Subscription Rights on Nasdaq Tallinn Stock Exchange
27 September 2021	Trading with Subscription Rights on Nasdaq Tallinn Stock Exchange ends
29 September 2021	End of Subscription Period
On or about 30 September 2021	Announcement of the results of the Offering
On or about 1 October 2021	Settlement of the Offering (during the settlement, the Offer Shares will carry a temporary ISIN)
On or about 13 October 2021	Registration of the Offer Shares in the Estonian Commercial Register
On or about 18 October 2021	The Offer Shares will receive the permanent ISIN EE3100073644
On or about 18 October 2021	First trading day of the Offer Shares on Nasdaq Tallinn Stock Exchange

4.2. Subscription Rights

The Company's shareholders fixed in the share register on the Record Date shall be granted the Subscription Rights. One Subscription Right per each 40 Shares will be issued. If the number of shares held by the shareholder does not grant a whole number of Subscription Rights, the number of Subscription Rights shall be rounded to the nearest mathematical whole number, whereas fractions under one shall be rounded to one. For example, a shareholder holding 1-40 Shares will receive one Subscription Right. A shareholder holding 1000 Shares will receive 1000:40=25 Subscription Rights. Each Subscription Right will entitle the investor to subscribe to and receive in allocation 1 Share, subject to the limitations in Section 4.12. “Cancellation of the Offering”.

The exact total number of Subscription Rights issued to the Company's shareholder depended on the exact share ledger of the Company on 8 September 2021. Based on the share ledger as at 8 September 2021, the total number of Subscription Rights issued is 734,586.

The Subscription Rights will be transferred on 15 September 2021 at the latest to those securities accounts where the Shares were registered on 8 September 2021 at the end of the business day of the settlement system of the ERS. The Subscription Rights will be deleted from securities accounts of the shareholders following completion of the Subscription Period. If a shareholder does not exercise any or all of the Subscription Rights by submitting a Subscription Undertaking or does not sell the Subscription Rights on or prior 27 September 2021, such shareholders Subscription Rights to subscribe for Offer Shares will lapse with no value and the holder will not be entitled to compensation.

Holders of nominee accounts are considered legal owners of the Shares and the Subscription Rights are transferred on the nominee accounts.

4.3. Trading in Subscription Rights

The Company has made an application to list and admit the Subscription Rights to trading on the Nasdaq Tallinn Stock Exchange. Trading in the Subscription Rights is expected to commence on the Nasdaq Tallinn Stock Exchange on 15 September 2021 and is expected to end on 27 September 2021. The ISIN code for the Subscription Right is EE3700080734.

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4.4. Right to Participate in the Offering

The Offering is directed only to persons who hold Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS. Subscription Undertakings from persons not entered on such list will be cancelled during the allocation process.

During the Offering investors may submit a Subscription Undertaking with or without holding any Subscription Rights. However, only those persons who hold the respective number of Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS, and have submitted a Subscription Undertaking, shall be allocated and will receive the Offer Shares in accordance with Section 4.9 "Distribution and Allocation".

The Offering comprises of an offering to retail investors in Estonia and of an offering to institutional investors in and outside of Estonia to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other types of investors in reliance on certain exemptions available under the laws of each such jurisdiction. A public offering will be carried out only in Estonia and there will not be any public offering in any other jurisdiction. For the purposes of the Offering, a person is considered to be "in Estonia" and has a right to participate in the Offering if such person has an operational securities account with the ERS and such person submits a Subscription Undertaking (as defined below) in relation to Offer Shares via that securities account.

4.5. Offer Price

The Offer Price is EUR 34 per one Offer Share, of which EUR 1 is the nominal value of one Offer Share and EUR 33 is the issue premium.

4.6. Subscription Period

The Subscription Period is the period during which the persons who have the right to participate in the Offering may submit Subscription Undertakings (please refer to Section 4.7. "Subscription Undertakings" for further details) for the Offer Shares. The Subscription Period commences on 15 September 2021 at 10:00 local time in Estonia and terminates on 29 September 2021 at 16:00 local time in Estonia.

4.7. Subscription Undertakings

The Subscription Undertakings for the Offer Shares may be submitted only during the Subscription Period. An investor participating in the Offering may apply to subscribe for the Offer Shares only for the Offer Price. All investors participating in the Offering can submit Subscription Undertakings denominated only in euro. An investor shall bear all costs and fees charged by the respective custodian of the ERS accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking.

Multiple Subscription Undertakings by one investor shall be merged for the purposes of allocation. In order to subscribe for the Offer Shares, an investor must have a securities account with the ERS. Such securities account may be opened through any custodian of the ERS. The list of banks and investment firms operating as custodians of the ERS is available on the website of the ERS https://nasdaqcsd.com/list-of-account-operators/ under the column "Account operator".

An investor wishing to subscribe for the Offer Shares should contact a custodian that operates such investor's ERS securities account and submit a Subscription Undertaking in the form set out below to receive the Offer Shares on that account during the allocation process. Due to the technical process used in distributing the Offer Shares, the Subscription Undertaking must detail the ISIN code of the Subscription Rights (and not the Offer Shares), as provided below. The Subscription Undertaking must be submitted to the custodian by the end of the Subscription Period. The investor may use any method that such investor's custodian offers to submit the Subscription Undertaking (e.g., physically at the client service venue of the custodian, over the internet or by other means).

Holders of nominee accounts are considered legal owners of the Shares and the Subscription Rights are transferred on the nominee accounts, hence the investors holding Shares on nominee accounts or wishing to receive Shares on nominee accounts during the allocation process, must submit the Subscription Undertakings via nominee account holder and must ensure the Subscription Undertaking includes the number of the same securities account (nominee account).The Subscription Undertaking for the Offer Shares must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	LHV Group subscription rights
ISIN code:	EE3700080734(1)
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per one Offer Share):	EUR 34
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by the Offer Price
Value date of the transaction:	1 October 2021
Type of transaction:	"subscription"
Type of settlement:	"payment free of delivery" (PFOD)

Note
(1) ISIN of the Subscription Rights and not the Offer Shares should be included in the Subscription Undertaking due to the technical process applicable to Offerings carried out as a rights issue.

In case the investor holds Subscription Rights and exercises the right by submitting a Subscription Undertaking for the corresponding number of Offer Shares, the Subscription Rights on the investors securities account will be blocked. In case the investor does not hold Subscription Rights or wishes to subscribe for more Offer Shares than the number of Subscription Rights held by such investor, the Subscription Rights on the investors securities account will not be blocked, however no Offer Shares shall be allocated or issued to persons who do not hold Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS.

An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorised (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ERS receives a duly completed transaction instruction from the custodian of the respective investor.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete, and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Subscription Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

(i) accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;

(ii) acknowledges that the Offering does not constitute an offer of the Offer Shares by the Company within the meaning of section 16(1) of the Estonian Law of Obligations Act or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares between the Company and the investor;

(iii) accepts that the number of the Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Offer Shares, which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount (please refer to Section 4.9. "Distribution and Allocation" for further details);

(iv) undertakes to acquire and pay for any number of Offer Shares allocated to it in accordance with these terms and conditions up to the Maximum Amount;

(v) authorises and instructs its custodian to forward the registered transaction instruction to the registrar of the ERS;

(vi) authorises the custodian and the registrar of the ERS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify the number of the Offer Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor;

(vii) authorises the Issuer, the registrar of the ERS, the custodians and their respective advisors to process forward and exchange information on the identity of the investor and the contents of the investor's Subscription Undertakings and the amount of Subscription Rights before, during and after the Offer Period;

(viii) confirms, that he/she/it is not subject to the laws of any other jurisdiction which would prohibit the placing of the Subscription Undertaking or allocation of the Offer Shares to him/her/it and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus.

An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Subscription Period. To do so, the investor must contact its custodian through whom the Subscription Undertaking in question has been made and carry out the procedures required by the custodian for amending or cancelling a Subscription Undertaking (such procedures may differ between different custodians).

4.8. Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Offer Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its ERS securities account or its securities account to cover the whole transaction amount for that particular Subscription Undertaking.

4.9. Distribution and Allocation

The Company will decide on the allocation of the Offer Shares after the expiry of the Subscription Period on or about 30 September 2021. Offer Shares will be allocated only to those persons who hold the respective number of Subscription Rights on 29 September 2021 at the end of the business day of the settlement system of the ERS and have submitted a Subscription Undertaking. The Offer Shares will be allocated to the investors participating in the Offering in accordance with the following principles:

(i) all persons who hold the respective number of Subscription Rights on their securities accounts on 29 September 2021 at the end of the business day of the settlement system of the ERS are guaranteed to receive the respective number of Offer Shares (i.e., the number of the Subscription Rights held by the investor and the number of Offer Shares subscribed for by such investor). An investor may receive the Offer Shares to the securities account(s) detailed on the Subscription Undertaking(s);

(ii) if the number of Offer Shares allocated in accordance with the principle in subsection (i) above is smaller than 745,294, the remaining Offer Shares shall be allocated to persons who held Subscription Rights on their securities account on 29 September 2021 at the end of the business day of the settlement system of the ERS proportionally, insofar as mathematically possible, to the number of Subscription Rights held, but in a number not larger than the number of Offer Shares that they subscribed for (for avoidance of doubt, the number of guaranteed shares allocated in subsection (i) taken into account).

Subscription Rights held on the investor's multiple securities accounts and the investor's multiple Subscription Undertakings shall be merged and compared for the purposes of allocation, however the investor shall receive the Offer Shares to the securities account(s) detailed on the Subscription Undertaking(s) insofar as mathematically possible, to the number of Subscription Rights held, but in a number not larger than the number of Offer Shares that the investor subscribed for.

The investor may receive the Offer Shares to the nominee account if the investor submits a Subscription Undertaking via the nominee account holder. The investor will be eligible to receive the Offer Shares to the nominee account only if the holder of the nominee account has disclosed the identity of the investor to the registrar of the ERS and the Company in writing. Among other information it is also requested to disclose the name, personal identification code or registry code, the number of Subscription Rights held and the Offer Shares that the investor subscribed for.

In case the investor submits a Subscription Undertaking through a nominee account and the holder of the nominee account has disclosed the requested information to the registrar of the ERS and the Company, each such investor subscribing via a nominee account is considered as an independent investor during the allocation process. Nevertheless, the nominee account holder is responsible for the allocation of the Offer Shares to the investor.

Upon over-subscription of the Offering, the number of the Offer Shares will remain the same (altogether 745,294 Offer Shares), which will be allocated to the investors participating in the Offering in accordance with the principles described in this Section 4.9. "Distribution and Allocation". The funds blocked on the investor's account will be returned in the amount corresponding to the Offer Price multiplied by the number of Shares not allocated to the specific investor as described in Section 4.11. "Return of Funds". Upon under-subscription of the Offering, the Company shall be entitled to cancel the Offering in the part not subscribed for in the course of the Offering as described in Section 4.12. "Cancellation of Offering".

The Offer Shares subscribed for will be allocated to the investors participating in the Offering in accordance with the principles described in this Section 4.9. "Distribution and Allocation".

Subscription Rights not used in accordance with this Section 4.9. "Distribution and Allocation" will be cancelled.

The Company expects to announce the results of the allocation process through the information system of the Nasdaq Tallinn Stock Exchange and at the Company's website https://investor.lhv.ee/en on or about 30 September 2021.

To the extent known to the Company the indication is that the member of the Management Board intends to subscribe for 100% of the Offer Shares granted to him with Subscription Rights and the members of the Supervisory Board intend to subscribe for 69% of the Offer Shares granted to them with Subscription Rights. The Company is not aware whether any other major shareholders or any other key employees intend to subscribe for the Offering or whether any person intends to subscribe for more than 5% of the Offering.

4.10. Settlement and Trading

The Offer Shares will be registered in book entry form in the ERS under ISIN EE3100073644. During the settlement of the Offering, the Offer Shares will carry a temporary ISIN, which will be changed to the permanent ISIN EE3100073644 after registration of the Offer Shares in the Commercial Register.

The Offer Shares allocated to investors will be transferred to their securities accounts on or about 1 October 2021 through the "payment free of delivery" method at the same time as the payment for Offer Shares from the investors' account connected with the securities account. The Offer Shares will receive the permanent ISIN EE3100073644 on or about 18 October 2021.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to it, the Offer Shares allocated to such investor are transferred to such investor's securities accounts proportionally with the respective securities amounts set out in such investor's Subscription Undertakings. The number of the Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Shares is transferred to each securities account. If the transfer cannot be completed due to the lack of sufficient funds on the investor's cash account, the Subscription Undertaking of the respective investor will be rejected and the investor will lose all rights to the Offer Shares allocated to such investor.

Trading with the Offer Shares is expected to commence on the Nasdaq Tallinn Stock Exchange on or about 18 October 2021.

4.11. Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Shares), will be released by the respective custodian. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

4.12. Cancellation of Offering

The Management of the Company may cancel all or part of the Offering and/or modify the terms and dates of the Offering at any time prior to the completion of the Offering, without disclosing any reason for doing so. Information on modification of the terms of the Offering will be made available publicly in the form of an announcement on the Website and through Nasdaq Tallinn.

Revocation of the Offering after trading has begun is not permitted.

In addition to other cancellation rights, the Company has reserved the right to cancel the Offering in the part not subscribed for in the course of the Offering by way of Subscription Offers that could be satisfied according to the principles outlined in Section 4.9. “Distribution and Allocation”. Any cancellation of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and at the Company’s website https://investor.lhv.ee/en. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated at the moment when such announcement is made public.

4.13. Conflicts of Interests

According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

4.14. Dilution

As at the date of this Prospectus, the number of the Shares of the Company is 29,118,873. The amount of the Offer Shares is up to 745,294. Therefore, the number of the Shares of the Company after the successful registration of the increase of the share capital of the Company will be up to 29,864,167, provided; however, that the number of the Offer Shares is not changed in accordance with the terms and conditions described in the Section 4.12. “Cancellation of Offering”. Therefore, following the completion of the Offering assuming that (i) all offered Offer Shares will be subscribed for and issued, (ii) all shareholders choose to transfer their Subscription Rights to third parties and not use those for Subscribing to any Offer Shares, (iii) such third parties will use the Subscription Rights to subscribe for the Offer Shares, the shareholdings in the Company prior to the Offering will be diluted by up to 2.4956% as a result of the Offering.

The net asset value (attributable to the owners of the parent company) per share as of the date of the latest balance sheet before the Offering is EUR 8,95.

4.15. Listing and Admission to Trading

The Company intends to apply for the listing and admission to trading of all the Shares (including Offer Shares subscribed for and issued by the Company and allocated to investors as a result of the Offering) on the Main List of Nasdaq Tallinn Stock Exchange as soon as possible after the registration of the Offer Shares in the in the ERS and the Estonian Commercial Register. The Company will take all necessary measures in order to comply with the Nasdaq Tallinn Stock Exchange rules so that its application would be approved. The expected date of listing and admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange is on or about 18 October 2021.

While every effort will be made and due care will be taken by the Company in order to ensure the listing and the admission to trading of the Shares, the Company cannot ensure that the Shares are listed and admitted to trading on the Main List of the Nasdaq Tallinn Stock Exchange.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

The purpose of the Offering is to strengthen the capital structure of the Group and ensure stable access to additional capital to support the further growth and market position of the Group, increase the business volumes of the Group and ensure conservative capital buffer for the Group.

Provided that the Offering is successful and that all the Offer Shares (altogether 745,294 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is EUR 25,339,996. Expenses directly related to the Offering are estimated to be approximately EUR 50,000 comprising of legal and audit expenses and communication and marketing expenses. Therefore, the net proceeds of the Offering are expected to be about EURM 25.29. The Company plans to use the net proceeds of the Offering in line with the overall purpose of the Offering, triggered by general growth of the Group's business lines. In particular, up to EURM 15,145 of the net proceeds are planned for capitalizing LHV UK's business line and up to EURM 10,145 of the net proceeds are planned for supporting the growth of LHV Pank's loans portfolio.

6. DIVIDEND POLICY

The Offer Shares will give rights to dividends declared by the Company (if any) for the financial year beginning on 1 January 2021 and for the subsequent financial years. The Company cannot ensure that dividends will be paid in the future, or if dividends will be paid, how much they will amount to. Resolving the payment of dividends is in the competence of the General Meeting. The payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, capital requirements, future prospects and other aspects.

The Management is expecting the Company to continue paying of dividends to the shareholders of the Company on an annual basis. The operations of the Group have been constantly growing over the years and been subject to rapid expansion. Such high growth and rapid expansion have resulted in the Group companies consuming more capital that they have generated internally. Such a capital deficit has been covered by engaging additional capital by increasing the share capital of the Company and issuing new Shares as well as issuing of debt instruments (bonds). Although the Management is expecting to continue the relatively high growth of the operations of the Group also over the upcoming years, the business of the Group is maturing and therefore the Management is expecting the growth rates to decrease gradually, which in turn is expected to result in the growth of internally generated capital. Given the regulated nature of the operations of the Group, the Group must ensure to stay sufficiently capitalised (including to meet the applicable capital adequacy requirements) and liquid, including maintaining adequate liquidity buffers to correspond to general risk level of operations of the Group and business segments where the Group companies operate.

According to the Company's dividend policy as approved by the General Meeting on 20 April 2016 and specified by the General Meeting on 29 March 2017, it is the intention of the Company to distribute profit and pay dividends to shareholders in the ratio of at least 25% of the profit before taxes. The Company has paid dividends for the previous years as follows: (i) in 2019, the Company paid dividends in the net sum of 21 cents per one share in total of EURM 5,463, (ii) in 2020, the Company paid dividends in the net sum of 19 cents per one share in total of EURM 5,406 and (iii) in 2021, the Company paid dividends in the net sum of 29 per one share in total of EURM 8,358.

Such dividend policy is planned to be followed, provided that the operating needs of the Group as determined by the Supervisory Board are covered and that after the distribution of profit all Group companies comply with all internal and external capital and liquidity requirements in full. The Company reserves itself the right to reduce the amount of profit distributed and dividends paid or not to distribute profit and pay dividends if there is a credible investment opportunity, which is expected to result in significant increase of the value of the Group in a long-term perspective.

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7. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

7.1. Share Capital and Shares

The current registered and fully paid-in share capital of the Company is EUR 29,118,873, which is divided into 29,118,873 ordinary shares of the Company (the Shares) with the nominal value of EUR 1. The Shares are registered in the ERS under ISIN code EE3100073644 and kept in book-entry form.

The Shares are governed by the laws of the Republic of Estonia. The Shares are freely transferrable. The Shares are listed on Nasdaq Tallinn Stock Exchange as of 23 May 2016.

On 13 March 2020, the ordinary General Meeting of the Shareholders of the Company resolved to approve the management and equivalent staff as well as key employees share option programs after the lapse of the previous share option program, which commenced in 2015. The main purpose of both the 2015 and 2020 share option programs has been to further align the long-term interests of the members of the management bodies and key employees of the Company and the Group with the long-term interests of the Shareholders. The share option program was approved for the term of 5 years. The volume of the program is up to 2% of the total number of Shares per one calendar year.

7.2. Shareholders of the Company

As at the date of this Prospectus, the Shareholders holding over 5% of all Shares in the Company are the following:

Name of Shareholder	Number of Shares	Proportion	Person directly or indirectly controlling the Shareholder
AS Lõhmus Holdings	3,618,920	12.43%	Mr Rain Lõhmus, the Chairman of the Supervisory Board of the Company
Mr Rain Lõhmus	2,538,367	8.72%	N/A
Viisemann Investments AG	2,186,432	7.51%	Mr Andres Viisemann, Member of the Supervisory Board of the Company
Ambient Sound Investments OÜ	1,653,709	5.68%	Ahti Heinla, Annika Tallinn, Jaan Tallinn, Priit Kasesalu, Toivo Annus, Adelia Annus, Emilia Annus, Georg Annus, Jekaterina Annus[18]

The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 32.75% of all the Shares, whereas approximately 23.14% of the Shares are held by Mr Rain Lõhmus (as natural person and through AS Lõhmus Holdings and OÜ Merona Systems) and 9.61% by Mr Andres Viisemann (as natural person and through Viisemann Investments AG and Viisemann Holdings OÜ).

The Management is not aware of any person directly or indirectly controlling the Company, nor of any arrangements or circumstances, which may at a subsequent date result in a change in control over the Company.

The major shareholders of the Company do not have voting rights different than those described in Section 7.3. “Rights of Shareholders”.

[18] Based on beneficial ownership data reported to the Estonian Commercial Register.

7.3. Rights of Shareholders

Introductory Remarks. This Section 7.3. “Rights of Shareholders” aims to provide general overview of the rights of shareholders arising from Estonian law applicable in respect of the Shareholders of the Company.

Right to Participate in Corporate Governance. The shareholders of a public limited company are entitled to take part in the corporate governance of such company through the general meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as the amendment of the articles of association, the increase and decrease of the share capital, the issue of convertible bonds, the election and removal of the members of the supervisory board and the auditor, the approval of annual reports and the distribution of profit, the dissolution, merger, division or transformation of the company, and certain other matters. The general meeting of shareholders is the highest governing body of a public limited company. Each share entitles its holder to one vote at the general meeting.

The ordinary general meeting of shareholders must be held once a year pursuant to the procedure and at the time set forth by the law and the articles of association. Despite the fact that according to the Estonian Commercial Code the ordinary general meeting of shareholders must be held within six months as from the end of the financial year, the Estonian Securities Market Act specifies that the audited annual report of a listed and publicly traded company must be made public within four months as from the end of the financial year. According to the Estonian Commercial Code, before the ordinary general meeting of shareholders is held, the supervisory board must review the annual report and provide the general meeting of the shareholders with a written report on the annual report, indicating whether the supervisory board approves the report or not but also providing information on how the supervisory board has organised and supervised the activities of the management of the public limited company in the respective year. In practice, the referred report is made available together with the notice on convening the general meeting of the shareholders.

An extraordinary general meeting of the shareholders must be convened in the cases set forth in the articles of association of a public limited company but also: (i) in the event where the net equity of the company decreases below the legally required minimum level, or (ii) if shareholders representing at least 1/20 of the share capital of a public limited company listed and admitted to trading on a regulated market, the supervisory board, or the auditor request that a meeting is convened or (iii) if the meeting is required in the interests of the company. If the management board of a public limited company fails to convene the extraordinary general meeting within one month after the receipt of the relevant request from shareholders (or from the supervisory board or from the auditor), the shareholders (or, respectively, the supervisory board or the auditor) have the right to convene the meeting themselves.

The notice of an upcoming general meeting of shareholders must be published and disclosed to shareholders three weeks in advance. The notice on convening the general meeting of shareholders must be published in at least one national daily newspaper in Estonia and, for issuers of listed instruments, through the information system of the Nasdaq Tallinn Stock Exchange. If there is a material breach of the requirements of convening the general meeting of the shareholders, such meeting does not have the capacity to adopt resolutions, except if all shareholders participate in the meeting.

As a rule, the agenda of the general meeting of the shareholders is determined by the supervisory board. However, if the meeting is convened by the shareholders or by the auditor, the agenda is determined by them. Furthermore, the management board or the shareholders whose shares represent at least 1/20 of the share capital of a public limited company listed and admitted to trading on a regulated market may demand the inclusion of a certain item into the agenda. An item which is initially not on the agenda of a general meeting of shareholders may be included in the agenda upon the consent of at least 9/10 of the shareholders who participate at the meeting if their shares represent at least 2/3 of the share capital of such company.

A general meeting of shareholders of a public limited company is capable of passing resolutions if more than 1/2 of the votes represented by all shares held by shareholders are present at the meeting. If this quorum requirement is not met, the management board is required to convene a new meeting not more than three weeks but not less than seven days after the date of the initial meeting. There are no quorum requirements for the newly convened general meetings of shareholders convened in such a manner.

Only those shareholders are eligible to attend and vote at a general meeting of shareholders who were on the list of shareholders as of the date falling seven calendar days before the meeting.

As a rule, the resolutions of a general meeting of shareholders require the affirmative vote of the majority of the votes represented at the meeting. Certain resolutions, such as amending the articles of association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, etc., require a qualified majority of 2/3 of the votes represented at the meeting of shareholders. In addition to such resolutions, there are resolutions which require an even higher rate of affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders, and squeeze-out of minority shares, which requires the affirmative vote of 95/100 of the votes represented at the general meeting of shareholders. Higher quorum and voting requirements compared to the ones described herein may be stipulated by the articles of association of a public limited company.

The Articles of Association of the Company do not include any deviation from the applicable law with respect to the Company's General Meeting.

<u>Right to Information.</u> Pursuant to the Estonian Commercial Code, the shareholders of a public limited company have the right to receive information on the activities of the company from the management board at the general meetings of shareholders. However, management board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the company. In the event the management board refuses to give information, shareholders may require the general meeting of shareholders to decide on the legality of such refusal or submit a respective claim to the competent court.

<u>Right to Subscribe for New Shares.</u> Pursuant to the Estonian Commercial Code, existing shareholders of a public limited company have, upon the increase of the share capital of the company and the issue of the new shares of the company, the preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in the company. Such preferential right can be excluded by the respective resolution of the general meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders.

<u>Right to Dividends.</u> All shareholders of a public limited company have the right to participate in the distribution of profit of the company and have the right to receive dividends proportionally to their shareholding in the company. Resolving the distribution of profit and the payment of dividends is in the competence of the general meeting of shareholders. The resolution of the distribution of profit and the payment of dividends is adopted on the basis of the approved annual report for the preceding financial year, whereas the management board is under the obligation to make a proposal for the distribution of profit and the payment of dividends in the annual report or in a separate document accompanying the annual report, whereas such a proposal of the management board is subject to a review by supervisory board, which is in turn entitled to introduce amendments to the proposal. The resolution on the distribution of profit and on the payment of dividends must include the following information – (i) the amount of net profit; (ii) the payments into statutory capital reserve; (iii) the payments into other reserves

if such exist according to the applicable law or the articles of association (which is not the case for the Company); (iv) the amount of profit being distributed among shareholders; and (v) using the profit for other purposes, if applicable. Shareholders who are entitled to participate in the distribution of profit and receive dividends shall be determined on the basis of the list of shareholders as maintained by the ERS, which is fixed on the date determined by the general meeting of shareholders resolving the distribution of profit, whereas in respect of companies listed on the Nasdaq Tallinn Stock Exchange, such date may not occur earlier than on the tenth trading day after the general meeting of shareholders. While distributing profit and making dividend payments to shareholders, a public limited company is under the obligation to treat all shareholders equally.

Right to Liquidation Proceeds. According to the Estonian Commercial Code, upon liquidation of the public limited company the assets remaining after satisfying or securing all the creditors' claims (and depositing the money for this purpose) are distributed among the shareholders *pro rata* to the nominal value or book value of their shares pursuant to the asset distribution plan prepared by the liquidators. Assets may be distributed no earlier than six months after the entry of the dissolution of the public limited company in the Estonian Commercial Register and no earlier than two months after the date on which the shareholders were informed that the final balance sheet and asset distribution plan are presented to the shareholders for examination, provided that the balance sheet or asset distribution plan have not been contested in court, the action has not been heard or has not been satisfied, or if the proceeding in the matter has been concluded. According to the Estonian Commercial Code, liquidation proceeds are distributed by way of monetary payments unless the articles of association prescribe otherwise. The Articles of Association of the Company do not currently provide for any alternative forms of payment of liquidation proceeds.

Acquisition by a Company of Own Shares. Pursuant to the Estonian Commercial Code, a public limited company is entitled to acquire its own shares only if all the following conditions are met: (i) the acquisition occurs within five years after the adoption of a resolution of the general meeting of shareholders which specifies the conditions and term for the acquisition and the amounts to be paid for the shares; (ii) the sum of the nominal value of the shares held by the company does not exceed 1/10 of its share capital; and (iii) the shares are paid for from assets excluding the share capital, reserve capital and premium. Regardless of the above, a public limited company may acquire its shares by inheritance. A public limited company may also acquire its shares by a resolution of the supervisory board without requiring a resolution of the general meeting of shareholders if the acquisition of the shares is necessary to prevent significant damage to the company. In such case, the shareholders must be informed of the circumstances and details of the acquisition of the company's own shares at the next general meeting of shareholders. If the shares are obtained in compliance with the law but form more than 1/10 of the share capital, the excess shares must be disposed of within three years of their acquisition. In case the public limited company acquires its own shares in violation of the law, such shares must be disposed of or cancelled (by decreasing the share capital) within one year of acquisition. The rules regarding the acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In the event that a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

Squeeze-out rules. According to the Estonian Commercial Code, a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90% of the share capital of a public limited company, is entitled to request that the general meeting of shareholders approves taking over by that shareholder of the remaining outstanding shares of the company for fair monetary compensation ("squeeze-out"). The squeeze-out must be approved at the general meeting of shareholders by at least 95% of the votes represented by the shares of the company. Squeeze-out of minority shareholders of a public limited company may also be carried out according to the Estonian Commercial Code during a merger between two companies, if the surviving company owns at least

90% of the shares of the company being merged. In such a case the squeeze-out is approved if at least 90% of the votes represented by the shares of the company are cast in favour of the relevant resolution at the general meeting of shareholders of the company being merged.

In addition to the above, a special squeeze-out regime applies to listed companies under the Estonian Securities Market Act in case a person reaches at least a 90% shareholding in a company as a result of making a voluntary or a mandatory takeover bid to the company's shareholders. In such a case the relevant acquirer may request the general meeting of shareholders of the company to be called within 3 months after the expiry of the takeover term and to vote on the takeover of the remaining shares belonging to the shareholders of the company ("squeeze-out") for a fair compensation (not being less than the takeover bid price). In such a case, a resolution on the takeover of the remaining shares of the target is adopted if at least 90% of all votes represented by all shares of the company are cast in favour of the resolution. If a squeeze-out resolution has not been passed in the abovementioned scenario, then the takeover bid term is to be extended for up to 3 months after the date of disclosure of the takeover bid results, with respect to the target persons who, within the framework of the takeover bid, did not agree to taking over their shares.

Mandatory takeover bids. The legal regime applicable to takeover bids is provided in the Estonian Securities Market Act which implements the rules stipulated in the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

If a person (either directly or together with any persons acting in concert) acquires dominant influence over an Estonian listed company such person is required to make a mandatory offer to all remaining shareholders for acquisition of the shares held by them in the relevant company (i.e., mandatory takeover bid). The obligation to make a mandatory takeover bid is triggered when the acquirer (alone or together with persons acting in concert) becomes the holder of the voting rights attached to the shares of the issuer representing the majority of all votes. The obligation to make a mandatory takeover bid may be triggered also regardless of the stake acquired, if: (i) the person, as the issuer's shareholder, has the right to appoint or remove the majority of the target's supervisory council or management board members; or (ii) the person, as the issuer's shareholder, controls alone the majority of votes on the basis of an agreement with other shareholders; or (iii) the person has dominant influence or control over the issuer and the possibility to exercise it.

The mandatory takeover bid must be published within 20 days of gaining a dominant influence over the issuer. The price offered under a mandatory takeover bid must be fair, which is determined by specific parameters stipulated in the Estonian Securities Market Act and the Takeover Rules enacted by the Minister of Finance of Estonia.

8. MANAGEMENT

8.1. Management Structure

In accordance with the Estonian law, the operational management of the Company is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and is authorised to represent the Company based on the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and for supervising the activities of the Management Board.

The address of operations of the Management Board and the Supervisory Board is the registered address of the Company - Tartu mnt 2, 10145 Tallinn, Estonia.

8.2. Management Board

Role. The Management Board of the Company is responsible for the day-to-day management of the Company's operations, the representation of the Company and for organising its accounting. Further, according to the Estonian Commercial Code, it is the obligation of the Management Board to draft the annual reports and submit the reports to the Supervisory Board for review and to the General Meeting of shareholders for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

Duties. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least every month and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and the insolvency, due to the Company's financial situation, is not temporary, the Management Board must immediately submit a voluntary bankruptcy petition in respect of the Company.

The Management Board may enter into transactions that lie outside the Company's ordinary scope of business only with the consent of the Supervisory Board. According to the Articles of Association, the consent of the Supervisory Board is required for the following transactions:

(i) approval of annual business plan and budget;

(ii) approval of annual report and amendment of the proposal on the division of profit made by the Management Board;

(iii) acquisition or disposal of shareholdings in other entities;

(iv) resolving establishment or dissolution of a subsidiary of the Company;

(v) acquisition, disposal of an enterprise or termination of the operations thereof;

(vi) transfer or encumbering of real estate or registered property;

(vii) establishment or liquidation of a foreign branch;

(viii) making investments in the amount exceeding the budget for the respective financial year;

(ix) taking loans or assuming debt obligations in the amount exceeding the budget for the respective financial year;

(x) granting loans or securing debt obligations not within the Company's ordinary scope of business;

(xi) appointing and recalling a procurator;

(xii) appointing and recalling the members of the Management Board; appointing the Chairman of the Management Board;

(xiii) determining the duties of the members of the Management Board, exercising supervision over the activities of the Management Board and determining the principles of remunerating the work of the Management Board;

(xiv) resolving the execution of a transaction with a member of the Management Board, determining the terms of such a transaction, resolving the initiation of a legal dispute against a member of the Management Board, and determining the representative of the Company in such a transaction or a legal dispute;

(xv) resolving the execution of a transaction with a shareholder of the Company, determining the terms of such a transaction, resolving the initiation of a legal dispute against a shareholder of the Company, and determining the representative of the Company in such a transaction or a legal dispute;

(xvi) appointing and recalling the members of the management bodies formed by the Supervisory Board, determining the work procedure rules of such bodies, unless the applicable law sets forth different requirements;

(xvii) resolving other matters placed into the competence of the Supervisory Board by the applicable law or the Articles of Association.

The work procedure rules, representation rights, restrictions, and limitations on executing transactions in the name and on behalf of the Company, as well as the liability of the members of the Management Board are further specified by the Rules of Procedure of the Management Board approved by the resolution of the Management Board dated 20 June 2018.

Members of Management Board. According to the Articles of Association, the Management Board comprises of one to five members who are appointed by the Supervisory Board for a term of five years. As at the date of this Prospectus the Company has one member of the Management Board – Mr Madis Toomsalu. The authorities of Mr Madis Toomsalu as the member of the Management Board commenced on 5 December 2016 and will remain valid until 5 December 2021.

Mr Madis Toomsalu. Mr Toomsalu has obtained a Bachelor's degree in business management from the Tallinn University of Technology (TalTech) in 2009 and Master's degree in 2011 in public sector finance. Within the Group, in addition to holding the position of the member of the Management Board of the Company, and various management positions within the Subsidiaries, Mr Toomsalu acts as the member of the management board of non-profit organisations MTÜ FinanceEstonia.

8.3. Supervisory Board

Role. In accordance with the Estonian Commercial Code, the Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Supervisory Board is accountable to the Shareholders of the Company (acting through the General Meeting).

Duties. In accordance with the Estonian Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report and also providing information on how the Supervisory Board has organised and supervised the activities of the Company during the year. In practice, the referred report is made available along with the notice on convening the General Meeting of shareholders. The duties of the Supervisory Board members, as well as restrictions on serving as a member of the Supervisory Board and the work procedure of the Supervisory Board are further specified with the Rules of Procedure of the Supervisory Board approved by the Supervisory Board on 20 May 2020. The main purposes of establishing the Rules of Procedure were to ensure effective avoidance of conflicts of interests and to specify the work procedure of the Supervisory Board.

Members of Supervisory Board. According to the Articles of Association of the Company, the Supervisory Board consists of five to seven members who are appointed by the General Meeting of shareholders for a period of three years unless the General Meeting decides otherwise. The members of the Supervisory Board elect among themselves a Chairman of the Supervisory Board who is responsible for organising the activities of the Supervisory Board. The Articles of Association stipulate, that only persons with sufficient knowledge and experience may be appointed to the Supervisory Board. According to the Articles of Association, meetings of the Supervisory Board are as a general rule held once a month or according to the actual necessity, but in any case, at least once every three months. A meeting of the Supervisory Board has quorum if more than one half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is adopted if more than one half of the members of the Supervisory Board who participate at the meeting vote in favour. In case of a tied vote, the Chairman of the Supervisory Board has a casting vote. As at the date of this Prospectus there are seven members in the Supervisory Board of the Company – Mr Rain Lõhmus (the Chairman of the Supervisory Board; since 21 May 2014), Mr Raivo Hein (since 18 January 2010), Mr Heldur Meerits (since 18 December 2008), Mrs Tiina Mõis (since 8 December 2006), Mr Tauno Tats (since 21 May 2014), Mr Andres Viisemann (since 7 September 2004) and Mr Sten Tamkivi (since 29 April 2015). The authorities of all referred persons as the members of the Supervisory Board will remain valid until 29 March 2023.

Mr Raivo Hein. Mr Hein holds a degree in road construction from the Tallinn Technical University awarded to him in 1991. Within the Group, he serves as the member of the Supervisory Board of the Company and LHV Pank. In addition, he is the member of the management board of OÜ Kakssada Kakskümmend Volti, Lame Maakera OÜ, Astrum OÜ, and OÜ Saarte Sillad, he is also the owner and a member of the management board of several other companies established for the management of personal investments. He is the member of the supervisory board of AS Puumarket. In the past he has acted as the member of the supervisory board of Aktsiaselts Fix Ideed Estonia, Moonfish Media OÜ and United Dogs and Cats OÜ; as the chairman of the supervisory board of OÜ Tarbegaas and as the member of the management board of Sundog Media OÜ and AS Starman (current business name Elisa Teleteenused AS) and AS CV Keskus.

Mr Rain Lõhmus. He graduated from the Tallinn Technical University in 1988 where he obtained a degree in economics. In 1999, he attended the General Manager Program at the Harvard Business School. During his professional career, Mr Lõhmus has worked as an investment banker and served as a member of the management board of several companies. He has been engaged with the Group since its establishment in 1999 and was one of the founders thereof. Currently Mr Lõhmus serves as the chairman of the Supervisory Board of the Company and holds various management positions within the Subsidiaries. Additionally, he holds the position of the member of the management board of AS Lõhmus Holdings, Lõhmus Capital OÜ, LHV CAPITAL I PTE. LTD, OÜ Merona Systems and Zerospotnrg OÜ; and is the member of the supervisory board of Arco Vara AS, Kodumaja AS and Thermory AS. In the past he has held the position of the member of the supervisory board of Kodumajagrupi AS, AS Audentes, AB Archyvų sistemos (previously AS Arhiivikeskus) and AS LH Capital and the position of the member of the management board of Cuber Technology (in liquidation).

Mr Heldur Meerits. Mr Meerits obtained a degree in finance and credit from the University of Tartu in 1982. During his professional career Mr Meerits has worked for the Estonian National Bank, for the predecessor of AS Swedbank and for the Government Office and since 2002, he has been engaged in investing via Amalfi AS. Within the Group, he serves, in addition to his position as a member of the Supervisory Board of the Company, as a member of the supervisory board of LHV Pank. Mr Meerits is a member of the management board of AS Altamira, SIA Valdemara Group and AS Amalfi and a member of the supervisory board of Kodumaja AS, AS Smart City Group and non-profit organisations SA Dharma, SA Põltsamaa Ühisgümnaasiumi Toetusfond and Audentese Koolide SA. In the past he has held the position of the member of the supervisory board of AS Audentes, Green Clay Manufacturing OÜ, Mainor Ülemiste AS and AS Estonian Air and the position of the member of the management board of MTÜ Eesti Eraüldhariduskoolide Ühendus, and AS Avatud Eesti Fond.

Mrs Tiina Mõis. Mrs Mõis holds the degrees in econometrics and organisation of service and economic engineering from the Tallinn Technical University awarded to her in 1980. Since 1999, she serves as a member of the management board and the managing director of AS Genteel, investment vehicle fully-owned by Mrs Mõis. Within the Group, in addition to her position as a member of the Supervisory Board of the Company, she also serves as a member of the supervisory board of LHV Pank. In addition to that, she holds the position of a member of the supervisory board of Rocca al Mare Kooli Aktsiaselts. She has also held the position of the member of the supervisory board of AS Baltika, Green Clay Manufacturing OÜ, SA Tallinna Tehnikaülikooli Arengufond, AS Martinson Trigon, Rocca al Mare Kooli AS, Rocca al Mare Koolimaja AS, HTB Investeeringute OÜ, Nordecon AS and the position of the member of the management board of Tallinna Tehnikaülikooli Vilistlaskogu and Estonian Chamber of Commerce and Industry.

Mr Sten Tamkivi. He holds a Masters' degree in management from the Standford University Graduate School awarded to him in 2013. He holds the position of the member of the management board of Seikatsu OÜ, Osaluste Hellalt Hoidmise OÜ, Topia OÜ, Kaigun OÜ, Teleport, Inc. and Eesti Startupi Juhtide Klubi MTÜ. Mr Tamkivi serves as a member of the supervisory board of ASI Private Equity AS, Salv Technologies OÜ and non-profit organisations Kristler-Ritso Eesti SA. Previously he has acted as the member of the supervisory board of OÜ Tarkvara Tehnoloogia Arenduskeskus, and a non-profit organisation SA Poliitikauuringute Keskus Praxis, and as the member of the management board of Eesti Infotehnoloogia ja Telekommunikatsiooni Liit, Mercur ThinkTank OÜ and Skype Technologies OÜ.

Mr Tauno Tats. Mr Tats holds the Masters' degree in economic science from the Tallinn Technical University awarded to him in 2003. He is currently working as a member of the management board of Ambient Sound Investments OÜ. In addition, he is the member of the management board of InkSpinFour OÜ, Balti Karjäärid OÜ, Kv1 OÜ, Kv3 OÜ, Ammende Hotell OÜ, InkspinSix OÜ, Saardu Põllud OÜ, OÜ Paistevälja-Paistu Põllud ja Metsad, ASI Venture Holdings OÜ and non-profit organisation MTÜ Plate torn. He is also the member of the supervisory board of AS Ecomet Invest, Osaühing Eesti Killustik and EfTEN Kinnisvarafond AS. Previously he has acted as the member of the supervisory board of AS Redgate Capital and the member of the management board of OÜ TrinTau.

Mr Andres Viisemann. Mr Viisemann obtained a degree in finance from the University of Tartu in 1992. He also holds an MBA degree from one of the world's leading and largest graduate business schools INSEAD in 1997. During his professional career, Mr Viisemann has worked as an investment manager and served as a member of the management board of numerous companies. He has been engaged with the Group since its establishment in 1999 and was one of the founders thereof. Within the Group, he serves as the member of the Supervisory Board of the Company and holds various management positions within the Subsidiaries and is a fund manager in LHV Varahaldus. He also holds the position of the member of the management board of Viisemann Holdings OÜ and the position of the member of the supervisory board of AS Fertilitas and non-profit organisation Rocca al Mare Kooli Sihtasutus. In the past, he has acted as the member of the supervisory board of Rocca al Mare Koolimaja AS, AS Viimsi Haigla, AS LH Capital and as the member of the management board of Pealinna Spordiklubi and OÜ Miura Investeeringud.

8.4. Other Key Executive Personnel

Mr Jüri Heero. Mr Heero is a member of the management board and the Head of IT of LHV Pank. Mr Heero holds a degree in economics from the Faculty of Economics and Business Administration of the University of Tartu awarded to him in 1999. Mr Heero joined the Group in 2004 as the Head of IT. From

2006 to 2007, he served as a member of the supervisory board of LHV Pank, and since 2007, has been holding the position of a member of the management board of LHV Pank.

Ms Kadri Kiisel. Ms Kiisel is the chairman of the management board of LHV Pank. Kadri Kiisel holds an MBA degree in finance from University of Tartu. Ms Kadri Kiisel has worked in LHV Pank since 2011 starting as the manager of LHV Pank's Tallinn branch office and continuing as the head of branches of LHV Pank in 2017. She is the member of the management board of Eesti Pangaliit.

Mr Erki Kilu. Mr Kilu belongs to the board of directors and is the CEO of LHV UK. He holds a Bachelor's degree in international business administration majoring in banking and finance from the Estonian Business School awarded to him in 1998, a Master's degree in business administration from the Faculty of Economics of the University of Tartu awarded to him in 2001 and a Master of Science's degree in Engineering, Conversion Master in IT from the Institute of Computer Science of the University of Tartu awarded to him in 2018. Before joining the Group in 2008 in the position of the chairman of the management board of LHV Pank in 2008, Mr Kilu was the chairman of the management board of SE Seesam Life Insurance Vienna Insurance Group. Within the Group, in addition to holding the position of the CEO of LHV UK, Mr Kilu holds various management positions within the Subsidiaries. In the past, he has acted as the member of the management board of Kalevi Jahtklubi, and the chairman of the management board of the non-profit organisations Estonian Banking Association and the member of the board of the non-profit organisation European Banking Federation.

Mr Andres Kitter. Mr Kitter is a member of the management board and the Head of Financial Institutions of LHV Pank. He obtained a Master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003. Within the Group, in addition to holding the aforementioned positions in LHV Pank, Mr Kitter belongs to the board of directors and is the deputy COO of LHV UK. Before joining LHV Pank in 2013, he worked in Skype Technologies OÜ. In the past he has served as the member of the management board of Kingu OÜ.

Mr Tarmo Koll. Mr Koll is the member of the management board of LHV Kindlustus since 2020. Tarmo Koll holds MSc in Mathematics from Tartu University and is a qualified actuary. Before joining LHV Kindlustus, he held from 2014 until 2019 the positions of the CFO and head of Estonian operations as a member of the management boards of Ergo Insurance SE and Ergo Life Insurance SE in the Baltic States. Before that, he operated as the appointed actuary and head of department in the same company. Tarmo Koll has also served as the management board member of D.A.S. Õigusabikulude Kindlustuse AS in 2017 until merging this company to ERGO operations. Tarmo Koll is the owner and member of the management board of Aktuaarsed Lahendused OÜ and has belonged to the management board of the Estonian Actuarial Society from 1999 until 2020.

Mr Joel Kukemelk. Mr Kukemelk is a member of the management board of LHV Varahaldus and the fund manager of the green and passive pension funds. In 2010, he obtained a Master's degree (*cum laude*) in economics from the University of Tartu. Mr Kukemelk is the member of the supervisory board of the Estonian Guarantee Fund. Previously Mr Kukemelk has also served as a management board member of Danske Capital AS during the period after the purchase of the shares of Danske Capital AS by LHV Varahaldus until the merger of the company into LHV Varahaldus in 2016.

Mrs Relika Mell. Mrs Mell is head of internal audit division of LHV Pank since March 2016. She obtained a Master's degree of Edinburgh Business School of Heriot-Watt University in 2011 and a Bachelor's degree in international business administration from the Estonian Business School in 1997. Mrs Mell is an authorised auditor since 1997. In 2002, she acquired a license of the Association of Chartered Certified Accountants and in 2004, the license "Certified Internal Auditor" from the Institute of Internal Auditors. Before joining the team of LHV Pank, between 1996 and 2016, she worked as an authorised auditor in AS PricewaterhouseCoopers.

Mr Indrek Nuume. Mr Nuume is a member of the management board and the Head of Business Banking of LHV Pank. Mr Nuume obtained a Master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2002. Before joining the team of LHV Pank, between 1998 and 2009, Mr Nuume worked for Danske Bank A/S Estonian Branch as the Head of Corporate Banking. He is also the member of the supervisory board of the non-profit organisation SA Tilsi LK Fond.

Mr Meelis Paakspuu. Mr Paakspuu is the member of the management board of and the CFO of LHV Pank. Mr Paakspuu graduated from the University of Tartu in 1996 and obtained a degree in economics. Before joining the team of LHV Pank, Mr Paakspuu served as the CFO of DNB Pank AS from 2012 to 2015. In the past he has acted as the member of the management board of MP Advisory OÜ and Estonian Banking Association.

Mr Jaanus Seppa. Mr Seppa is the chairman of the management board of LHV Kindlustus. Previously, Seppa worked for Vienna Insurance Group at the Pan-Baltic non-life insurance undertaking Compensa Vienna Insurance Group ADB, being a member of the management board and the head of the Estonian branch from 2015 to 2019. He graduated from the University of Tartu in 2007 and obtained a Bachelor's degree in business administration. He is the member of the supervisory board of Estonian Insurance Association.

Mr Gary Lewis Sher. Mr Sher was appointed as the CFO of LHV UK in July 2021 and he belongs to the board of directors of LHV UK. He has obtained a Bachelor's degree in accounting – information systems from the University of Leeds in 2003 and has been admitted to the Institute of Chartered Accountants in England and Wales. Mr Sher served as the CFO of JBR Auto Holdings Ltd from the beginning of 2021 until joining LHV UK and before that as finance director in Starling Bank Ltd from 2018 until 2020 and as the group financial controller of the Ayondo Group from 2016 to 2018. Gary Sher belongs to the board of directors of Dalgagi Ltd.

Mr Martti Singi. Mr Singi is a member of the management board and the CRO of LHV Pank. He holds a Master's degree in international business administration from the Estonian Business School awarded to him in 2009. Before assuming his current position in LHV Pank in 2012, Mr Singi served at AS Swedbank as the Head of Group Credit Risk Control from 2007 to 2009.

Mr Vahur Vallistu. Mr Vallistu is the chairman of the management board of LHV Varahaldus. In 2011 he obtained a Bachelor's degree in social science in economics from the Stockholm School of Economics in Riga and in 2019 he obtained a Master's degree in Business Administration from the University of Tartu. Mr Vallistu also has a CFA certificate. From 2011 to 2018 he worked in the project financing department of Swedbank AS and served as a member of the corporate banking credit committee of Swedbank AS from 2018 to 2019. In the past he served as the member of the supervisory board of Sihtasutus Haridussõprade toetusfond.

8.5. Conflicts of Interests and Other Declarations

According to the knowledge of the Management, there are no known actual or potential conflicts of interest between the duties of any of the members of the Management and the Supervisory Board to the Company or to any Group company, and their private interests or other duties.

According to the knowledge of the Management, none of the members of the Management and Supervisory Board, nor any of the members of other key executive personnel as described in Section 8.4. "Other Key Executive Personnel" has been convicted in the last five years in a criminal offence or been a member of a governing body of a legal entity subject to bankruptcy or liquidation proceedings at the time of initiating the relevant proceedings. Furthermore, none of the persons referred to in the Section 8. "Management" has ever been disqualified by a competent court from acting as a member of administrative, supervisory or management body or conducting affairs of a legal entity. The management and supervisory board members of LHV Pank, LHV Kindlustus, LHV Finance and LHV Varahaldus are subject to the assessment of suitability (fit and proper testing) conducted by the EFSA exercising supervision over the operations of the Subsidiaries.

8.6. Statutory Auditors

According to the Articles of Association, the appointment of statutory auditors is in the competence of the General Meeting of shareholders, whereas the selection of candidates and making a proposal to the General Meeting of shareholders is done by the Company’s audit committee. The General Meeting of shareholders held on 13 March 2019 appointed KPMG Baltics OÜ (registry code 10096082, having its registered address at Narva mnt 5, Tallinn 10117, Estonia) to act as the statutory auditor of the Company for the financial years 2020 – 2022. KPMG Baltics OÜ is a member of The Estonian Auditors’ Association. The Audited Financial Statements have been audited by KPMG Baltics OÜ, independent auditors as stated in their report.

9. GENERAL CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

9.1. General Corporate Information

The business name of the Company is AS LHV Group. The Company was registered in the Estonian Commercial Register on 21 January 2005 under the register code 11098261. The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term.

The contact details of the Company are the following:

Address: Tartu mnt 2, 10145 Tallinn, Estonia

Phone: +372 6 800 400

Fax: +372 6 800 410

E-mail: group@lhv.ee

Website: https://investor.lhv.ee/en

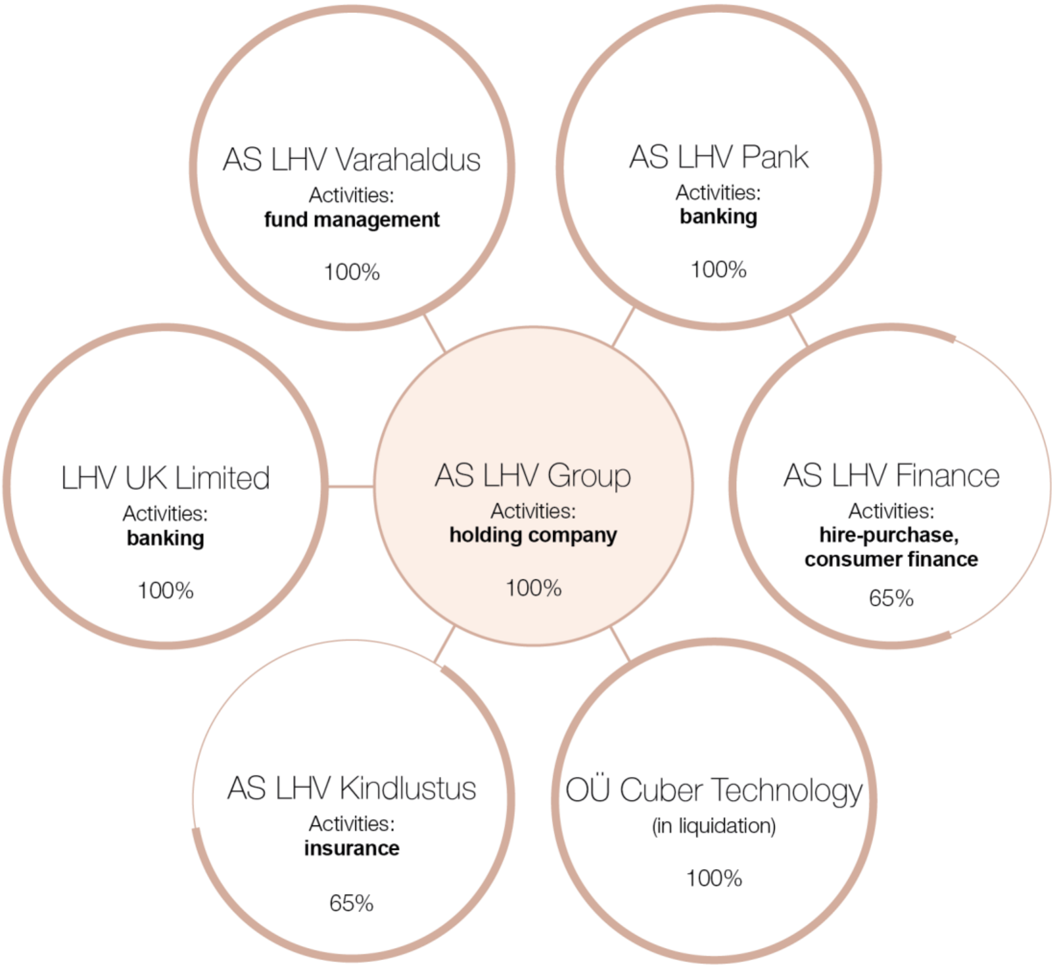
The legal entity number (LEI) of the Company is 529900JG015JC10LED24. According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2020, the field of activity of the Company was "activities of holding companies" (EMTAK[19] 64201). The consolidated fields of activity of the Group were "security and commodity contracts brokerage" (EMTAK 66121), "credit institutions (banks, granting loans)" (EMTAK 64191), "finance lease" (EMTAK 64911) and "fund management" (EMTAK 66301).

[19] EMTAK (the Estonian Classification of Economic Activities) is the basis for determining the fields of activity of Estonian companies. EMTAK is the national version of the international harmonised NACE classification. As of 1 January 2007, the Estonian companies are, instead of providing their fields of activity in the Articles of Association, required to report them in their annual reports using EMTAK classification.

9.2. Group Structure and Group Companies

Group Structure

As at the date of this Prospectus, the Group structure is the following:



The Group

AS LHV Group. The Company is the holding company of the Group with limited operations of its own. The Company is engaged in investor relations management and ensuring necessary capitalisation for the Group companies.

AS LHV Pank. LHV Pank is an Estonian licensed credit institution offering banking services to corporate and retail clients. In addition to client service venues in Tallinn, Tartu, and Pärnu which will be opened at the end of 2021, the bank also established a local registered branch in the United Kingdom in 2018 and is servicing clients via its London based office. In relation to launch of cooperation with the deposit engagement platforms Raisin in July 2018 and Deposit Solutions in June 2019, LHV Pank is also providing cross-border banking services in the form of collection of deposits from the Austrian, Belgium, Latvian, Finnish, Swedish, Lithuanian, German, Spanish, Danish and Dutch markets.

As of 30 June 2021, LHV Pank employs more than 564 people and has over 286,000 customers.

By 30 June 2021, the total loan portfolio of the LHV Pank consolidation group (including LHV Finance) stood at EURM 2,401 and the total amount of deposits was EURM 4,947. The greatest proportion of loans are in the real estate sector, an industry that is traditionally receiving the greatest share of financing by commercial banks in Estonia. As at 30 June 2021, 23.2% of the corporate credit portfolio of LHV Pank comprised of credit granted in the real estate sector. The real estate sector is followed by manufacturing industry (6.8% of corporate credit portfolio) and wholesale and retail trade sector (4.5% of the corporate credit portfolio). Among sectors with higher than average credit risk, arts and entertainment sector comprise 2.5%, construction 2.8% and transport and storage 1.2% of the total corporate credit portfolio. Loans to corporates comprise ca 61.8% of the entire credit portfolio while loans to private individuals amount to 38.2% of the credit portfolio.

AS LHV Varahaldus. LHV Varahaldus is an Estonian licensed fund manager. LHV Varahaldus is currently acting as the fund manager for eleven investment funds – seven compulsory pension funds (LHV Pensionifond XS, LHV Pensionifond S, LHV Pensionifond M, LHV Pensionifond L and LHV Pensionifond XL, LHV Pensionifond Indeks and LHV Pensionifond Roheline), three voluntary pension funds (LHV Täiendav Pensionifond, LHV Pensionifond Indeks Pluss and LHV Pensionifond Roheline Pluss) and a UCITS investing into equity instruments (LHV World Equities Fund).

LHV Varahaldus employs 34 people. At 30 June 2021, the volume of pension assets managed by LHV Varahaldus reached more than EUR 1.6 billion, which makes LHV Varahaldus having maintained the second largest market share (29%) in terms of volume and in terms of customer numbers (25%) of the funds under management. The number of active clients of the compulsory pension funds decreased by 5 thousand over the first half of 2021 and stands close to 175 thousand, which makes LHV Varahaldus the second largest compulsory pension funds manager in Estonia in terms of clients.

AS LHV Finance. LHV Finance is the subsidiary of the LHV Pank and is an Estonian financial institution offering consumer loans in the Estonian market. LHV Finance was established in 2013 as a joint venture in co-operation with Toveko Invest OÜ. By 30 June 2021, the volume of LHV Finance's credit portfolio amounted to EURM 69.9 and the company had over 45,662 effective credit agreements.

AS LHV Kindlustus. LHV Kindlustus is the subsidiary of the Company and is an Estonian licensed non-life insurance company offering a range of non-life insurance products including motor, property and personal lines for private and commercial clients on the Estonian market as well as selected products on Latvian market. LHV Kindlustus was established in May 2020 as a joint venture in co-operation with Toveko Invest OÜ and obtained the operating license from Estonian FSA on 29 December 2020. The company started concluding insurance contracts in the beginning of 2021. At 30 June 2021, the own capital of the company was EURM 7.1 and gross written premium volume of LHV Kindlustus portfolio amounted to EURM 3.8. The number of valid policies at the end of June was 217.5 thousand. LHV Kindlustus has more than 128 thousand clients out of which 60 thousand are joint clients with Subsidiaries.

LHV UK Limited. LHV UK is the subsidiary of the Company and was established on 4 February 2021. As at the date of this Prospectus, LHV UK is applying for a banking license in the United Kingdom and has no business activity.

OÜ Cuber Techology (in liquidation). The Company has 100% shareholding in an Estonian private limited company (in Estonian: *osaühing* or *OÜ*) in Cuber Technology (in liquidation). The latter was established on 4 February 2015, but the Company adopted a dissolution resolution of Cuber Technology (in liquidation) and decided to begin liquidation proceedings. Cuber Technology (in liquidation) is not a significant subsidiary of the Company, and its termination will not affect the Group's obligations or operating results. Cuber Technology's (in liquidation) main area of activity has been programming and software development, as well as the development of information systems in the financial technology sector. The company was economically inactive. As of the date of this Prospectus, Cuber Technology (in liquidation) has no operations and therefore it is not a material subsidiary. Cuber Technology's (in liquidation) liquidation proceedings will be done most likely by the end of 2021.

9.3. Business Segments

Introductory Remarks. The business segments of the Group and the financial results thereof have been described in detail in Note 5 of the Audited Financial Statements. In United Kingdom, the Group operates through its branch which is engaged in offering payment services and collecting of deposits.

Banking. The Group's main business segment is the banking services business segment, which in turn is divided into three business segments – retail banking, private banking and corporate banking. The operations of the banking business segment are carried out by LHV Pank. Retail banking segment covers all private individuals and small legal entities with credit exposure under EURT 500 as at 30 June 2021. Corporate banking segment covers all corporate customers and other legal entities with exposure over EURT 500 as at 30 June 2021. Private banking segment includes high net worth customers. As at the date of this Prospectus, LHV Pank is offering all classical banking services, such as the settlement of payments, issuing and acquiring bank cards and deposit services, financing services (loan, leasing, credit limit, overdraft, guarantee), securities brokerage and investment services.

Asset Management. The Group's second largest business segment is the asset management business segment. The asset management services are provided by LHV Varahaldus. The essence of the asset management services is fund management, mainly covering compulsory and voluntary pensions funds' management.

Hire-Purchase and Consumer Finance in Estonia. The Estonian hire-purchase and consumer finance operations are carried out by LHV Finance.

Insurance. LHV Kindlustus provides non-life insurance products related to homes, vehicles and equipment.

Revenues by Principal Markets. The breakdown of revenues by markets (business segments and geographical markets) where the Group operates is described in detail in Notes 5, 7 and 8 of the Audited Financial Statements.

9.4. Investments

Introductory Remarks. The Group is continuously seeking for opportunities for the expansion of their business operations by investing into the organic growth but also by considering mergers and acquisitions of other market players. As a general rule, the investments made by the Group are financed by own funds or by additional capital engaged from the shareholders or bondholders of the Company.

Significant Investments. During the period since the date of the Interim Financial Statements (i.e., as of 30 June 2021), the Group has made no significant investments. As at the date of this Prospectus, the Group has not made any firm commitments on significant future investment. In the second half of 2021 the Company placed an investment of £4.455 million in a non-related private limited company registered in the United Kingdom bearing the business name B-North and acquired 9.9% ownership in the mentioned financial undertaking (for further information, please refer to Section 9.9. "Regulatory Disclosures"). The latter is not considered a significant investment, i.e., will not give rise to a variation of more than 25% relative to one or more indicators of the size of the Company's business.

9.5. Trend Information

There has been no material adverse change in the prospects nor in the financial performance of the Group since 30 June 2021. The Management is not aware of any trends having material adverse effect on the operations of the Group. The recent trends affecting the industry where the Group operates is described in Section 11.2. "Factors and Public Policies Affecting Operations".

9.6. Material Agreements

Introductory Remarks. The Group is not party to any material agreements outside of their ordinary course of business, which may result in the Group companies obtaining rights or incurring obligations which may materially affect the Group companies' ability to perform their obligations or have a material adverse effect on the financial position or operations of the Group companies. Despite the foregoing, this Section provides a general description of the partnership agreement forming the grounds for the Group's partnership model for LHV Kindlustus and LHV Finance. The level of detail of the information provided herein is limited due to the confidentiality provisions included in such agreements; however, the Management believes that the information provided is sufficient for comprehending the overall nature and essence of the agreements.

Shareholders' Agreement regarding LHV Kindlustus. On 6 May 2020, the Company and Toveko Invest OÜ executed a shareholders' agreement, under which the parties thereto agreed upon the incorporation of LHV Kindlustus and the principles of their co-operation as the shareholders of LHV Kindlustus. Among other terms, the parties to the shareholders' agreement agreed upon the nature and essence of the business operations of LHV Kindlustus and strategic objectives thereof, corporate governance principles, sources of financing and restrictions on the transfer of shares, customary to similar types of transactions. In the opinion of the Management, the parties' agreements contained in the shareholders' agreement are in compliance with market practise for similar agreements and form solid grounds for the parties' co-operation.

Shareholders' Agreement regarding LHV Finance. On 23 January 2013, LHV Pank and Toveko Invest OÜ executed a shareholders' agreement, under which the parties thereto agreed upon the incorporation of LHV Finance and the principles of their co-operation as the shareholders of LHV Finance. Among other terms, the parties to the shareholders' agreement agreed upon the nature and essence of the business operations of LHV Finance and strategic objectives thereof, corporate governance principles, sources of financing and restrictions on the transfer of shares, customary to similar types of transactions. In the opinion of the Management, the parties' agreements contained in the shareholders' agreement are in compliance with market practise for similar agreements and form solid grounds for the parties' co-operation.

9.7. Legal Proceedings

In the course of its everyday business operations, the Group is a party to several legal and administrative proceedings. In the legal proceedings, the Group companies act, as a general rule, as plaintiffs seeking to recover debts by defaulting borrowers and other customers of the Group companies. Considering the nature of the operations of the Group companies, legal proceedings initiated for debt recovery are part of everyday business operations of the Group companies. As at the date of this Prospectus, in all on-going legal proceedings, Group companies involved are acting as plaintiffs and all such proceedings concern debt recovery. Furthermore, since LHV Pank, LHV Kindlustus and LHV Varahaldus operate in the fields subject to extensive legal regulation, they are subject to numerous administrative proceedings initiated primarily by the EFSA in the course of ordinary financial supervision. As of the date of this Prospectus, none of the legal or administrative proceedings to which a Group company is a party to (including any such proceedings which are pending or threatened of which the Management is aware) are considered likely to have any significant effects on the Group's financial position and there are no legal or administrative proceedings to which a Group company has been party to (including any such proceedings which are pending or threatened of which the Management is aware) during the 12 months preceding the date of this Prospectus which may have, or have had, significant effects on the Group's financial position or profitability.

9.8. Related Party Transactions

The Group companies have entered into several agreements with related parties. All transactions with related parties executed by the Group companies are by their nature products and services offered by the Group companies to third parties on similar terms and conditions. The terms and conditions of the transactions with related parties do not deviate materially from the terms and conditions of similar transactions executed with third parties. Please see Note 18 of the Interim Financial Statements for the details on the volumes of the related party transactions. The Group companies have not entered into material transactions with related parties after 30 June 2021.

9.9. Regulatory Disclosures

Introductory Remarks. The Company regularly publishes announcements via the information system of the Nasdaq Tallinn Stock Exchange as required under the Nasdaq Tallinn Stock Exchange rules, Estonian Securities Market Act and Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse. Below is a summary of the information disclosed under Regulation (EU) No 596/2014 over the last 12 months relevant at the date of this Prospectus. In addition to the information system of Nasdaq Tallinn Stock Exchange, full announcements can be accessed on the webpage of Nasdaq Baltic at https://nasdaqbaltic.com/ and the website of the Company at https://investor.lhv.ee/en.

Capital Raisings. In September 2020 the Company announced of a bond offering under which the Company may issue subordinated bonds in a total volume of up to EURM 25 in the course of a public offering of the Company's subordinated bonds and a plan to list and admit the subordinated bonds to trading on the regulated market operated by the Nasdaq Tallinn AS.

In the course of the offering, up to 25,000 subordinated bonds of the Company „EUR 6.00 LHV Group subordinated bond 20-2030" with the nominal value of EUR 1,000, interest rate 6.0% per annum and maturity date 30.09.2030 were offered, with the option to increase the offering volume until the issue date by EURM 10 and 10,000 additional subordinated bonds as a result of which the total number of the bonds offered in the course of the public offering may be up to 35,000 and the total volume of the offering up to EURM 35. The results of the offering were announced after completion of the offering period in September 2020. Public offering of the Company's subordinated bonds was completed in September 2020. Since the initial issue volume of EURM 25 was oversubscribed, the Company used its right to increase the issue volume within the maximum permitted volume, to EURM 35.

In September 2021 the Company announced that it completed an issue of EURM 100 of senior unsecured, unsubordinated bonds. The bonds were issued with four years maturity, with the optional redemption date after three years. The coupon rate of the bonds payable to investors is 0.875% and the bonds are expected to be listed on Euronext Dublin. The bonds were mainly issued in order to comply with regulatory MREL requirements.

Increase of Share Capital. In April 2020 the Company announced that the Company decided to increase the share capital of the Company by EUR 299,781. The increase of the share capital was triggered by the need to issue new Shares to staff members participating in the options programme approved with the resolution of the General Meeting on 29 April 2015. The share issue was subscribed 100% by the option beneficiaries.

In August 2021, the Company published a notice calling for a special meeting of shareholders to approve the increase of the Company's share capital by EURM 25.34 and other material terms and conditions of this Offering.

Early Redemption of the Company's Bonds. In September 2020 the Company announced its decision to redeem, pre-term, the subordinated bonds issued on 29 October 2015. All 15,000 of the Company's 2025 subordinated bonds with a nominal value of EUR 1,000 and total value of EURM 15 were subject to redemption.

Finalising the Danske Bank A/S Credit Portfolio Transaction. In October 2020, LHV Pank and Danske Bank A/S finalised the transaction, under which LHV Pank acquired Danske Bank's credit portfolio involved with Estonian corporate and public sector credits, the included leasing and collateral agreements and other related agreements in the form of the transfer of an unit. The final volume of the transaction amounted to EURM 273.

Updating the Company's Financial Plan. In August 2021, the Company updated its financial plan for 2021 in relation to better-than-predicted macroeconomic situation and the high activity of clients. The Company's results have significantly exceeded the financial plan published in February 2021.

Moody's Rating to the Company. In August 2021, the Company announced that Moody's Investors Service assigned Baa3 long-term local currency issuer rating to the Company, with a positive outlook. This is the first rating assigned to the Company and it reflects the Company's principle role as a bank holding company for it's main operating subsidiary, LHV Pank. Moody's assessed that the Company has a clear governance structure and processes in place to manage their risks, the outlook on the Company's issuer rating is positive. The rating allows the Company to have better access to funding from international capital markets.

Finalising Investment to Acquire a Share in Bank North. The Company finalised an investment of £4.455 million in Bank North (previously B-North) and acquired a 9.9% share in the company after Bank North closed a successful "Series A" funding round and was granted its banking licence by the UK Prudential Regulatory Authority. In addition to the Company, also pension funds managed by LHV Varahaldus invested in Bank North. The Company's investment size of £4.455 million is funded from core Tier 1 capital. Following the investment, Madis Toomsalu, CEO of LHV Group, will be elected a member of Bank North's supervisory board.

Founding a New Bank in the United Kingdom. In October 2020 the Company announced that it decided to commence operations to establish a bank in the United Kingdom to clearly separate LHV Pank's current business activities in Estonia and in the United Kingdom. Until now, LHV Pank has operated in the United Kingdom through a branch.

In January 2021 a subsidiary of the Company, private limited company LHV UK was registered at Companies House in the United Kingdom.

EFSA Granted LHV Kindlustus' Authorisation. In December 2020, the management board of EFSA decided to grant AS LHV Kindlustus an authorisation to operate as a non-life insurance provider.

Comment in Relation to EFSA's Observations Regarding LHV Pank. In March 2021, the Company announced that the EFSA has assessed the due diligence measures of LHV Pank associated with the business line of servicing international financial intermediaries. The supervision authority determined that the bank has to enhance certain systems. LHV Pank has already implemented activities to improve its processes: among other things, LHV has supplemented its internal procedure rules, increased the number of people engaged in compliance and improved the procedures for forwarding notices to the Financial Intelligence Unit. In addition, LHV Pank will enhance its monitoring systems and improve data collection and management.

Terminating the Activities of Subsidiary. In May 2021, the Company decided to terminate the activities of Cuber Technology (in liquidation) and begin liquidation proceedings for the company. Cuber

Technology is not a significant subsidiary of the Company, and its termination will not affect the Group's obligations or operating results.

Changes in Managers. In December 2020, the Company announced that the supervisory board of LHV Pank decided to recall Mr Erki Kilu from the management board of LHV Pank and elect Kadri Kiisel as the new chairman of the management board of LHV Pank. Mr Erki Kilu will proceed to head a subsidiary to be established in the United Kingdom with the objective to acquire a licence of a credit institution.

In January 2021, the Company announced that the shareholders and the supervisory board of LHV Finance resolved to call back Kadri Kiisel from the management board of LHV Finance and elect Mari-Liis Stalde to be the new member of the management board with a term of 5 years. The management board of LHV Finance has one member.

In June 2021, the Company announced that Gary Sher will become the Chief Financial Officer of LHV UK. The CFO will also be appointed to the Board of Directors of LHV UK.

10. CAPITALISATION AND INDEBTEDNESS

Capitalisation. The following table sets forth the consolidated total capitalisation of the Group as of 30 June 2021. The information has been derived from the unaudited Interim Financial Statements. The table should be read and interpreted in conjunction with the Interim Financial Statements incorporated by reference to this Prospectus. The Group's consolidated capitalisation and indebtedness will be significantly impacted by the Offering and the use of proceeds. Please refer to Section 5. "Reasons for Offering and Use of Proceeds" for further details.

(EURT) **Total current debt (maturity up to one year)**	**As at 30.06.2021**
Total current debt	**4,980,467**
Guaranteed	1,296,757
Secured	0
Senior non-preferred debt	0
Unguaranteed/unsecured	3,683,710
Subordinated debt	0
Total non-current debt	
Total non-current debt	**619,156**
Guaranteed	2,100
Secured (TLTRO funding from ECB, covered bonds)	448,831
Senior non-preferred debt	40,000
Unguaranteed/unsecured	18,225
Subordinated debt	110,000
Shareholder equity	
Total shareholder equity	**262,044**
Share capital	29,119
Share premium	72,766
Statutory reserve capital	4,713
Other reserves	3,248
Retained earnings / accumulated deficit	121,485
Non-controlling interest	7,262
Net profit for the reporting period	23,451
Total	**5,861,667**

Indebtedness. The following table indicates the indebtedness of the Group as at 30 June 2021. The information has been derived from the unaudited Interim Financial Statements. The table should be read and interpreted in conjunction with the Interim Financial Statements incorporated by reference to this Prospectus.

(EURT)	**As at 30.06.2021**
Liquidity:	
Cash	17,051
Cash equivalents	3,246,206
Other current financial assets	513,892
Liquidity	**3,777,149**
Current financial debt (maturity up to one year):	
Current financial debt	4,915,717
Current portion of non-current financial debt	3,980
Current financial indebtedness	**4,919,697**

Net current financial indebtedness	**1,142,548**
Non-current financial indebtedness:	
Non-current financial debt	21,302
Debt instruments	598,831
Non-current trade and other payables	0
Non-current financial indebtedness	**620,133**
Total financial indebtedness	**1,762,681**

The Group has outstanding contingent liabilities arising from its regular business activities. Contingent liabilities include unused loan commitments, guarantees and letter of credit.

Indirect and contingent indebtedness:	
Performance guarantees	18,520
Financial guarantees	56,867
Letter of credit	68
Unused loan commitments	497,567
Total indirect and contingent indebtedness	**573,022**

Working Capital Statement. In the opinion of the Management, the Group's working capital is sufficient to cover the Group's foreseeable obligations for a period of at least 12 months following the date of the approval of this Prospectus.

The working capital of a company represents the difference between the company's current assets and current liabilities. As at 30 June 2021, the net current total consolidated working capital of the Group was EURM 1,638. The largest subsidiary, LHV Pank, is a credit institution that is mainly funded from the deposits. In case of credit institutions, the working capital information does not represent the actual liquidity situation, as the essence of banking activity is to collect deposits with a shorter term and lend out the deposits for longer maturities. Regulatory requirements established under the CRR address the liquidity requirements for credit institutions and their groups through certain liquidity ratios (LCR and NSFR) which the Group fulfils with significant buffers. The aim of the LCR standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 30.06.2021 was 125.7% (31.12.2020: 147.9%). The objective of the NSFR is to ensure that the Group has adequate stable funding sources to finance longer-term assets. The Group's NSFR level as at 30.06.2021 was 147.9% (31.12.2020: 152.6%). The net stable funding minimum requirement is 100%.

No Material Adverse Change. There has been no material adverse change in the Group's financial position since 30 June 2021.

11. FINANCIAL CONDITION, RESULTS OF OPERATIONS AND OUTLOOK

11.1. Financial Condition and Results of Operations

Detailed information on the financial condition and results of operations of the Group has been provided in the Financial Statements incorporated by reference to this Prospectus.

11.2. Factors and Public Policies Affecting Operations

Introductory Remarks. The operations and financial condition of the Group are affected by numerous factors. The factors of particular importance, in the opinion of the Management, are outlined below. However, the impact of these and other factors may vary significantly in the future.

Macroeconomic Environment. The operations of the Group are materially affected by the macroeconomic environment in the main geographical markets where the Group operates, i.e., Estonia and United Kingdom. Macroeconomic factors such as GDP growth, inflation rates, interest rates and currency exchange rates, as well as unemployment rates, average income levels and the general financial situation of consumers and businesses, together with various other factors, such as the COVID-19 pandemic and related restrictions, have a material impact on the operations of the Group.

Although the economic environment is still largely affected by the COVID-19 pandemic and there is no certainty how long the pandemic will last and what the long-term impact on the economy will be, the economic activity has increased in the second quarter of 2021 as the global purchasing managers' index rose to a 15-year high[20] in May 2021 and has stayed at a heightened level since then. The YoY economic growth in the larger regions has remained negative or close to zero. Unemployment rate in Europe has started to fall in the spring of 2021, reaching 7.1%[21] in June 2021. The harmonised increase of consumer prices in the Eurozone, which reached 1.3% in March 2021, accelerated further to 2.2%[22] in midsummer. The rise has been caused by energy prices, which have increased by an average of 12% YoY during the second quarter of 2021. Excluding the energy component, the Eurozone consumer price growth has remained slightly below 1%. To alleviate the situation caused by the pandemic, the European Central Bank (the **ECB**) has significantly increased the money supply. In 2020, the central bank injected an additional 2.3 trillion[23] euros into the economy. In the first seven months of this year, an additional EUR 1.1 trillion[24] have been channelled into the economy. In July 2021 the ECB's monetary policy strategy was reviewed, as a result of which a new symmetric inflation target of 2% was endorsed[25]. The Estonian economy, as the Group's main geographical market, grew by 5.4%[26] in the first quarter of 2021. The price growth has accelerated both in the first and second quarter of 2021. The

[20] Global Composite PMI published by J.P.Morgan. Available at: https://www.markiteconomics.com/Public/Home/PressRelease/28891b8e69f44c6db23c0a0460d10d00

[21] Unemployment by sex and age (une_rt_m) published by Eurostat. Available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_m&lang=en.

[22] Harmonised index of consumer prices (prc_hicp_manr) published by Eurostat Available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_hicp_manr&lang=ne.

[23] Consolidated balance sheet of the Eurosystem published by ECB. Available at: https://www.ecb.europa.eu/pub/annual/balance/html/ecb.eurosystembalancesheet2020~0da47a656b.en.html.

[24] Weekly Financial Statements published by ECB. Available at: https://www.ecb.europa.eu/press/pr/wfs/2021/html/ecb.fst210727.en.html.

[25] The ECB's monetary policy strategy statement published by ECB. Available at: https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html.

[26] Statistics published by Statistics Estonia. Available at: https://andmed.stat.ee/et/stat/majandus__rahvamajanduse arvepidamine__sisemajanduse-koguprodukt-(skp)__pehilised-rahvamajanduse-arvepidamise-naitajad/RAA0012.

last time there was such a level of price increase was in 2018. The general confidence of the economy has risen close to record levels and shows that entrepreneurs expect a rapid recovery to continue. According to the economic forecast of Eesti Pank published in June 2021, the Estonian economy will grow by 5 to 8% in 2021[27]. The same forecast states that the economic growth in Estonia will be given a short-term boost as the savings built up during the COVID-19 pandemic and the funds withdrawn from the second pension pillar are directed to consumption. Very fast growth in private consumption will make economic growth volatile in the years ahead.

Largely due to the uncertainty caused by the COVID-19 pandemic, further developments in the economic climate may result in fluctuations in the results of operations of the Group. Please refer to Section 3.3. “Political, Economic and Legal Risks” for further discussion on the potential impact of the overall macroeconomic environment to the results of operations of the Group. Developments in international financial markets undoubtedly affect Estonian and United Kingdom financial markets and may have adverse effect to the operations of the Group.

Changes in Regulatory Environment. The operations of the Group are subject to extensive legal regulation on both levels – on the level of the European Union and on the level of jurisdictions where the Group companies operate. Material changes in such regulations may have a significant impact on the results of operations of the Group. In particular, the Group is subject to strict capital adequacy requirements which will be further tightened after the application of the CRD V and CRR II reform package adopted in May 2019 which will apply from December 2020 and mid-2021. The operations of the Group may be also influenced by changes in other fields of law applicable in respect of either the Group companies or the clients and co-operation partners of the Group companies. As the Group has entered to the market of the United Kingdom, it may also become subject to additional legal requirements as a result of the United Kingdom’s withdrawal from the European Union, including possibly the requirement to obtain an additional activity license. Changes in the tax regime of Estonia as the main geographical market may have material adverse effect on the operations of the Group. For further information, please refer to Section 3.3. “Political, Economic and Legal Risks”.

LHV Varahaldus is influenced by the changes to the Estonian pension funds system. In 2020, changes to the Estonian Investment Funds Act were adopted by the Riigikogu (the Estonian Parliament), making it possible for people to opt out of the previously mandatory second pillar system. Those who have joined the second pillar can make an application to withdraw all their collected pension savings before pension age by paying 20% of income tax on the whole amount. Leaving the second pillar also means that after the pay-out has been made, that person is ineligible to join the second pillar for the next 10 years. Pay-outs are made three times a year, while fund manager knows the potential maximum amount five months in advance. This change makes predicting the size of assets under management more difficult, at least in short term, and will have an impact on investment strategies, as all fund managers must limit their exposure to less liquid asset classes. While it is unlikely that the second pillar would be made mandatory again any time soon, current government is again trying to find ways to make it easier for people to contribute more to their pension savings. Please refer to Section 3.3. “Political, Economic and Legal Risks” for discussion in further detail.

Competitive Markets. The level of competition has a material impact on the Group’s results of operations. Estonian banking market as the main market of the Group is highly concentrated, there are

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[27]Statistics published by the Bank of Estonia. Available at: https://www.eestipank.ee/en/press/private-consumption-will-give-powerful-short-term-boost-economic-growth-21062021.

altogether nine licensed credit institutions in Estonia, and a further five branches of foreign credit institutions operate in the Estonian banking market.[28] What is more, over 300 other financial institutions from the European Union can provide cross border banking services in Estonia.[29] There have been significant changes in the Estonian banking market since 2019, when Danske Bank A/S left Estonian market and LHV Pank acquired its Estonian loan portfolios in 2019 and 2020. In 2020 the biggest influence on Estonian banking sector were restrictions and fears related to COVID-19 pandemic, however the risks to financial stability caused by the related restrictions have so far not materialised to the extent that was expected. The share of companies and households that delayed repaying their loans was smaller at the end of March 2021 than it was before the COVID-19 pandemic started and fewer than 0.5% of the bank loans to the non-financial sector were overdue by more than 60 days. The banking sector remains strong and has been ready to extend support to Estonian businesses and households during the COVID-19 pandemic. The risks to the funding of the banks in Estonia have declined, local deposits have grown very fast and the ratio of bank loans to deposits has fallen to 84%. As at the end of 31 December 2020, three large banks, which are subsidiaries of foreign banks, hold a 81% combined market share in loans. In 2020 LHV Pank was the fastest growing bank in Estonia and managed to increase its market share in loans from 9% to 11%. In deposits market LHV Pank holds the third position with 17% and the combined market share with two largest banks is 84%.[30] Regardless of the tense competition situation, the volume of the LHV Pank's loan portfolio increased by 31% while the volume of deposits increased by 53% in the year 2020. Loan portfolio growth was partly originated from the acquisition of Danske Bank A/S corporate and public sector credit portfolio in the amount of EURM 254 in October 2020.

The Estonian asset management market is relatively young and is rapidly growing. The total value of public pension and investment funds at the end of 2020 was EUR 6.0 billion.[31] The growth of the sector has so far been driven by the mandatory second pillar pension funds, which are also the largest business segment of the Estonian asset management market. As of the end of December 2020, LHV Varahaldus is one of the largest asset managers in Estonia and holds a 26% share of the asset management market.[32] Mandatory pension funds in Estonia are managed by altogether five licensed fund managers. The market share of LHV Varahaldus on the compulsory pension funds market is 28% and 12% on the voluntary pension funds market as of the end of 2020.[33] Second pillar pension funds account for 88% of total funds under management in Estonia and there are in total 5 fund managers active in local pension funds market.

The banking market of the United Kingdom, which the Group has entered, is the fourth-largest in the world and the largest in Europe. There are over 300 banks and 45 building societies operating in the United Kingdom with approximately 9,000 branches and 70,000 ATMs available. In the United

[28] Statistics published by the Bank of Estonia. Available at: http://statistika.eestipank.ee/failid/mbo/kras.html.

[29] Statistics published by the Estonian Financial Supervision and Resolution Authority. Available at: https://www.fi.ee/en/banking-and-credit/banking-and-credit/credit-institutions/providers-cross-border-banking-services.

[30] Statistics published by the Estonian Financial Supervision and Resolution Authority and the Bank of Estonia. Available at: https://www.fi.ee/en/publications/estonian-financial-services-market-31122020. https://www.eestipank.ee/sites/eestipank.ee/files/publication/en/FinancialStabilityReview/2021/fsy_1_2021_eng.pdf

[31] Statistics published by the Estonian Financial Supervision and Resolution Authority. Available at: https://www.fi.ee/sites/default/files/fi_eft_12_2020_eng.pdf.

[32] Statistics published by the Estonian Financial Supervision and Resolution Authority. Available at: https://www.fi.ee/sites/default/files/fi_eft_12_2020_eng.pdf.

[33] Statistics published by the Estonian Financial Supervision and Resolution Authority.. Available at: https://www.fi.ee/sites/default/files/fi_eft_12_2020_eng.pdf.

Kingdom's financial and related services work around 2.2 million people. The four largest banks manage over 75% of United Kingdom's current accounts and 85% of business accounts holding more than GBP 5 trillion in total assets.[34] The target markets of the Group in the United Kingdom are the deposits market, the lending market, in particular business loans, credit cards and point of sale consumer credit. As per the Mintel report "Small Business Banking UK, October 2019", the total value of small business current and savings account balances grew at an annual rate of 4% in 2018 to £97.45 billion. The report estimates the value of these deposits to grow to £125 billion by 2024.[35] Based on the Bank of England's statistics on money and credit, the total amount of outstanding loans to SMEs was £166 billion in February 2017 increasing to £167 billion in February 2020. After this period, the amount of outstanding loans increased significantly to £215 billion in February 2021, which is attributable to COVID-19 pandemic. Removing the impact of COVID-19 pandemic, the amount of SME loans remained around the same level from 2017 to 2019, which could be attributed to the uncertainty caused by Brexit. Post 2019, when the Brexit withdrawal agreement was reached, loans increased by 0.7%. According to the industry outlook survey conducted by the UK Finance and Leasing Association (the UKFLA) in December 2020 and January 2021, over 50% of the FLA members expect the United Kingdom's economy to improve over the next 12 months i.e., until early 2022.[36] Based on the UK Finance data, the total amount of credit card balances outstanding as of January 2020 was £69.7 million and it decreased to £54.2 million as of January 2021 due to COVID-19 pandemic.[37] Based on the UKFLA data, the amount of new lending to consumers increased from £71 billion in 2013 to £102 billion in 2019 before decreasing to £86 billion in 2020. This decrease in 2020 could be attributed to the impact of COVID-19 pandemic. The share of retail store and online credit was 9.9% in 2020, which was £8.5 billion. In the immediate years prior to COVID-19 pandemic, consumer new lending increased from £101 billion in 2018 to £102 billion in 2019, which is an increase of just over 1%.[38]

Quality of Credit Portfolio and Impairment Charges. The results of operations may be materially affected by the quality of the credit portfolio and impairment charges. The amount of impairment provisions allocated for impairment losses depends on the expected recovery ratios and the value of available collateral. There are several criteria for a loan to be considered individually impaired and the Group's internal default definition is in line with the generally accepted definition of the default criteria, such as payment delay more than 90 days on any material credit obligation, distressed restructuring of the credit obligation, and specific credit adjustment due to significant perceived decline in the credit quality since inception, significant financial difficulties of the obligor or likely bankruptcy process, etc. As a part of the risk analysis, the Group is regularly performing stress tests and sensitivity analysis regarding the credit risk and its components. The collective impairment credit assessment of the Group is based on the historical loss rate and credit rating. The credit quality of the Group has a more detailed coverage in section "Risk Management" (paragraph 2.2) of the Audited Financial Statements.

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[34] Statistics published by Mordor Intelligence's. Available at: https://www.mordorintelligence.com/industry-reports/uk-retail-banking-market.

[35] Mintel report "Small Business Banking UK, October 2019". Available to purchase at: https://reports.mintel.com/display/918506/.

[36] Statistics published by the Bank of England. Available at: https://www.bankofengland.co.uk/news/statistics.

[37] The UK Finance data. Available to purchase at: https://www.ukfinance.org.uk/.

[38] The UKFLA data. Available at: https://www.fla.org.uk/home/.

12. PROFIT FORECAST

Introductory remarks. In February 2021, the Group published its financial plan for 2021 and five-year financial forecast for the period 2021-2025. In August 2021, the financial plan for 2021 was updated to reflect the results of half-year of 2021. The financial forecast also includes a profit forecast for the same period as defined in the Prospectus Regulation. The financial plan and financial forecast are referred to as "**Profit Forecast**". The Management Board believes the Profit Forecast continues to be valid at the date of this Prospectus.

Basis of preparation. The Profit Forecast has been compiled on the basis of the assumptions stated below and, on a basis consistent with the accounting policies of the Group, which are in accordance with IFRS and are those which the Group anticipates will be applicable for the financial year ending 31 December 2021. The Management Board has prepared the Profit Forecast on the basis of (i) the audited consolidated financial statements contained in the Group's Audited Financial Statements for the period ended on 31 December 2020 (ii) the Interim Financial Statements for the 6-months period ended on 30 June 2021. The Profit Forecast has not been reviewed or audited by independent auditors.

Profit Forecast. According to the Profit Forecast, the Group expects to earn a net profit of EURM 53.94 in 2021 which is EURM 12.1 more than based on the profit forecast published in February 2021. The increase is attributable to the larger business volumes in financial intermediary deposits, high customer activity and related increase in commission income from currency exchange and settlements, lower financing costs and credit losses and lower than estimated amortisation expense related to customers leaving the second pillar pension funds.

In 2022, the net profit is forecasted to reach EURM 54.1. The forecast expects higher interest income from increased loan portfolio, higher net fee and commission income due to larger customer base and higher customer activity. Additionally, asset management amortization expense related to customer leaving the second pillar pension funds decreases compared to 2021 and insurance activities are expected to become profitable.

In 2023, the net profit is forecasted to reach EURM 68.1. Similar trends as for 2022 are expected: higher interest income from increased loan portfolio as well as high customer activity and growth of the customer base which result in higher net fee and commission income. Cost to income ratio is expected to improve due to the economies of scale.

Financial results (*EURT*)	**FP2021**	**FP2022**	**FP2023**	**FP2024**	**FP2025**
Profit before taxes	63,870	62,694	78,081	98,392	123,256
Income tax expense	-10,019	-8,616	-9,983	-12,388	-14,736
Net profit, incl.	53,851	54,078	68,098	86,004	108,520
attr. to shareholders	51,801	51,022	64,041	80,669	101,135

Assumptions. The Profit Forecast has been prepared relying on the assumptions described below which are categorised as factors falling outside the influence or control of the Management Board and the factors within the influence and control of the Management Board:

(a) Factors outside the influence or control of the Management Board.

The Management Board assumed that during the period covered by the Profit Forecast (i.e., 2021 - 2025), there will be:

- impacts from the COVID-19 pandemic, which will affect the results negatively during 2021, during 2022-2025 the COVID-19 pandemic impact is considered to be minimal to the economic results of the Group;
- stable economic environment, no material change, particularly in geographical markets in which the Group operates, to the current prevailing global macroeconomic and political conditions;
- continuing of growth in business volumes, no material changes in market conditions within the financial services industry in respect of customer demand or the competitive landscape;
- no material changes in relevant exchange rates as compared with the average foreign exchange rates assumed in the Profit Forecast;
- no material changes in the Group's labour costs driven by external parties or regulations;
- no material changes in inflation, interest or tax rates in the Group's principal markets compared with forecasts;
- no adverse event that will have a material impact on the Group's financial performance;
- no change in legislation, tariffs or regulatory environment in the Group's principal markets that materially impact its operations or the accounting principles or standards it follows (which are material in the context of the Profit Forecast);
- no other issue material to the Profit Forecast beyond those issues already known to the Management Board at the current time will arise in respect of the Group's contracts, relationships or obligations.

(b) Factors within the influence or control of the Management Board:

- during the period covered by the Profit Forecast, there will be no material deterioration in the Group's relationship with customers and suppliers in a manner that is material in the context of the Profit Forecast;
- the Group will not execute any additional acquisitions or disposals that are material in the context of the Profit Forecast (considering any potential related transaction or abortive costs);
- there will be no material change in the current key management of the Group.

(c) In the opinion of the Management Board, the main uncertain assumptions that could change the Profit Forecast significantly are:

- <u>Change in macroeconomic environment.</u> The Profit Forecast is prepared, and the credit impairments are estimated, assuming continuing of the current macroeconomic situation (i.e., that it will not improve or decline and remains similar). In case the macroeconomic situation deteriorates significantly the credit risk will start to increase and higher credit impairments will be required.

- <u>Change in interest rate levels.</u> The Group is impacted by ECB's decisions on interest rate levels, as LHV Pank deposits liquidity at rates set by the ECB. In the Profit Forecast it is assumed that ECB sets the rates in line with the current market's expectation and the yields will remain negative throughout the forecasting cycle.

- <u>Political and legal risks.</u> The Profit Forecast takes into consideration all current known upcoming changes in regulations. However, as banking and asset management are both heavily regulated sectors, new significant changes in regulations/legislations could arise during the Profit Forecast period, which could trigger a significant change in certain business lines profitability.

13. TAXATION

Introductory Remarks. This Section is meant to give an overview of the tax regime applicable to the shareholders and the Company. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. In order to establish particular tax consequences of the Offering or the ownership of the Shares, each individual investor is strongly encouraged to seek specialist assistance. Furthermore, the tax laws of the investor's jurisdiction and of the Company´s country of incorporation may also have an impact on the income received from the Shares.

Corporate Income Tax. The system of taxation of corporate income currently in force in Estonia differs from the traditional model of corporate income taxation in that it shifts the point of corporate taxation from the moment of accrual to the moment of distribution. Therefore, in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution. Corporate income tax is charged on profit distributions such as dividends, payments in the course of the reduction of share capital and redemption of own shares, as well as on implicit distributions such as fringe benefits, gifts and donations, expenditures and payments not related to the business activities of a company.

All of the above profit distributions are normally taxed at the rate of 20/80 (25%) of the net amount of the distribution, i.e. 20% of the gross amount of the distribution, whereas, as a rule, the corporate income tax charged on the above profit distributions is payable only at the company level with the company being responsible for calculating, declaring and paying of the respective corporate income tax (regular profit distributions are an exception and are taxed differently – please see below for details). Corporate income tax imposed on distributed profit is not a withholding tax and thus is not influenced by the applicable international tax treaties. Payments made in the course of the reduction of share capital and redemption of shares are taxable at the company level only to the extent such payments exceed the monetary and non-monetary contributions previously made by the shareholders into the company.

Upon the repeated distribution of dividends by an Estonian resident legal person on the account of the dividends derived from a resident company of the European Economic Area contracting state (including Estonia) or Switzerland, the repeated distribution of dividends shall be exempt from income tax, provided the distributing company held at least 10% of the shares or votes in the company from which the underlying dividends were derived at the time of deriving the dividends. The latter restriction should be taken into account by an Estonian resident investor when deciding on whether to acquire the Shares as a natural or a legal person.

Regular Profit Distributions. From January 1, 2018 a special taxation regime and a reduced corporate income tax rate of 14% has been introduced with respect to the so-called regular dividend payments and other profit distributions. According to the regime, if the profit distributed in a calendar year is smaller than or equal to the average distributed profit of the previous three calendar years in which the Estonian resident company has paid corporate income tax, then such profit shall be subject to taxation at a reduced corporate income tax rate of 14% from gross amount of distribution or 14/86 from the net amount of the distribution. The amount of distribution exceeding the average distributed profit of the previous three calendar years is taxable at the regular corporate income tax rate of 20%.

2019 was the first year when the Estonian resident legal person can apply the reduced 14% corporate income tax rate in respect of 1/3 of the taxable profit distributed in 2018. If the profit distributions taxable at a reduced corporate income tax rate of 14% are paid to a natural person (resident or non-resident), then such distributions will be also subject to personal income tax at a reduced rate of 7% (withholding tax).

Dividend Tax. In Estonia dividends paid by an Estonian resident legal person are normally exempt from taxation at the level of the recipient, regardless of whether the recipient is a natural or a legal person, an Estonian resident or a non-resident person (no classical dividend tax). Therefore, as a rule, taxation takes place only at the level of the Estonian legal person making the distribution. However, if the recipient is a non-resident person, then the dividends received from the Estonian legal person may be taxed with dividend tax in the person's respective country of residence. In order to establish particular tax consequences arising in the non-resident person's country of residence, investors are advised to seek specialist assistance.

In connection with the enacting of a special tax regime for regular profit distributions by Estonian resident companies, on 1 January 2018, a reduced personal income tax rate of 7% was introduced with respect to dividends or other profit distributions that have been taxed at company level as regular profit distributions. The said personal income tax rate of 7% functions as a withholding tax, which is withheld from individuals (both resident and non-resident) who have received dividends taxed at a reduced corporate income tax rate of 14%.

Capital Gains from Sale or Exchange of Shares. Gains realised by an Estonian resident individual upon the sale or exchange of securities (including the Shares) are subject to income tax at the rate of 20%. Payments received by an Estonian resident individual in the course of the reduction of share capital or redemption of shares are also taxable as capital gains, if the amount of the received payment exceeds the acquisition cost of the relevant shareholding, except to the extent such payment has been already taxed at the company level. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains accruing to resident legal persons are not subject to immediate taxation. As a rule, capital gains received by non-residents from the sale or exchange of securities are not taxed in Estonia (except for certain securities related to the Estonian real estate). Non-resident shareholders receiving capital gains from the sale or exchange of the Shares may be subject to declaring and paying income tax in their respective countries of residence. For the purposes of capital gains taxation, the gain derived from the sale of securities (including the Shares) is the difference between the acquisition cost and the sales price of such securities. The gain derived from the exchange of securities is the difference between the acquisition cost of securities subject to exchange and the market price of the property received as a result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains.

Investment Account. Estonian resident individuals may postpone the taxation of their investment income by using an investment account for the purposes of making transactions with certain financial assets (including the Shares). An investment account is a monetary account opened with a European Economic Area or the Organisation for Economic Co-operation and Development (OECD) member state credit institution, through which the transactions with the financial assets, taxation of income from which (e.g., capital gains, etc.) a person wants to postpone, shall be made. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e., the amount withdrawn from the account exceeds the amount which had been previously paid in to the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

14. GLOSSARY

Term	Definition
Alternative Performance Measures, the APMs	shall mean financial measures that are defined as alternative performance measures in the "ESMA Guidelines on Alternative Performance Measures" issued by the European Securities and Markets Authority on 5 October 2015.
Articles of Association	shall mean the Articles of Association of the Company effective as at the date of this Prospectus.
Audited Financial Statements	shall mean the consolidated audited financial statements of the Group of and for the year ended 31 December 2020 prepared in accordance with the IFRS and the Estonian Accounting Act incorporated by reference to this Prospectus.
BRRD	shall mean the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.
Company	shall mean AS LHV Group, an Estonian public limited company, registered in the Estonian Commercial Register under register code 11098261, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
CRD IV	shall mean an European Union legislative package covering prudential rules for banks, building societies and investment firms. CRD IV includes the following legislative acts - the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD) and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).
CRR	shall mean the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
Cuber Technology (in liquidation)	shall mean Cuber Technology OÜ, an Estonian private limited company, registered in the Estonian Commercial Register under register code 12794962, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
Delegated Regulation	shall mean Commission Delegated Regulation No 2019/980/EU of 14 March 2019 supplementing Regulation No 2017/1129/EU of the European Parliament and of the Council as regards the format, content,

	scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation No 809/2004/EC.
EBA	shall mean the European Banking Authority, an independent European Union Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.
EFSA	shall mean the Estonian Financial Supervision and Resolution Authority, a financial supervision institution with autonomous competence and a separate budget which conducts supervision over credit institutions, insurance companies, insurance intermediaries, investment firms, management companies, investment and pension funds as well as the payment service providers, e-money institutions and the securities markets that have been authorised by the Financial Supervision Authority in the name of the state and which is independent in its activities and decisions.
ERS	shall mean the Estonian Register of Securities, operated by Nasdaq CSD SE Estonian branch, registered in the Estonian Commercial Register under register code 14306553, having its registered address at Maakri 19/1, 10145 Tallinn, Estonia.
EUR	shall mean the official currency of Eurozone countries, including Estonia, Latvia and Lithuania, the euro.
Eurozone	shall mean the economic and monetary union (EMU) of the European Union member states, which have adopted euro as their single official currency.
Excluded Territories	shall mean Australia, Canada, Hong Kong, Japan, South Africa and any other jurisdiction where the distribution of this Prospectus and/or the transfer of Subscription Rights and/or the Offer Shares would breach applicable law.
FCPRA	shall mean the Financial Crisis Prevention and Resolution Act (in Estonian: *finantskriisi ennetamise ja lahendamise seadus*), implementing the BRRD into Estonian law.
Financial Statements	shall mean the Audited Financial Statements and the Interim Financial Statements as incorporated by reference to this Prospectus.
GDP	shall mean gross domestic product, the market value of all officially recognised final goods and services produced within a country in a year, or another given period of time.
General Meeting	shall mean the General Meeting of shareholders of the Company, the highest governing body of the Company.

Group	shall mean the Company and all its Subsidiaries.
IFRS	shall mean the International Financial Reporting Standards as adopted by the European Union.
Institutional Offering	shall mean the offering of the Offer Shares in and outside Estonia to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made, which does not constitute a public offering of the Offer Shares in any jurisdiction, except Estonia.
Interim Financial Statements	shall mean the unaudited condensed consolidated interim financial statements of the Group as of and for the period ended 30 June 2021, prepared in accordance with International Accounting Standards (IAS) 34 "Interim Financial Reporting" incorporated by reference to this Prospectus.
LHV Finance	shall mean AS LHV Finance, an Estonian public limited company and licensed creditor operating with an exemption, registered in the Estonian Commercial Register under register code 12417231, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LHV Kindlustus	shall mean AS LHV Kindlustus, an Estonian public limited company and licensed non-life insurance company, registered in the Estonian Commercial Register under register code 14973611, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LHV Pank	shall mean AS LHV Pank, an Estonian public limited company and licensed credit institution, registered in the Estonian Commercial Register under register code 10539549, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LHV UK	shall mean LHV UK LIMITED, a British private limited company, registered in the Companies House under register code 13180211, having its registered address at One Angel Court, 1 Angel Court, London, United Kingdom, EC2R 7HJ.
LHV Varahaldus	shall mean AS LHV Varahaldus, an Estonian public limited company and licensed fund manager, registered in the Estonian Commercial Register under register code 10572453, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
Management	shall mean the Management Board and the Supervisory Board of the Company.
Management Board	shall mean the Management Board of the Company.
MEUR	shall mean millions of euros.
Nasdaq Tallinn Stock Exchange	shall mean the only regulated market operated by Nasdaq Tallinn AS (register code 10359206).

Offer Price	shall mean the final price per each Offer Share, which shall be a fixed price of EUR 34.
Offer Shares	shall mean up to 745,294 Shares that are being offered to investors in the course of the Offering.
Offering	shall mean the Retail Offering and the Institutional Offering together.
Prospectus	shall mean this Secondary Offering, Listing and Admission to Trading Prospectus.
Prospectus Regulation	shall mean Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC.
Restricted Territories	shall mean member states of the European Economic Area (excluding Estonia).
Retail Offering	shall mean the offering of the Offer Shares to institutional and retail investors in Estonia, which is a public offering of securities within the meaning of the Estonian Securities Market Act.
Section	shall mean a section of this Prospectus.
Share	shall mean the ordinary shares of the Company with the nominal value of EUR 1, registered in the ERS under ISIN code EE3100073644.
Shareholder	shall mean natural or legal person(s), holding the Share(s) of the Company at any relevant point of time.
Subscription Period	shall mean the period within which investors will have the opportunity to submit Subscription Undertakings starting from 15 September 2021 (included) and ending on 29 September 2021 (included).
Subscription Rights	shall mean the pre-emptive right to subscribe for the Offer Shares which shall be granted to the Company's shareholders fixed in the share register on 8 September 2021 at the end of the business day of the settlement system of the ERS.
Subscription Undertaking	shall mean the order submitted by an investor for the purchase of the Offer Shares in accordance with the terms and conditions of the Offering.
Subsidiaries	shall mean LHV Pank, LHV Varahaldus, LHV Kindlustus, LHV UK, LHV Finance and Cuber Technology (in liquidation).
Summary	shall mean the summary of this Prospectus.
Supervisory Board	shall mean the Supervisory Board of the Company.
TEUR	shall mean thousands of euros.

UCITS	shall mean undertakings for the collective investment in transferable securities, i.e., are investment funds regulated at European Union level mainly by the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.

COMPANY

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)

AUDITOR

KPMG Baltics OÜ

(Narva mnt 5, Tallinn 10117, Estonia)