Public Offering, Listing and Admission to Trading Prospectus of up to 25,000 Unsecured Subordinated Bonds of AS LHV Group with Nominal Value of EUR 1,000, Interest Rate of 6% *per annum* and Maturity Date on 30 September 2030

This Public Offering, Listing and Admission to Trading 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 intended public offering, listing and the admission to trading of the bonds issued by the Company on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange (the **Prospectus**).

The Company is publicly offering up to 25,000 bonds, with the nominal value of EUR 1,000 each (the **Bonds**), to retail and institutional investors in Estonia (the **Offering**). The Bonds carry the rights and are governed by the provisions of the Terms and Conditions of the Company's Tier 2 Subordinated Bonds, dated 3 September 2020, which have been incorporated in this Prospectus by reference (the **Bond Terms**).

In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to issue up to 10,000 additional Bonds and thereby increase the total number of Bonds offered in the course of the Offering to up to 35,000 making the total volume of the Offering up to EUR 35,000,000.

The offer price per one Bond is EUR 1,000 (the **Offer Price**) and the period during which the Bonds may be subscribed for, in accordance with the Prospectus, starts on 16 September 2020 at 10:00 and ends on 25 September 2020 at 16:00 (the **Offer Period**). The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

The Bonds will be publicly offered only in Estonia and not in any other jurisdiction. The Bonds may be offered by way of non-public offering to qualified investors or other investors in compliance with Article 1(4) (a) and (b) of Regulation No 2017/1129/EU 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 (the **Prospectus Regulation**) also in other jurisdictions. This Prospectus has been compiled as a simplified prospectus in accordance with Article 14(1)(b) of the Prospectus Regulation.

The Company will, simultaneously with the Offering, apply for the listing and for the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. Subject to fulfilling all the necessary prerequisites, the Company intends to list and then admit the Bonds to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange on or about 1 October 2020.

This Prospectus has been approved by the Estonian Financial Supervision Authority (the **EFSA**), as competent authority under the Prospectus Regulation, on 7 September 2020 under registration number 4.3-4.9/4231. The EFSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be considered as an endorsement of the Company and the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

3 September 2020

The Bonds are subordinated to all unsubordinated claims against the Company. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Bond Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Consent of the bondholders is not necessary for effecting bail-in measures by the EFSA. The Bonds may be redeemed prematurely by the Company on the grounds set forth in the Bond Terms only if the EFSA has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company.

Investing into the Bonds involves risks. While every care has been taken to ensure that this Prospectus presents a fair and complete overview of the material risks related to the Company, the operations of the Company and its subsidiaries (the Group) and to the Bonds, the value of any investment in the Bonds may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

The Prospectus is valid until the end of the Offer Period or commencement of trading with the Bonds on the Baltic Bond 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 new facts, material errors or inaccuracies occur, and such an obligation does not apply after the end of the validity period of the Prospectus.

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1. INTRODUCTORY INFORMATION

1.1. Applicable Law

This Prospectus has been drawn up as a simplified prospectus in accordance with Article 14 of the Prospectus Regulation. The Prospectus has been compiled in accordance with the requirements of the Prospectus Regulation and the 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 809/2004/EC (the **Delegated Regulation**). The Prospectus includes a summary complied according to Article 7 of the Prospectus Regulation, a registration document of the Company complied according to Annex 8 of the Delegated Regulation and a securities note of the Bonds drafted according to Annex 16 of the Delegated 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. The investor may be required under national law to bear the costs of translating the Prospectus before being able to bring a claim relating to this Prospectus to court.

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

1.2. Persons Responsible and Limitation of Liability

In accordance with the Prospectus Regulation, AS LHV Group (the Company) states that it is responsible for the information in this Prospectus. 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.

AS LHV Group

Madis Toomsalu

Member of Management Board

3 September 2020

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 or its Estonian translation, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

The Company will not accept any responsibility for the information pertaining to the Offering, the Company or its operations, where such information is disseminated or otherwise made public by third parties either in connection with the Offering or otherwise.

1.3. Presentation of Information

Approximation 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% due to the effects of approximation. Exact numbers may be derived from the Financial Statements (as defined in Section "Glossary"), to the extent that the relevant information is reflected therein.

Currencies. In this Prospectus, financial information is presented in euro (the **EUR**), the official currency of the Eurozone.

Date of Information. This Prospectus is drawn up based on information, which was valid as of the date of the Prospectus (i.e. 3 September 2020). 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 aforementioned date. Where information is presented as of a date other than 3 September 2020, this is identified by specifying the relevant date.

Third Party Information and Market Information. For portions of this Prospectus, certain information has 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. The Group companies monitor and analyse their competitive position and the developments in the competitive situation on the markets where the Group companies operate on the basis of publicly available data and statistics, such as market analyses and statistics prepared by the EFSA and the local national banks of the geographical markets where the Group companies operate. All statements made in this Prospectus in respect of the competitive position of the Group companies are based on the above-referred publicly available information. Certain information with respect to the markets in which the Company and its subsidiaries operate is based on the best assessment made by the Management (as defined in Section 12 "Glossary"). With respect to the industry in which the Company and its subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide 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 and 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 see Section "Forward-Looking Statements" below).

Definitions of Terms. In this Prospectus, capitalised terms have the meaning ascribed to them in Section "Glossary", with the exception of 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.

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.

1.4. Information Incorporated by Reference

The following documents are incorporated in this Prospectus by reference:

(i) the Bond Terms, available at https://investor.lhv.ee/assets/files/emission2020/Terms_and_conditions_of_subordinated_bonds.pdf;

(ii) the audited consolidated financial statement of the Group for the financial year ended on 31 December 2019, available at https://www.nasdaqbaltic.com/market/upload/reports/lhv/2019_ar_en_eur_con_00.pdf and also available on the website of the Company at https://investor.lhv.ee/en/ under section "Reports";

(iii) the unaudited consolidated financial statement of the Group for the interim period of 6-months ended on 30 June 2020, available at https://nasdaqbaltic.com/market/upload/reports/lhv/2020_q2_en_eur_con_00.pdf and also available on the website of the Company at https://investor.lhv.ee/en/ under section "Reports".

1.5. Documents on Display

In addition to this Prospectus, the following documents are on display: (i) the Articles of Association; (ii) the historical financial information of the Company and its Subsidiaries; and (iii) the information published as company announcements via the information system of the Nasdaq Tallinn Stock Exchange. These announcements are also available on the webpage of Nasdaq Baltic (www.nasdaqbaltic.com) and can be found in subsection "Market Announcements" under the "News" tab. All the documents on display as described herein may be obtained from the website of the Company at https://investor.lhv.ee/en/.

1.6. Financial Information and Accounting Principles

The audited consolidated financial statement of the Group for the financial year ended on 31 December 2019 has been prepared in accordance with the International Financial Reporting Standards (the **IFRS**) as adopted by the European Union (the **EU**) and audited by AS PricewaterhouseCoopers (registered address at Pärnu mnt 15, 10141 Tallinn, Estonia).

As of 1 January 2020, the Company's auditor is KPMG Baltics OÜ (registered in the Estonian Commercial Register under register code 10096082), who has been appointed as the auditor on the basis of the decision of the annual General Meeting of the Company, dated 13 March 2019.

Both, Aktsiaselts PricewaterhouseCoopers and KPMG Baltics OÜ, are the members of the Estonian Auditing Board.

The unaudited consolidated financial statement of the Group for the interim period of 6 months ended on 30 June 2020 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the IFRS as adopted by EU and has not been audited by an independent auditor.

Apart from information taken from the audited consolidated financial statement of the Group for the financial year ended on 31 December 2019, this Prospectus contains no other audited information. When references are made in this Prospectus to any interim results, such references are based on unaudited statements.

1.7. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under Sections “Summary”, “Risk Factors”, “Reasons for Offering and Use of Proceeds” and “Principal Activities and Markets”). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of 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 EU), 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 see “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 Bonds and listing and the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. No public offering of the Bonds 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 Bonds. 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 the Prospectus

This Prospectus has been approved by the EFSA, as competent authority under the Prospectus Regulation, on 7 September 2020 with the registration number 4.3-4.9/4231. The EFSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be considered as an endorsement of the Company and the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds.

1.10. Availability of the Prospectus

This Prospectus and its Estonian language translation will be published by means of a stock exchange release through the information system of Nasdaq Tallinn Stock Exchange. The Prospectus is also available and downloadable on the website of the EFSA (https://www.fi.ee) and the Prospectus as well as its Estonian language translation on the website of the Company (https://investor.lhv.ee/en/bonds/). In case of any discrepancies between the Prospectus and its Estonian language translation, the Prospectus will prevail. Any interested party may request delivery of an electronic copy of the Prospectus and its Estonian language translation from the Company without charge.

AS LHV GROUP TARTU MNT 2, 10145 TALLINN 6 802 670 INFO@LHV.EE LHV.EE

2. SUMMARY

Introduction and warnings

This Summary (the **Summary**) should be read as an introduction to the Prospectus and any decision to invest in the Bonds should be based on consideration of the Prospectus as a whole by the investor. 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, and only where the Summary is misleading, inaccurate or 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 Bonds. Investment into the Bonds 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 Bonds	EUR 6.00 LHV Group subordinated bond 20-2030, ISIN EE3300001791 (the **Bonds**)
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 in the Estonian Commercial Register under the register code 11098261 and its LEI code is 529900JG015JC10LED24. The contact details of the Company are the following: address Tartu mnt 2, 10145 Tallinn, Estonia, phone (+372) 6800 400, e-mail group@lhv.ee.
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 Authority (the **EFSA**) with the registration number 4.3-4.9/4231 on 7 September 2020. The contact details of the EFSA are the following: address Sakala 4, Tallinn 15030, Estonia, phone (+372) 668 0500, e-mail info@fi.ee.

Key information on the Issuer

Who is the issuer of the bonds?

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 and its LEI code is 529900JG015JC10LED24. 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, e-mail: group@lhv.ee. The Company is the holding company of its subsidiaries (the Company and its subsidiaries jointly as the **Group**) with limited operations of its own. The Company is engaged in investor relations management and ensuring necessary capitalisation for the Group companies. The Company has three fully-owned Subsidiaries – AS LHV Pank (a licensed credit institution; the **LHV Pank**) and AS LHV Varahaldus (a licensed fund manager; the **LHV Varahaldus**) and Cuber Technology OÜ (a start-up company, the **Cuber Technology**) and holds 65% shares in AS LHV Kindlustus (the **LHV Kindlustus**), a company established for the provision of non-life insurance products (insurance undertaking license is currently pending; however, expected to be obtained by the end of 2020). LHV Pank holds 65% shares in AS LHV Finance (the **LHV Finance**), an Estonian financial institution offering hire-purchase services in the Estonian market. The Group companies operate in four business segments and two geographical markets (in Estonia, and as of the first quarter of 2018, in the United Kingdom through a branch). The business segments of the Group are banking, asset management, hire-purchase and consumer finance and non-life insurance products (currently pending). The Company's shares are publicly traded on Nasdaq Tallinn Stock Exchange.

As at the date of this Prospectus the Company has 6869 Shareholders, the Shareholders holding directly over 5% of all shares in the Company are the following:

Name of shareholder	Number of shares	Proportion
AS Lõhmus Holdings	3,618,920	12.5574%
Rain Lõhmus	2,538,367	8.8079%
Viisemann Investments AG	2,186,432	7.5867%
Ambient Sound Investments OÜ	1,653,709	5.7383%

The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 31.05% of all the Shares, whereas approximately 23.38% of the Shares are held by Mr Rain Lõhmus (as natural person and through AS Lõhmus Holdings and OÜ Merona Systems) and 9.68% by Mr Andres Viisemann (through Viisemann Investments AG and Viisemann Holdings OÜ). To the knowledge of the Management, Mr Rain Lõhmus and Mr Andres Viisemann have not entered into a shareholders' agreement in relation to the shareholdings in the Company and exercise their rights as Shareholders independently. 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 is responsible for the strategic planning of the business activities of the Company and for supervising the activities of the Management Board. The Management Board consists of one member – Mr Madis Toomsalu, his authorities remain valid until 5 December 2021. 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), Mr Raivo Hein, Mr Heldur Meerits, Mrs Tiina Mõis, Mr Tauno Tats, Mr Andres Viisemann and Mr Sten Tamkivi. The term of office of Supervisory Board members is set to expire on 29 March 2023.

The auditor of the Group for the financial years 2018–2019 was Aktsiaselts PricewaterhouseCoopers (registry code 10142876) and starting from 1 January 2020, the auditor of the Group is KPMG Baltics OÜ (registry code10096082).

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 the financial year ended on 31 December 2019, which has been extracted from the Audited Financial Statement included in this Prospectus respectively. The information has been presented in accordance with Annex III of European Commission Delegated Regulation (EU) 2019/979 as deemed most appropriate in relation to the Bonds by the Company.

Table 1. Consolidated income statement

(in thousands of euros)	**Financial year ended on 31.12.2019**	**Financial year ended on 31.12.2018**	**6m 2020 ended on 30.06.2020**	**6m 2020 ended on 30.06.2019**
	Audited	Audited	Unaudited	Unaudited
Net interest income	47,388	38,151	31,869	22,572
Net fee and commission income	25,677	25,045	12,695	12,837
Net trading income	670	443	-67	381
Impairment losses on loans and advances	-3,210	-4,879	-8,682	-1,649
Profit before income tax	31,341	27,479	13,998	15,627
Income tax expense	-4,249	-3,614	-2,964	-2,962
Net profit	27,092	27,189	11,034	12,665

Table 2. Consolidated balance sheet

(in thousands of euros)	**As at 31.12.2019**	**As at 31.12.2018**	**As at 30.06.2020**
	Audited	**Audited**	**Unaudited**
Loans and advances from customers (net)	1,687,034	918,761	1,804,036
Total assets	3,031,912	1,677,100	3,697,512
Deposits from customers	2,700,919	1,422,254	3,086,953
Senior debt	25,643	21,528	271,534
Subordinated debt	75,000	50,900	90,000
Total equity	206,028	157,763	213,322
Tier 1 capital ratio (%)[1]	13.88	13.65	14.75
Capital adequacy (%)[2]	17.97	20.91	18.63
Leverage ratio %[3]	6.18	6.56	5.68

[1] Tier 1 equity = Tier1 capital/total risk-weighted assets*100. As reported to the competent authorities and calculated in accordance with the capital requirements regulation No 575/2013/EU and (the **CRR**) and capital requirements directive No 2013/36/EU (the **CRDIV**) and other legislative acts. The ratio has not been audited.

[2] CAD = (Tier 1 capital + Tier 2 capital)/risk weighted assets*100. The ratio has not been audited.

[3] Leverage ratio =Tier 1 Capital / total exposure*100. The ratio has not been audited.

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

<u>Counterparty Credit Risk.</u> The Group may suffer losses from its counterparties' inability to meet its obligations to the Group companies. The COVID-19 pandemic has significantly influenced the business of the Group and increased its exposure to counterparty credit risk.

<u>Concentration Risk</u>. 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 services sectors. Therefore, adverse

developments or further increase of competition in Estonia or in the above sectors may have a material adverse effect on the Group.

Geographical Markets 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. Further, the operations of the Group and foremost the operations of LHV Pank are inherently exposed to interest rate risk as interest rates are affected by numerous factors beyond the control of the Group companies, which may not be estimated adequately. As a result of COVID-19 pandemic the financial markets where the Group companies operate have been very volatile, and this is expected to continue should the virus spread or if the relevant markets experience what is seen as a second wave of the pandemic.

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.

Dependence on Access to Funding on Favourable Terms. The Group companies may not be able to raise funds from the money and capital markets on terms comparable with that of the current funding of 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. The Group is exposed to operating risk, which 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 operational risk includes the 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 Cash-Flows from Subsidiaries. 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 make the payments in accordance with the Bonds Terms 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. Due to the COVID-19 pandemic there is uncertainty regarding the financial condition and profitability of the Subsidiaries for 2020 and the following years should the spread of the pandemic continue. Thus, there is a risk of decrease in the dividends paid by the Subsidiaries to the Company in the future.

Furthermore, the Group is exposed to the risk that the Estonian compulsory pension funds system will be altered allowing fund investors to exit from the compulsory pension system before retirement upon request and to withdraw already collected savings. The Estonian Parliament has adopted the law on the said changes; however, the constitutionality of the reform is currently being considered by the Estonian Supreme Court. In any case such change would have a significant effect on the profitability and operations of LHV Varahaldus which may in turn impact the dividends paid by LHV Varahaldus to the Company.

Key information on the Bonds

What are the main features of the bonds?

Bonds. The Bonds are subordinated bonds with the nominal value of EUR 1,000 each, denominated in euro. In the course of the Offering, the Company may issue up to 25,000 Bonds. The Company may increase the total number of Bonds offered by 10,000 Bonds, i.e. to 35,000 Bonds. The Bonds represent unsecured debt obligation of the Company before the bondholder. The Bonds are in dematerialised book-entry form and are not numbered. The Bonds will be registered in Nasdaq CSD under ISIN code EE3300001791. The rights attached to the Bonds have been established by the Bond Terms. The main rights of bondholders arising from the Bonds and the Bond Terms are the right to the redemption of the Bonds and the right to receive payment of interest. In addition to the right to the redemption of the Bonds and the right to receive payment of interest, upon a delay in making any payments due under the Bond Terms, the bondholders are entitled to a delay interest at the rate of 0.025% per each day in delay.

Interest. The Bonds carry an annual coupon interest at the rate of 6% *per annum*, calculated from the date of transferring the Bonds to the investors, i.e. 30 September 2020, until the date of redemption. The interest is paid quarterly (starting from 30th December 2020) on the following dates 30th March, 30th June, 30th September and 30th December. The interest on the Bonds is calculated based on 30-day calendar month and 360-day calendar year (30/360).

Yield. The estimated yield-to-maturity of the Bonds on the date of issue of the Bonds, i.e. 28 September 2020, calculated from the date of commencement of interest on the Bonds, i.e. 30 September 2020, until the maturity date, i.e. 30 September 2030, on the basis of the Offer Price, is 6%.The yield-to-maturity is the percentage rate of return paid if the Bond is held to its maturity date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

Maturity Date and Premature Redemption. The maturity date of the Bonds is 30 September 2030. According to the Bond Terms, the Company is entitled to redeem the Bonds prematurely at any time after the lapse of 5 years as from the date of issue, i.e. at any time after 28 September 2025, by notifying the bondholders at least 30 days in advance in accordance with the Bond Terms (i.e. as a company announcement published via the information system of the Nasdaq Tallinn Stock Exchange). The Company is further entitled to redeem the Bonds prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds resulting in the Bonds being, in the opinion of the Company, excluded from the classification as own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds, provided that the Company was not in a position to foresee such changes upon the issue of the Bonds.

EFSA's Consent. The Bonds may be redeemed prematurely by the Company on the above-described grounds only if the EFSA has granted its consent to the early redemption. The EFSA may grant its consent for the early redemption of the Bonds as from 28 September 2025 only if the conditions of Article 78(1) of 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 (the **CRR**) are met. The bondholders are not entitled to claim early redemption of the Bonds under any circumstances.

Ranking and Subordination. The Bonds are subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds are not subordinated to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Bond Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the bondholders of the Bonds are not entitled to any payments due under the Bond Terms until the full and due satisfaction of all the unsubordinated claims against the Company. Furthermore, any liability arising under the Bonds may be subject to the exercise of Bail-In Powers by the Relevant Resolution Authority in cases where a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met). Exercising the Bail-in Powers is subject to numerous preconditions and will only be used as a last resort; however, if the powers are exercised, it is possible that: (a) the amount outstanding of the Bonds is reduced, including to zero; (b) the Bonds are converted into shares, other securities or other instruments of the Company or another person; (c) the Bonds or the outstanding amounts of the Bonds are cancelled; and/or (d) the Bond Terms are altered (e.g. the maturity date or interest rate of the Bonds could be changed). Therefore, if a Group company meets the conditions for the initiation of resolution proceedings, the exercising of the Bail-in Powers by the Relevant Resolution Authority may result in material losses for the bondholders. Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Consent of the bondholders is not necessary for affecting bail-in measures by the Resolution Authority. As long as there are no resolution, liquidation or bankruptcy proceedings initiated against the Company (or, as the case may be, Group company), all claims arising from the Bonds shall be satisfied in accordance with the Bond Terms and the applicable law.

Notwithstanding any rights of the bondholder under the Bond Terms or the law, by subscribing to Bonds or acquiring the Bonds from a secondary market the bondholder unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds. No bondholder shall be entitled to exercise any right of set-off against moneys owed by the Company in respect of such Bonds.

Transferability. The Bonds are freely transferrable; however, any bondholder wishing to transfer the Bonds must ensure that any offering related to such a transfer would not be qualified as requiring the publication of a prospectus in accordance with applicable law. According to the Bond Terms, ensuring that any offering of the Bonds does not require the publication of a prospectus in accordance with the applicable law is the obligation and liability of the bondholder.

Where will the securities be traded?

The Company intends to apply for the listing and admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange as soon as possible after the respective Offering and the registration of the Bonds in the Estonian Register of Securities (the **ERS**), operated by Nasdaq CSD Estonian branch. The expected date of listing and the admission to trading of the Bonds is on or about 1 October 2020. While every effort will be made and due care will be taken in order to ensure the listing and the admission to trading of the Bonds by the Company, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

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

Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner.

Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Bond Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law.

Early Redemption Risk. According to the Bond Terms, the Bonds may be redeemed prematurely on the initiative of the Company. The Bonds may, however, be redeemed prematurely by the Company only if the EFSA (or the European Central Bank if it is in the competence thereof) has granted its consent to the early redemption.

Bail-in Risk. If a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met), the bail-in powers may be exercised by a relevant authority, through which: (i) the amount outstanding of the Bonds could be reduced, including to zero; (ii) the Bonds could be converted into shares, other securities or other instruments of the Company or another person; (iii) the Bonds or the outstanding amounts of the Bonds could be cancelled; (iv) the Bond Terms could be varied (e.g. the maturity date or interest rate of the Bonds could be changed).

No Ownership Rights. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

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 an Offering will be successful and that the investors will receive the Bonds they subscribed for.

Bond Price and Limited Liquidity of Bonds. Though every effort will be made to ensure that the admission of the Bonds to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange will occur, the Company cannot provide any assurance in that respect. Further, the Estonian market has limited liquidity and the bondholders may not be able to sell their Bonds at the desired price, or at all. The value of the Bonds can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group's control.

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

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

In the course of the Offering, the Company is offering up to 25,000 Bonds. The Offering is made by the way of public offering to retail and institutional investors in Estonia. In addition, the Company may offer Bonds by the way of non-public offering to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other investors in compliance with Article 1(4) (a) and (b) of the Prospectus Regulation on terms and conditions described in this Prospectus. The Bonds will be publicly offered only in Estonia and not in any other jurisdiction. The Bonds are offered for the price of EUR 1,000 per one Bond. In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 10,000 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 35,000 and the total volume of the Offering up to EUR 35 million.

The Offering is directed to all natural and legal persons in Estonia. For the purposes of the Offering, a natural person is considered to be "in Estonia" if all the following conditions are met: (i) such person has an operational securities account with the ERS; (ii) such person's address recorded in the records of ERS in connection with such person's securities account is located in Estonia and (iii) such person submits a Subscription Undertaking (as defined below) in relation to Offer Bonds via that securities account. A legal person is considered to be "in Estonia" if all the following conditions are met: (i) such person has a securities account with ERS; (ii) such person's address recorded in the records of ERS in connection with such person's securities account is located in Estonia or its registration code recorded in the records of ERS is the registration code of the Estonian Commercial Register and (iii) such person submits a Subscription Undertaking (as defined below) in relation to Bonds via that securities account.

Indicative timetable of the Offering.

Start of the Offer Period	16 September 2020
End of the Offer Period	25 September 2020
Announcement of the results	On or about 28 September 2020
Settlement of the Offering	On or about 29 September 2020
First trading day of the Bonds on Nasdaq Tallinn Stock Exchange	On or about 1 October 2020

Offer Period. The offer period commences on 16 September 2020 at 10:00 local time in Estonia and ends on 25 September 2020 at 16:00 local time in Estonia, unless shortened or extended in accordance with the Prospectus (the **Offer Period**). The Offer

Period is the period during which the persons who have the right to participate in the Offering may submit Subscription Undertakings for the Bonds.

Submitting Subscription Undertakings. In order to submit a Subscription Undertaking, an investor must have a securities account opened through any custodian of the ERS. The list of banks and investment firms authorised to operate as custodians of the ERS is available at the website of Nasdaq CSD SE (https://nasdaqcsd.com/list-of-account-operators/). Investors must bear all costs and fees charged by the respective financial institution through which they submit their Subscription Undertaking. These costs and fees may vary depending on the rules and prices established by the particular financial institution. Forms for Subscription Undertakings will be provided by the financial institution through which the investor submits the Subscription Undertaking.

The Subscription Undertaking 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:	EUR 6.00 LHV Group subordinated bond 20-2030
ISIN code:	EE3300001791
Amount of securities:	the number of Bonds for which the investor wishes to subscribe
Price (per one Bond):	EUR 1,000
Transaction amount:	the number of Bonds for which the investor wishes to subscribe multiplied by the Offer Price
Counterparty:	AS LHV Group
Securities account of counterparty:	99100539709
Custodian of the counterparty:	AS LHV Pank
Value date of the transaction:	30 September 2020
Type of transaction:	"subscription"
Type of settlement:	"delivery versus payment"

Subscription Undertakings may be submitted only during the Offer Period, only at the Offer Price, and only in euros. If multiple Subscription Undertakings are submitted by one investor, they will be merged for the purposes of allocation. Incomplete, incorrect, unclear or illegible Subscription Undertakings, or Subscription Undertakings that do not otherwise comply with the terms set out in this Prospectus, may be rejected at the sole discretion of the Company. An investor may submit a Subscription Undertaking through a nominee account only if such an investor authorises the owner of the nominee account to disclose the investor's identity, personal ID number or registration number, and address to the Company and Nasdaq CSD Estonian branch. Subscription Undertakings submitted through nominee accounts without the disclosure of the above information will be disregarded.

By submitting a Subscription Undertaking, every investor:

(a) confirms that he/she/it has read the Prospectus or its translation into Estonian and the Prospectus summary translated into Estonian;

(b) accepts the terms and conditions of the Offering set out in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Bonds;

(c) accepts that the number of the Bonds indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Bonds which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Bonds than the Maximum Amount subscribed for;

(d) undertakes to acquire and pay for any number of the Bonds allocated to them up to the Maximum Amount;

(e) authorises and instructs the financial institution through which the Subscription Undertaking is submitted to arrange the settlement of the transaction on their behalf (taking such steps as are legally required to do so) and to forward the necessary information to the extent necessary for the completion of the transaction;

(f) authorises Nasdaq CSD to process and forward information on the identity of the investor and the contents of the investor's Subscription Undertaking to the Issuer and its advisors before, during and after the Offer Period;

(g) authorises the financial institution through which the Subscription Undertaking is submitted, and Nasdaq CSD, as the case may be, to amend the information contained in the Subscription Undertaking, including to (a) specify the value date of the transaction, (b) specify the number of the Bonds to be purchased by the investor and the total amount of the transaction, up to the Maximum Amount times the Offer Price; (c) correct or clarify obvious mistakes or irregularities in the Subscription Undertakings, if any;

(h) confirms that he/she/it is not subject to the laws of any other jurisdiction which would prohibit the placing of the Subscription Undertaking and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus; acknowledges that the Offering does not constitute an offer for the Bonds 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 constitute the acceptance of a sales offer, and therefore does not in itself entitle the investor to acquire the Bonds, nor results in a contract for the sale of the Bonds between the Company and the investor.

Payment. By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its securities account 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 securities account in ERS or its securities account to cover the whole transaction amount for that particular Subscription Undertaking.

Distribution and Allocation. The Company will decide on the allocation of the Bonds after the expiry of the Offer Period. The Bonds will be allocated to the investors participating in the Offering in accordance with the following principles:

(a) the division of Bonds between the retail and institutional investors has not been predetermined. The Company will determine the exact allocation in its sole discretion;
(b) under the same circumstances, all investors shall be treated equally, whereas dependant on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Bonds allocated to one investor; which will apply equally to both – the retail investors and the institutional investors;
(c) the allocation shall be aimed to create a solid and reliable investor base for the Company;
(d) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the non-public offering;
(e) the Company shall be entitled to prefer its existing Shareholders and bondholders of the Company to other investors;
(f) possible multiple Subscription Undertakings submitted by an investor shall be merged for the purpose of allocation;
(g) each investor entitled to receive the Bonds shall be allocated a whole number of Bonds and, if necessary, the number of Bonds to be allocated shall be rounded down to the closest whole number. Any remaining Bonds which cannot be allocated using the above-described process will be allocated to investors on a random basis; and
(h) the Company shall be entitled to prefer the clients of LHV Pank and LHV Varahaldus to other investors.

The results of the allocation process of the Offering will be announced no later than on 28 September 2020 through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website (https://investor.lhv.ee/en/).

Settlement and Trading. The Bonds allocated to investors will be transferred to their securities accounts on or about 30 September 2020 through the "delivery versus payment" method simultaneously with the transfer of payment for such Bonds on terms announced for the Offering. The title to the Bonds will pass to the relevant investors when the Bonds are transferred to their securities accounts. If an investor has submitted several Subscription Undertakings through several securities accounts, the Bonds allocated to such investor will be transferred to all such securities accounts proportionally to the number of the Bonds indicated in the Subscription Undertakings submitted for each account, rounded up or down as necessary.

Cancellation of Offering and Extension or Shortening of the Offer Period. The Company has the right to cancel the Offering in full or in part in its sole discretion, at any time until the end of the Offer Period. In particular, the Company may decide to cancel the Offering in the part not subscribed for. Furthermore, the Company has a right to shorten or extend the Offer Period, at any time until the end of the Offer Period. Any such decision will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through 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 as of the moment when such announcement is made public.

Why is this Prospectus being produced?

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. Capital buffers are needed in advance to support the general corporate purposes, further growth, strengthen the market position of the Group. Provided that all the Bonds are subscribed for and issued by the Company, the expected amount of gross proceeds from the Offering is up to approximately EUR 25 million. In case the Company decides to use the option to increase the volume of the Offering in full, the gross proceeds from the Offering will increase to EUR 35 million. Expenses directly related to the Offering are estimated to be EUR 100,000.The net proceeds to the Company from the Offering, after deducting estimated expenses payable by the Company are estimated to be approximately EUR 24.9 million or, in case option to increase the offering volume is used in full, EUR 34.9 million. The Company plans to use up to EUR 15 million of proceeds from the Offering for the premature redemption of the existing unsecured subordinated bonds issued by the Group, provided that the Group is entitled to redeem such bonds prematurely in accordance with the applicable bond terms. The reminder of the net proceeds of the Offering, or in case the above subordinated bonds are not redeemed prematurely, the entire net proceeds of the Offering, will be used in line with the overall purpose of the Offering.

Conflicts of interest. According to the best knowledge of the Management, the persons involved in the Offering do not have any personal interests in the Offering, which would be material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

3. RISK FACTORS

3.1. Introduction

Investing into the Bonds issued by the Company entails various risks. Each prospective investor in the Bonds 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 Bonds. 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 Bonds.

The risk factors are presented in categories and where a risk factor may be categorised in more than one category, such risk factor appears only once and in the most relevant category for such risk factor. The most material risk factor in a category is presented first under that category, the assessment of materiality of each risk factor is based on the probability of its occurrence and the potential magnitude of its negative impact. Subsequent risk factors in the same category are not ranked in order of materiality or probability of occurrence.

This Prospectus is not, and does not purport to be, investment advice or an investment recommendation to acquire the Bonds. Each prospective investor in the Bonds 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 Bonds 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

Counterparty Credit Risk. Counterparty credit risk is one of the largest risks relating to the Group's operations and 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. Counterparty credit risk may be adversely affected by circumstances beyond the Group's control, such as adverse events in the general economic, political or regulatory environment or a decrease in the value of collateral provided in order to secure the credit granted by the Group's companies. As at 30 June 2020 the Group's total credit risk exposure was EUR 1,804 million. The acquisition of the Danske Loan Portfolio finalised in November 2019 increased LHV Pank's loan portfolio by approximately 40%, whereas the contemplated acquisition of the Danske Loan Portfolio II, which is planned to be finalised in October 2020, will increase LHV Pank's loan portfolio additionally by approximately 15%. Both transactions have significantly increased the credit risk of the Group related to outstanding loans. Furthermore, the outbreak of the virus COVID-19 (known also as SARS-CoV-2) has had negative impact on the overall economic and financial situation due to the measures applied for restraining the spread of the virus (including, among others, quarantine and other restrictions to the free movement of people, shut down of businesses, etc.) by the governments of the states where the Group companies operate. The COVID-19 pandemic has significantly influenced the business of the Group and increased its exposure to counterparty credit risk. The continued spread of the virus COVID-19 may result in application of additional restrictive measures by governments. This in turn could deteriorate even further the financial health of the borrowers, the credit quality of loans and volume of non-performing loans, which in turn could result for the Group to make provisions which could have a material adverse impact on the financial position of the Group. Although the Group makes provisions for potential credit losses in accordance with the applicable requirements (including in compliance with the IFRS 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. 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. The Group's loan losses reserve established in order to cover potential losses from loans amounted to EUR 14.6 million as at the end of June 2020, which forms 0.8% from the total loan portfolio of the Group (on 31 December 2019 EUR 6.1 million and 0.4%, respectively). Materialisation of the counterparty credit risk may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms.

Concentration Risk. The operations of the Group are subject to concentration risk, which by essence is a risk arising from the overall spread of outstanding accounts over the number and variety of clients. An institution's exposure to a client or group of connected clients carries the concentration risk where its value is equal to or exceeds 10% of its eligible capital pursuant to the Regulation no 575/2013 of the European Parliament and of the Council. As of 30 June 2020, there are two clients exceeding the 10%, one having 10,87% and another 10,84% of eligible own funds showing that the portfolio is well diversified among counterparts. As at 30 June 2020, 37% of the corporate credit portfolio of LHV Pank included loans granted to companies in the 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 to the real estate sector and the risk management measures applied in the Group 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 (14% of corporate credit portfolio as at 30 June 2020) and companies pursuing financial and insurance services (10% of corporate credit portfolio as at 30 June 2020). Among sectors with higher than average credit risk, accommodation and catering comprise 4%, construction 2% and transport and storage 1% of the total corporate credit portfolio as at 30 June 2020. Loans to corporates comprise ca 57% of the entire credit portfolio while loans to private individuals amount to 43% of the credit portfolio. As a result of Group's exposure being concentrated to the above sectors, any developments (including further economic recession 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, and thereby the Company's ability to make the payments in accordance with the Bond Terms.

Geographical Markets Risk. The Group operates on two geographical markets – Estonia and the United Kingdom, whereas most of the activities and services of the Group are concentrated to the Estonian Market. In the second quarter of 2020, the Group's revenue attributable to the Estonian market accounted for 96.2% of the Group's total revenue, and around 3.8% related to United Kingdom. Therefore, any adverse event or development in Estonia may have material adverse effect on the Group's operations, financial condition and results of operations. In addition, the Group's activities on the market of the United Kingdom are subject to large uncertainties associated with the decision of the United Kingdom to withdraw from the EU (Brexit) concerning mainly the risk of change in the legal and regulatory landscape, which may result in increasing operating and compliance requirements and costs, but also potential operating limitations, affecting both the Group and its clients or business partners. This in turn may affect the Company's ability to make the payments in accordance with the Bond Terms.

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. 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. As a result of COVID-19 pandemic the financial markets have been very volatile, and this is expected to continue should the virus spread or if the relevant markets experience what is seen as a second wave of the pandemic. 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. The Group has kept very conservative limits for trading, liquidity and investment portfolios and open currency exposures. The Company has a clear strategy of not taking sizable market risks, but only executing client related trades. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. As to the materiality, in the scale of high-medium-low, the Company assesses the market risk to be medium.

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 2020, 1.8% of the Group's total assets bearing currency risk bore non-euro currency risk, whereas 3.2% of the Group's total liabilities bearing currency risk bore non-euro currency risk. As at 30 June 2020, the open currency position of the Group was EUR 191,626 thousand. Foreign exchange rates may be affected by complex political and economic factors, including relative rates of inflation, interest rate levels, and 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. Bonds are planned to be sold only in EUR. The impact of foreign currency rate changes of larger currency positions to the Group's net profit for the reporting period are presented in the table below.

In thousands of euros	**2019 (audited)**	**6-months 2020 (unaudited)**
USD exchange rate +/- 10%	+/-3	+/-44
SEK exchange rate +/- 10%	+/-3	+/-0
GBP exchange rate +/- 10%	+/-1	+/-27
CHF exchange rate +/- 10%	+/-2	+/-5

As to the materiality, in the scale of high-medium-low, the Company assesses the foreign currency risk to be low.

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, including the influence of the COVID-19 pandemic. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. The impact of price changes in larger positions to the Group's net profit for the reporting period are presented in the table below.

In thousands of euros	**2019 (audited)**	**6-months 2020 (unaudited)**
Equity securities and fund units +/- 10%	+/-50	+/-52
Mandatory pension fund units +/- 10%	+/-385	+/-420
Debt securities +/- 1%	+/-323	+/-413

As to the materiality, in the scale of high-medium-low, the Company assesses the price risk to be low.

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. Further, approximately 60% of the loans acquired as part of the Danske Loan Portfolio did not include a "zero EURIBOR floor" clause, which means that LHV Pank is open to the risk of further EURIBOR decreases lowering the income from those loans, which may result in those loans producing zero per cent interest. The amount of net interest income earned by the Group 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. Net interest sensitivity gaps to the Group's net profit for the reporting period are presented in table below.

In thousands of euros	**31.12.2019 (audited)**	**30.06.2020 (unaudited)**
Up to 3 months	1,647,780	1,635,192
3-12 months	373,527	324,999
1-5 years	-1,776,044	-1,745,051
Over 5 years	-52,013	-51,723

In the scale of high-medium-low, the Company assesses the materiality of the interest rate risk to be medium.

Liquidity Risk. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time. The Group relies on deposits from retail and corporate customers in order to service of its liquidity needs. 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 2020 was 179.9% (in comparison to 144.8% as at 31 December 2019). The rise in the Group's liquidity coverage ratio level results from the Group's long-term plan according to which LHV Pank stopped the active receipt of deposits through the deposit platforms in June 2020 and had its first successful issue of covered bonds in the amount of EUR 250 million. The Group increased its volume of liquid assets in order to be prepared for the negative impacts from the economic recession resulting from the COVID-19 pandemic and to finance the acquisition of Danske Loan Portfolio II. At 30 June 2020 the ratio of the Group's loans and deposits was 54% (in comparison to 62% in 31 December 2019). 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 recession resulting from it. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. As to the materiality, in the scale of high-medium-low, the Company assesses the liquidity risk to be low.

<u>Dependence on Access to Funding on Favourable Terms</u>. 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's companies 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 issued in June 2020 covered bonds in an amount of EUR 250 million. This is the first issue of the covered bonds program established in May 2020 in the total volume of EUR 1 billion. However, the further issues of covered bonds may be delayed due to non-favourable conditions on the capital markets and the global economic environment due to the continued spread of the COVID-19 pandemic. Further, also the Brexit can impact the financial stability of the EU, including on the price of funding in the international financial markets and reduce its availability. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. As to the materiality, in the scale of high-medium-low, the Company assesses the access to funding related risk to be medium.

<u>Operating Risk</u>. 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 losses 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. The risk control manager of the Group is responsible for collecting information and analysing the needed changes in the systems, processes and activities of the employees. Despite the implemented measures as outlined above, the risk of human, process or system failures cannot be eliminated altogether as the failures may be beyond the control of the Group. Therefore, as the Group operates in a heavily regulated area of business, operating risk events may, upon materialisation, lead to regulatory proceedings by the supervisory authorities and significant fines which can amount to millions of euros depending on the gravity of breach. The materialisation of the operating risk could also result in claims, disputes and legal proceedings against the Group companies. During 2019, the Group suffered losses resulting from the materialisation of the operating risk in the amount of EUR 60 thousand. Overall, the operating risk may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms.

<u>Dependency on Information Technology Systems and Risk of Cyber-Attacks</u>. 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. The dependency on such systems is increasing in time with the spread of online and mobile banking services and the development of 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. The Group is under continuous pressure to develop its information technology systems and web-based solutions in providing services to its clients in order to be competitive among other market participants. Failure by the Group to meet the expectations of the clients may reduce its client base and market share and could as a result have impact on the financial condition of the Group. Furthermore, should the Group experience a cyber-attack, sensitive information (including information qualified as banking secrecy) 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 in regard to failures of or significant disruptions to the Group's information technology systems or fail to take appropriate and effective countermeasures if its information technology systems fall under attack. This, in turn, may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of high-medium-low, the Company assesses the materiality of the risks related to dependency on information systems and cyber-attacks to be high.

<u>Dependency on Cash-Flows from Subsidiaries</u>. 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 make the payments in accordance with the Bonds Terms 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. The dividend payments from the Subsidiaries are dependent on the overall economic conditions and its influence on the business and profitability of the Subsidiaries. For the financial year ended on 31 December 2019, the Company received dividends in the sum of EUR 4.4 million from LHV Varahaldus and EUR 2.23 million from LHV Pank. Due to the COVID-19 pandemic and the economic recession resulting from the measures applied by the states in order to restrain the spread of the pandemic there is uncertainty regarding the financial condition and profitability of the Subsidiaries for 2020 and the following years should the spread of the pandemic continue. Thus, there is a risk of decrease in the dividends paid by the Subsidiaries to the Company in the future. According to the 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 Company's financial position and ability to make the payments provided in the Bond Terms remains dependent on the financial position of its Subsidiaries and their ability to pay dividends to the Company.

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 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] which will need to be transposed into national law by December 2020, could adversely affect the Group's ability to attract new qualified personnel and retain and motivate existing employees. Loss of qualified staff 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of high-medium-low, the Company assesses the materiality of the risks related to adequate staffing to be medium.

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 purchase the Danske Loan Portfolio II, to issue covered bonds and to establish LHV Kindlustus to expand the variety of its services and to start offering insurance products to its clients, 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 recession resulting from the COVID-19 pandemic. The uncertainty regarding the further development of the COVID-19 pandemic may result in inadequate strategic decisions by the Group. 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 by the Group, 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, and thereby on the Company's ability to make the payments in accordance with the Bond

[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.

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Terms. In the scale of high-medium-low, the Company assesses the materiality of the strategic risk to be medium.

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, non-compliance 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 overall (e.g. administrative proceedings or fines in the financial sector). In order to mitigate the risk on reputation the Group regularly carries out risk management trainings and also the framework of risk management is constantly improved which will provide a strong risk culture. However, speculations or rumors on the market and in media whether or not they are true are not always under the control of the Group and may therefore deteriorate the reputation of the Group despite of the Group's mitigating measures. Any deterioration of the Group's reputation in the eyes of customers, business partners, owners, employees, investors or supervisory authorities may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of materiality, the Company assesses the reputational risk to be medium.

Competitive Market. The Group operates in a highly 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 companies operate (i.e. in Estonian 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 2019, the market share of LHV Pank as to deposits was 14% (as at 31 December 2018 8%), the volume of securities portfolio 16%, (as at 31 December 2018 15%) and the volume loan portfolio 9% (as at 31 December 2018, 5%).[3] The market share of LHV Varahaldus as at 31 December 2019 as to the volume of fund assets was 25% (as at 31 December 2018 27%).[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

[3] Statistics published by the Estonian Financial Supervisory Authority for 2019: https://fi.ee/sites/default/files/fi_eesti_finantsteenusteturg_12_2019_est_e.pdf

[4] Statistics published by the Estonian Financial Supervisory Authority for 2019: https://fi.ee/sites/default/files/fi_eesti_finantsteenusteturg_12_2019_est_e.pdf

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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, which in turn may adversely affect the Company's ability to make the payments in accordance with the Bond Terms. In the scale of materiality, the Company assesses the risks related to competitive market to be medium.

<u>Exposure to Conduct of Other Market Participants</u>. 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' 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' 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 companies before other counterparties and clients, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations, and on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of materiality, the Company assesses this risk to be low.

<u>Control over Joint Ventures</u>. Currently, the Company holds interests in two joint ventures – LHV Finance and LHV Kindlustus (both in Estonia). The Company holds a 65% shareholding in LHV Finance through LHV Pank and is therefore the controlling shareholder of the joint venture. As of May 2020, the Company is also the controlling shareholder of LHV Kindlustus, holding 65% of all outstanding shares. 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 the joint venture partners, such behaviour by the joint venture partner, in theory, cannot be completely 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 in overall, which in turn could influence the Company's ability to make the payments in accordance with the Bond Terms, Nevertheless, the Company considers such risk to be low.

3.3. Political, Economic and Legal Risks

<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. Adverse developments of the global and local economies as a result of the COVID-19 pandemic and the emergency situation declared in Estonia has already and will continue to affect the Group's operations, financial condition and results adversely. The Group has taken prompt measures to address the issues and minimise the negative effects of the pandemic and the induced emergency situation. The Group closely monitors the developments on both domestic and international markets and will react accordingly. At this stage, it is impossible to predict the whole impact of the pandemic to the economy as there are many restrictions affecting economy negatively. However, the government is introducing aid-packages to help both private individuals and companies to survive the pandemic situation with minimal losses. Despite the above, the COVID-19 pandemic has already influenced the Group's financial projections for 2020. Due to the sudden changes in the global economic environment caused by COVID-19 pandemic the Company updated its financial plan on 21 April 2020 with the key indicators being the following:

Key indicators	**Updated financial plan 2020**	**2019 results**	**Change**	**Previous financial plan 2020**
Financial results, in thousands of euros				
Total revenue	87,316	73,818	13,498	95,647
Total expenses	44,773	39,266	5,507	46,423
Impairment losses on loans	19,357	3,209	16,148	7,177
Earnings before taxes	23,185	31,342	-8,157	42,047
Net profit	19,231	27,092	-7,861	35,917
Business volumes, EUR million				
Loans	1,806	1,687	119	2,165
Deposits	2,985	2,701	284	3,127
Assets under management	1,454	1,374	80	1,576
Key ratios				
Cost / Income ratio	51.3%	53.2%	-1.90%	48.5%
ROE (pre tax)	10.2%	16.2%	-6.00%	18.1%
Capital adequacy	17.6%	18.0%	-0.4%	17.5%

The Group may further amend the prior financial prognosis and reduce the expected results of the Group depending on the spread of the COVID-19 pandemic and its further effect on the economy. Therefore, it is impossible to predict further developments at this stage and to exclude that the deteriorating situation will not have an effect on the Company's ability to make the payments in accordance with the Bond Terms.

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. Any changes in such laws, regulations, policies, guidance and voluntary codes of practice could have an adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms.

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[5]/CRD IV[6]) and resolution framework (BRRD[7]/SRMR[8]), 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 (both AMLD IV[9] and V[10]), PSD2[11], MiFiD II[12]/MiFiR[13], GDPR[14], further tightening of the capital adequacy requirements from December 2020 and mid-2021 (respectively, CRD V[15] and CRR II[16]) and amendments to the bank resolution and recovery framework applicable from December 2020 (BRRD II[17]/SRMR II[18]) 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 is operating on the market of the United Kingdom via a branch, as a result of the United Kingdom's withdrawal from the EU, after the lapse of the transition

[5] 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.

[6] 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.

[7] 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.

[8] 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.

[9] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

10 Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and amending Directives 2009/138/EC and 2013/36/EU.

[11] 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.

[12] 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.

[13] 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.

[14] 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).

[15] 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).

[16] 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).

[17] 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).

[18] 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).

period ending on 31 December 2020, the Group will become subject to additional legal requirements, including the obligation to obtain an approval to establish a branch in the United Kingdom as a third country credit institution. LHV Pank has in place the approval under the United Kingdom's temporary permission regime and has filed the application to establish a branch with the Prudential Regulation Authority, however the timing of receipt of such approval remains unclear. Further, due to the resolution of Eesti Pank (the Bank of Estonia) to include LHV Pank as from 1 January 2018 in the list of other systemically important institutions (O-SIIs), the Group has, among others, been subjected to an additional capital buffer requirement, as further described below. 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 EU and on the level of jurisdictions where the Group companies operate, 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. In December 2018, Riigikogu (the Estonian Parliament) adopted an amendment to the law lowering the management fee thresholds of compulsory pension funds from previous level of 2% to 1.2% and establishing further rules for reductions of management fees calculated on the volume of funds. The rules include (i) mandatory reduction of the management fee based on the total volume of compulsory pension funds under management through applying a minimum of 15% reduction on the management fee in case the total assets under management exceed EUR 100 million for each next asset value of EUR 100 million, but not more than to 0.4% of the fund volume and (ii) introduction of an option to apply success fee which is not subject to the mandatory reduction described above. 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 Development (OECD) countries, i.e. to approximately 0.5-0.7%.[19]

Starting from February 2020, management fees for pension funds under LHV Varahaldus' active management were no higher than 0.6% per annum which corresponds to half of the fees that were applicable at the same time in 2019. Thus, the reduction of fees had a strong effect on both operating revenues and profitability of LHV Varahaldus. Going forward, the impact may be to some extent mitigated by the continuing growth of assets under management and the possibility of performance fee. Considering that as of the date of this Prospectus, LHV Varahaldus is the second biggest manager of compulsory pension funds in terms of size of funds under management and under the new legislative regime, applicable fees are dependent on the size of assets under management, the fees of LHV Varahaldus can be regarded as average among actively managed pension funds on the Estonian market.

Further, 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

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

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administrative fees of pensions funds. The Estonian President did not proclaim the said law on grounds that the law is unconstitutional, and the constitutionality of the law is currently under consideration by the Estonian Supreme Court. Should the changes come into force, it would 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.

In addition to the above, as a result 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 will slow down the growth of the volume of funds.

The above could have an adverse effect the Company's ability to make payments in accordance with the Bond Terms.

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 has been adopted, which will in the main part become effective from December 2020 of mid-2021 (CRD V/CRR II/BRRD II/SRMR 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 EUR 2 million.

Currently the capital of banks and investment firms in the EU is 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. For LHV Pank, the EFSA has set MREL limit to 5.79% and is reviewing the level annually. At 30 June 2020 the MERL level of the Group was 8.42% and the Group aims to increase it to 11-12% in order to meet the new higher level of MREL set by the EFSA from the third quarter of 2021 when the minimum MREL requirement for the Group is 10.15%. In 2017 Eesti Pank decided to include LHV Pank in the list of other systemically important institutions (O-SIIs) and the Group is therefore, as from 1 January 2018, subject to other systemically important institutions buffer of 0.5%, which from 1 January 2019 has been raised to 1% and is reviewed annually. 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 EU may change, whether as a result of further changes of the EU 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 of LHV Pank and the Group as a whole. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms.

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% and the first advance payment was due on September 10, 2018. 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). However, the calculation of the loss carry forward can start from the second quarter of 2018, *i.e.*, credit institutions are not allowed to account for losses that had arisen prior to the second quarter of 2018. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of materiality, the Company assesses this risk to be low.

<u>Exposure to Regulatory Actions and Investigations</u>. 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, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. In the scale of materiality, the Company assesses this risk to be low.

<u>Risks Related to Money Laundering and Financing of Terrorism</u>. 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 EU level, which force the market participants to review and improve their internal procedures, processes and information technology systems to discover and prevent illegal action. 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. Although the Company considers the risks related to money laundering and financing of terrorism low, they may have adverse effect on Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms.

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Contractual Risks. The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group. 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 "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. Moreover, the legal environment where such transactions are effected 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. 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, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. The Company assesses the contractual risk to be low.

Exposure to Civil Liability. The Group operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings. The results of such disputes are inherently difficult to predict and even the disputes themselves, not only unfavourable outcomes, may result in the Group incurring significant expenses and damages, and in negative effects on the Group's reputation, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations, and thereby on the Company's ability to make the payments in accordance with the Bond Terms. The Company assesses the risk related to the exposure to civil liability to be low.

3.4. Risks Related to Bonds, Offering and Listing

Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner. The Company's ability to meet its obligations arising from the Bonds and the ability of the holders of the Bonds to receive payments arising from the Bonds depend on the financial position and the results of operations of the Company and the Group, which are subject to other risks described in this Prospectus. The Bonds are not bank deposits in the Company and are not guaranteed by the Guarantee Fund (in Estonian: *Tagatisfond*) nor any other similar guarantee scheme.

Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company; however, not to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Bond Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the holders of the Bonds are not entitled to any payments due under the Bond Terms until the full and due satisfaction of all the unsubordinated claims against the Company. The subordination may have adverse effect on the Company's ability to meet its obligations arising from the Bonds.

Early Redemption Risk. According to the Bond Terms, the Bonds may be redeemed prematurely on the initiative of the Company, at any time after the lapse of 5 years as from the date of issue of the Bonds by notifying the bondholders at least 30 days in advance as described in Section "Maturity of Bonds".

Further, according to the Bond Terms, the Bonds may be redeemed by the Company even earlier than after the lapse of 5 years as from the date of issue of the Bonds as described in Section "Maturity of Bonds" if amendments are made to the tax regulation that cause the Company to bear increased tax liability in regards of the Bonds, or if the Bonds seize or are likely to seize to be included in the Company's Tier 2 capital. If any of these early redemption rights is exercised by the Company, the rate of return from an investment into the Bonds may be lower than initially anticipated. The Bonds may, however, be redeemed prematurely by the Company only if the EFSA (or the European Central Bank if it is in the competence thereof) has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company.

<u>Bail-in Risk</u>. Any liability arising under the Bonds may be subject to the exercise of Bail-in Powers by the Relevant Resolution Authority in cases where a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met). Exercising the Bail-in Powers is subject to numerous preconditions and will only be used as a last resort; however, if the powers are exercised, it is possible that: (i) the amount outstanding of the Bonds is reduced, including to zero; (ii) the Bonds are converted into shares, other securities or other instruments of the Company or another person; (iii) the Bonds or the outstanding amounts of the Bonds are cancelled; and/or (iv) the Bond Terms are altered (e.g. the maturity date or interest rate of the Bonds could be changed). Therefore, if a Group company meets the conditions for the initiation of resolution proceedings, the exercising of the Bail-in Powers by the Relevant Resolution Authority may result in material losses for the bondholders.

<u>No Ownership Rights</u>. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. The Bonds represent an unsecured debt obligation of the Company, granting the bondholders only such rights as set forth in the Bond Terms.

<u>Tax Regime Risks</u>. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

<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 an Offering will be successful and that the investors will receive the Bonds they subscribed for. The Company is entitled to cancel the Offering on the terms and conditions described in the Section "Cancellation of Offering".

<u>Bond Price and Limited Liquidity of Bonds</u>. The Company will apply for the listing of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, however, although every effort will be made by the Company to ensure the listing of the Bonds as anticipated by the Company, no assurance can be provided that the Bonds will be listed and admitted to trading. Further, the Nasdaq Tallinn Stock Exchange is substantially less liquid and more volatile than established markets. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of the bondholders to sell their Bonds on the open market, use them as collateral for other obligations or engage in other transactions requiring the existence of an active market, or could increase the volatility of the price of the Bonds. The value of the Bonds can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group's control, such as economic, financial or political events, changes of interest rate levels or currency

exchange rates, policy of central banks, changes in the demand or supply of securities of the same type in general or of the Bonds. For instance, if at any point a person holding a large block of Bonds decided to sell such Bonds, the demand on the Nasdaq Tallinn Stock Exchange may not be sufficient to accommodate such a sale or issue and any sale may take longer than originally expected or a sale may take place at a lower price than expected.

Lack of Adequate Analyst Coverage. There is no guarantee of continued (or any) analyst research coverage for the Company. Over time, the amount of third-party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations, as the Company 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 the Bonds.

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4. BONDS

4.1. Introduction

This Section 4 provides an overview of the key Bond Terms. The overview is not, and does not purport to be, a complete list of terms and conditions applicable to the Bonds and is taken from and is qualified in its entirety by, the remainder of this Prospectus and the Bond Terms. This overview must be read as an introduction to the Bond Terms and any decision to invest in the Bonds should be based on a consideration of the Prospectus and the Bond Terms as a whole.

4.2. Type and Class of Bonds

The Bonds are subordinated bonds with the nominal value of EUR 1,000 each. The Bonds represent an unsecured debt obligation of the Company before the bondholder.

4.3. Form and Registration

The Bonds will be in dematerialised book-entry form and are not numbered. The Bonds will be registered in the Estonian Register of Securities (the **ERS**), operated by Nasdaq CSD Estonian branch. The Bonds will be registered in ERS under ISIN code EE3300001791.

4.4. Ranking and Subordination

The Bonds will be subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds are not subordinated to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Bond Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the bondholders of the Bonds are not entitled to any payments due under the Bond Terms until the full and due satisfaction of all the unsubordinated claims against the Company. By subscribing to the Bonds or acquiring the Bonds from a secondary market, the bondholder unconditionally and irrecoverably agrees to such subordination of claims arising from any Bonds.

Furthermore, any liability arising under the Bonds may be subject to the exercise of Bail-In Powers by the Relevant Resolution Authority in cases where a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met). Exercising the Bail-in Powers is subject to numerous preconditions and will only be used as a last resort; however, if the powers are exercised, it is possible that: (a) the amount outstanding of the Bonds is reduced, including to zero; (b) the Bonds are converted into shares, other securities or other instruments of the Company or another person; (c) the Bonds or the outstanding amounts of the Bonds are cancelled; and/or (d) the Bond Terms are altered (e.g. the maturity date or interest rate of the Bonds could be changed). Therefore, if a Group company meets the conditions for the initiation of resolution proceedings, the exercising of the Bail-in Powers by the Relevant Resolution Authority may result in material losses for the bondholders. Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Consent of the bondholders is not necessary for affecting bail-in measures by the Resolution Authority.

As long as there are no liquidation or bankruptcy proceedings initiated against the Company, all claims arising from the Bonds shall be satisfied in accordance with the Bond Terms and the applicable law.

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Notwithstanding any rights of the bondholder under the Bond Terms or the law, by subscribing to Bonds or acquiring the Bonds from a secondary market the bondholder unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds. No bondholder shall be entitled to exercise any right of set-off against moneys owed by the Company in respect of such Bonds.

4.5. Ratings

The Bonds have not be rated by any credit rating agencies.

4.6. Currency

The Bonds will be denominated in euro.

4.7. Maturity of Bonds

The Bonds will be issued with the term of 10 years. The maturity date of the Bonds is 30th September 2030. The Bonds will be redeemed automatically either on the maturity date referred to above on any other date notified to the bondholders separately in accordance with the procedure described below.

According to the Bond Terms, the Company is entitled to redeem the Bonds prematurely at any time after the lapse of 5 years from the date of issue, i.e. at any time after 28th September 2025, by notifying the bondholders at least 30 days in advance in accordance with the Bond Terms (i.e. as a company announcement published via the information system of the Nasdaq Tallinn Stock Exchange). The Company is further entitled to redeem the Bonds prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds resulting in the Bonds being, in the opinion of the Company after consultation with the EFSA (or the European Central Bank if it is in the competence thereof), excluded or likely to be excluded from the classification as Tier 2 own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds that became effective or was announced after the issue of the relevant Bonds, as further specified in the Bond Terms. The Bonds may be redeemed prematurely by the Company on the above-described grounds only if the EFSA (or the European Central Bank if it is in the competence thereof) has granted its consent to the early redemption. The EFSA may grant its consent for the early redemption of the Bonds as from 28th September 2025 only if the conditions of Article 78(1) of 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 are met[20].

The bondholders are not entitled to claim early redemption of the Bonds under any circumstances.

4.8. Interest

The Bonds carry an annual coupon interest at the rate of 6% *per annum*, calculated from the date of transferring the Bonds to the securities account of the investors, i.e. 30 September 2020, until the date

[20] Article 78 of 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 regulates the conditions of granting supervisory permission for reducing own funds, whereas the aim of the regulation as a whole is to ensure due compliance with the capital adequacy requirements applicable in respect of credit institutions and investment firms.

of redemption. The interest is paid quarterly (starting from 30th December 2020) on the following dates 30th March, 30th June, 30th September and 30th December. The interest on the Bonds is calculated based on 30-day calendar month and 360-day calendar year (30/360).

4.9. Yield

The estimated yield-to-maturity of the Bonds on the date of issue of the Bonds, i.e. 28 September 2020, calculated from the interest commencement date of the Bonds, i.e. 30 September 2020, until the maturity date, i.e. 30 September 2030, on the basis of the Offer Price, is 6%.The yield-to-maturity is the percentage rate of return paid if the Bond is held to its maturity date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

4.10. Rights Attached to Bonds

The rights attached to the Bonds have been established by the Bond Terms. The main rights of bondholders arising from the Bonds and the Bond Terms are the right to the redemption of the Bonds and the right to interest. In addition to the right to the redemption of the Bonds and the right to interest, the bondholders are entitled to access the annual and quarterly reports of the Company, which shall be made available at the website of the Company. Upon a delay in making any payments due under the Bond Terms, the bondholders are entitled to a delay interest at the rate of 0.025% per each day in delay. The rights arising from the Bonds can be exercised by the bondholders in accordance with the Bond Terms and the applicable law.

In accordance with the Estonian General Part of Civil Code Act, the limitation period for claims arising from the Bonds, including for the payment of interest and the repayment of the outstanding principal amount of the Bonds in accordance with the Bond Terms, is generally three years. As an exception, the limitation period is ten years if the Bank violated its obligations intentionally. The limitation period of generally commences when the claim falls due.

4.11. Transferability

The Bonds are freely transferrable, however, any bondholder wishing to transfer the Bonds must ensure that any offering related to such transfer would not be qualified as a public offering in the essence of the applicable law. According to the Bond Terms, ensuring that any offering of the Bonds does not fall under the definition of public offering under the applicable law is the obligation and liability of the bondholder.

4.12. Agent

According to the Bond Terms, LHV Pank acts as the agent of the bond issue, being responsible for the arrangement of the subscription of the Bonds, acting as the payment agent, ensuring due registration of the bonds and being responsible for the document management in respect of the documentation, which must be submitted by the Company under the Bond Terms. LHV Pank as the agent acts as the representative of the Company and shall bear no liability before the bondholders for the due compliance with the Bond Terms by the Company. The breach by LHV Pank of any of its undertakings as the agent of the bond issue shall be considered a breach by the Company of the Bond Terms and the Company shall be liable for such breach before the bondholders. Under the Bond Terms, the bondholders acknowledge that LHV Pank is the subsidiary of the Company and confirm that they have no claims against the Company or LHV Pank arising from that fact.

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4.13. Applicable Law

The Bonds will be issued in accordance with and are governed by the laws of the Republic of Estonia.

4.14. Bond Terms

The Bond Terms have been incorporated into this Prospectus by reference and are available on the website of the Company at https://investor.lhv.ee/assets/files/emission2020/Terms_and_conditions_of_subordinated_bonds.pdf.

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5. TERMS AND CONDITIONS OF OFFERING

5.1. Offering

In the course of the Offering, the Company is offering up to 25,000 Bonds with the nominal value of EUR 1,000 each. The Offering is made by the way of public offering to retail and institutional investors in Estonia. In addition, the Company may offer Bonds by the way of non-public offering to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other investors in compliance with Article 1(4) (a) and (b) of the Prospectus Regulation on terms and conditions described in this Prospectus. The Bonds will be publicly offered only in Estonia and not in any other jurisdiction.

The Company has the right to increase the Offering volume and issue up to 10,000 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 35,000 and the total volume of the Offering up to EUR 35 million.

The offer price is EUR 1,000 per one Bond (the **Offer Price**).

The division of the Bonds between retail and institutional investors has not been predetermined and will be determined by the Company in accordance with the principles described in Section "Distribution and Allocation" below.

The Company will, simultaneously with the Offering, apply for the listing and for the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

The total amount of Bonds may decrease in case part of the Offering is cancelled – please see the Section "Cancellation of Offering" for further details.

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

Start of the Offer Period	16 September 2020
End of the Offer Period	25 September 2020
Announcement of the results	On or about 28 September 2020
Settlement of the Offering	On or about 30 September 2020 September 2020
Commencement of trading on Nasdaq Tallinn Stock Exchange	On or about 1 October 2020

5.2. Approval of the Offering

The Offering has been approved by the Supervisory Board by a resolution dated 19 August 2020. Furthermore, the Management Board has approved the Bond Terms on 3 September 2020.

5.3. Right to Participate in Offering

The Offering is directed to all natural and legal persons in Estonia. For the purposes of the Offering, a natural person is considered to be "in Estonia" if all the following conditions are met: (i) such person has an operational securities account with the ERS; (ii) such person's address recorded in the records of ERS in connection with such person's securities account is located in Estonia and (iii) such person submits a Subscription Undertaking (as defined below) in relation to Offer Bonds via that securities account.

A legal person is considered to be "in Estonia" if all the following conditions are met: (i) such person has a securities account with ERS; (ii) such person's address recorded in the records of ERS in connection with such person's securities account is located in Estonia or its registration code recorded in the records of ERS is the registration code of the Estonian Commercial Register and (iii) such person submits a Subscription Undertaking (as defined below) in relation to Bonds via that securities account.

5.4. Offer Period

The offer period commences on 16 September 2020 at 10:00 local time in Estonia and ends on 25 September 2020 at 16:00 local time in Estonia, unless shortened or extended in accordance with Section "Cancellation of Offering and Extension or Shortening of the Offer Period" below (the **Offer Period**). The Offer Period is the period during which the persons who have the right to participate in the Offering may submit Subscription Undertakings (please see Section "Subscription Undertakings" for further details) for the Bonds.

5.5. Nominal Value and Offer Price

The nominal amount of each Bond is EUR 1,000. The offer price is EUR 1,000 per one Bond (the **Offer Price**).

5.6. Subscription and Instructions to Investors

Submitting Subscription Undertakings. The Subscription Undertakings may be submitted only during the Offer Period. In order to submit a Subscription Undertaking, an investor must have a securities account opened through any custodian of the ERS. Such securities account may be opened through any custodian of the ERS.

The list of banks and investment firms authorised to operate as custodians of the ERS is available at the website of Nasdaq CSD SE (https://nasdaqcsd.com/list-of-account-operators/). At the date of this Prospectus, the following banks and investment firms operate as custodians of the ERS in Estonia:

- SEB Pank AS (Estonia)
- Swedbank AS (Estonia)
- LHV Pank AS
- Luminor Bank AS Estonian branch
- AS TBB Pank
- Luminor Bank AS Lithuanian branch
- SEB Bank AB(Lithuania)
- UAB FMĮ Orion Securities
- Siauliu bankas AB
- JSC Baltic International Bank
- Luminor Bank AS Latvian branch
- JSC Citadele banka (Latvia)
- Signet Bank AS

The treatment of Subscription Undertakings in the allocation is not determined on the basis of which institution they are made through.

Content of and Requirements for Subscription Undertakings. Forms for Subscription Undertakings will be provided by the financial institution through which the investor submits the Subscription Undertaking. The Subscription Undertaking 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:	EUR 6.00 LHV Group subordinated bond 20-2030
ISIN code:	EE3300001791
Amount of securities:	the number of Bonds for which the investor wishes to subscribe
Price (per one Bond):	EUR 1,000
Transaction amount:	the number of Bonds for which the investor wishes to subscribe multiplied by the Offer Price per one Bond
Counterparty:	AS LHV Group
Securities account of counterparty:	99100539709
Custodian of the counterparty:	AS LHV Pank
Date of the transaction	the date when the Subscription Undertaking was submitted by the investor
Value date of the transaction:	30 September 2020
Type of transaction:	"subscription"
Type of settlement:	"delivery versus payment"

Subscription Undertakings may be submitted only during the Offer Period, only at the Offer Price, and only in euros. If multiple Subscription Undertakings are submitted by one investor, they will be merged for the purposes of allocation.

Each investor must ensure that the information contained in the Subscription Undertaking submitted by such investor is correct, complete and legible. Incomplete, incorrect, unclear or illegible Subscription Undertakings, or Subscription Undertakings that do not otherwise comply with the terms set out in this Prospectus, may be rejected at the sole discretion of the Company.

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

Costs and Fees. Investors must bear all costs and fees charged by the respective financial institution through which they submit their Subscription Undertaking. This may include costs and fees for the submission, amendment or cancellation of a Subscription Undertaking, or for the settlement of the transaction. These costs and fees may vary depending on the rules and prices established by the particular financial institution.

Submission of Subscription Undertakings through Nominee Accounts. An investor may submit a Subscription Undertaking through a nominee account only if such an investor authorises the owner of the nominee account to disclose the investor's identity, personal ID number or registration number, and address to the Company and Nasdaq CSD Estonian branch (the **Nasdaq CSD**). Subscription Undertakings submitted through nominee accounts without the disclosure of the above information will be disregarded.

Amendment and Cancellation of Subscription Undertakings. Investors have the right to amend or cancel their Subscription Undertakings at any time until the end of the Offer Period. This may result in costs and fees charged by the financial institution through which the Subscription Undertaking is submitted.

Legal Effect of Subscription Undertakings. By submitting a Subscription Undertaking, each investor:

(i) confirms that he/she/it has read the Prospectus or its translation into Estonian and the Prospectus summary translated into Estonian;

(ii) accepts the terms and conditions of the Offering set out in this Section 5 (Terms and Conditions of the Offering), elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Bonds;

(iii) accepts that the number of the Bonds indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Bonds which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Bonds than the Maximum Amount subscribed for (please see Section 5.8 "Distribution and Allocation");

(iv) undertakes to acquire and pay for any number of the Bonds allocated to them up to the Maximum Amount;

(v) authorises and instructs the financial institution through which the Subscription Undertaking is submitted to arrange the settlement of the transaction on their behalf (taking such steps as are legally required to do so) and to forward the necessary information to the extent necessary for the completion of the transaction;

(vi) authorises Nasdaq CSD to process and forward information on the identity of the investor and the contents of the investor's Subscription Undertaking to the Company and its advisors before, during and after the Offer Period;

(vii) authorises the financial institution through which the Subscription Undertaking is submitted, and Nasdaq CSD, as the case may be, to amend the information contained in the Subscription Undertaking, including to (a) specify the value date of the transaction, (b) specify the number of the Bonds to be purchased by the investor and the total amount of the transaction, up to the Maximum Amount times the Offer Price; (c) correct or clarify obvious mistakes or irregularities in the Subscription Undertakings, if any;

(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 and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus; acknowledges that the Offering does not constitute an offer for the Bonds 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 constitute the acceptance of a sales offer, and therefore does not in itself entitle the investor to acquire the Bonds, nor results in a contract for the sale of the Bonds between the Company and the investor.

5.7. Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the financial 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. Investors may submit Subscription Undertakings 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.

5.8. Distribution and Allocation

The Company expects to decide on the allocation of the Bonds after the expiry of Offer Period and on or about 28 September 2020. The Bonds will be allocated to the investors participating in the Offering in accordance with the following principles:

(i) the division of Bonds between the retail and institutional investors has not been predetermined. The Company will determine the exact allocation in its sole discretion;

(ii) under the same circumstances, all investors shall be treated equally, whereas dependant on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Bonds allocated to one investor; which will apply equally to both – the retail investors and the institutional investors;

(iii) the allocation shall be aimed to create a solid and reliable investor base for the Company;

(iv) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the non-public offering;

(v) the Company shall be entitled to prefer its existing Shareholders and bondholders of the Company to other investors;

(vi) possible multiple Subscription Undertakings submitted by an investor shall be merged for the purpose of allocation;

(vii) each investor entitled to receive the Bonds shall be allocated a whole number of Bonds and, if necessary, the number of Bonds to be allocated shall be rounded down to the closest whole number. Any remaining Bonds which cannot be allocated using the above-described process will be allocated to investors on a random basis; and

(viii) the Company shall be entitled to prefer the clients of LHV Pank and LHV Varahaldus to other investors.

The Company expects to announce the results of Offering and the allocation on or about 28 September 2020 through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website (https://investor.lhv.ee/en/).

5.9. Option to Increase Offering Volume

In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 10,000 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 35,000 and the total volume of the Offering up to EUR 35 million. The additional Bonds will be allocated to the investors participating in the Offering in accordance with the principles described in Section 5.8 "Distribution and Allocation".

The final total Offering volume will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://investor.lhv.ee/en/ on or about 28 September 2020.

5.10. Settlement and Trading

The Bonds allocated to investors are expected to be transferred to their securities accounts on or about 30 September 2020 through the "delivery versus payment" method, simultaneously with the transfer of payment for such Bonds on terms announced for the Offering. The title to the Bonds will pass to the relevant investors when the Bonds are transferred to their securities accounts.

If an investor has submitted several Subscription Undertakings through several securities accounts, the Bonds allocated to such investor will be transferred to all such securities accounts proportionally to the number of the Bonds indicated in the Subscription Undertakings submitted for each account, rounded up or down as necessary.

5.11. Return of Funds

If the Offering or a part thereof is cancelled, if the investor's Subscription Undertaking is rejected or if the allocation is less than the amount of the Bonds applied for, the funds blocked on the investor's cash account (or the excess part thereof) will be released by the respective financial institution. Regardless of the reason for which funds are released, the Company shall never be liable for the release of the respective funds and for the payment of interest on the released funds for the time they were blocked (if any).

5.12. Cancellation of Offering and Extension or Shortening of the Offer Period

The Company has the right to cancel the Offering in full or in part in its sole discretion, at any time until the end of the Offer Period. In particular, the Company may decide to cancel the Offering in the part not subscribed for.

Furthermore, the Company has a right to shorten or extend the Offer Period, at any time until the end of the Offer Period.

Any cancellation of the Offering, or the shortening or extension of the Offer Period, will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through 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 as of the moment when such announcement is made public.

5.13. Conflicts of Interests

According to the best knowledge of the Management, persons involved in the Offering do not have any personal interests in the Offering, which would be material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

5.14. Listing and Admission to Trading

The Company will, simultaneously with the Offering, apply for the listing and for the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. Trading with the Bonds is expected to commence on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange on or about 1 October 2020.

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 Bonds, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

6. 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. Capital buffers are needed in advance to support the general corporate purposes, further growth, strengthen the market position of the Group.

Provided that all the Bonds are subscribed for and issued by the Company, the expected amount of gross proceeds from the Offering is up to approximately EUR 25 million. In case the Company decides to use the option to increase the volume of the Offering in full as described in Section 5.9 “Option to Increase Offering Volume”, the gross proceeds from the Offering will increase to EUR 35 million. Expenses directly related to the Offering are estimated to be EUR 100,000.The net proceeds to the Company from the Offering, after deducting estimated expenses payable by the Company are estimated to be approximately EUR 24.9 million or, in case option to increase the offering volume is used in full, EUR 34.9 million.

The Company plans to use up to EUR 15 million of proceeds from the Offering for the premature redemption of the existing unsecured subordinated bonds issued by the Group, provided that the Group is entitled to redeem such bonds prematurely in accordance with the applicable bond terms. The reminder of the net proceeds of the Offering, or in case the above subordinated bonds are not redeemed prematurely, the entire net proceeds of the Offering, will be used in line with the overall purpose of the Offering.

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7. GENERAL CORPORATE INFORMATION, SHARES AND SHARE CAPITAL

7.1. 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 legal entity identifier (LEI) code of the Company is 529900JG015JC10LED24. 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*) 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://lhv.ee

According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2019, the field of activity of the Company was "activities of holding companies" (EMTAK[21] 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).

7.2. Articles of Association

The latest version of the Articles of Association of the Company (the **Articles of Association**) have been adopted by the respective resolution of the General Meeting, dated 13 March 2020. The Articles of Association are available on the website of the Company at https://investor.lhv.ee/en/ under Section 8 "Management".

The main terms of the Articles of Association of the Company are the following:

(i) the minimum amount of the share capital of the Company is EUR 15,000,000 and the maximum amount of the share capital of the Company is EUR 60,000,000, whereas the share capital of the Company may be increased and decreased within the minimum and maximum amount of the share capital without amending the currently effective version of the Articles of Association of the Company;

(ii) the Company has one type of shares only. The nominal value of the ordinary share of the Company is EUR 1 and each share grants the shareholder one vote at the General Meeting;

[21] 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.

(iii) the Shares may be paid in by monetary or non-monetary contribution into the share capital as determined by the General Meeting of the Company;

(iv) the Shares are freely transferrable and may be pledged in accordance with applicable law;

(v) the Company may issue convertible bonds;

(vi) the Supervisory Board comprises of five to seven members elected for a period of three years; only persons with sufficient knowledge and professional experience for the position of a member of the Supervisory Board may be elected as members of the Supervisory Board; the Articles of Association further specify the persons who may not be appointed to the Supervisory Board and such persons are (i) members of management bodies of companies competing with the Company or with a Group company, members of audit committees or other committees of a credit institution, or auditors, except for intra-group positions; (ii) persons subject to restrictions on acting as a member of Supervisory Board or as an entrepreneur, imposed by a competent court; (iii) persons whose wrongful action or failure to act has, according to a ruling of a competent court, caused damage to a legal entity, resulted in a bankruptcy of a legal entity or the revocation of an activity license or a permit issued to a legal entity; (iv) persons who have committed a criminal offence in the field of economic activity or related to acting within a professional relationship, or an offence against property (the prohibition does not extend to persons, whose punishment has been deleted from the criminal record by the time of applying to the position of the Supervisory Board member);

(vii) the Supervisory Board resolves the appointment and recalling of the members of the Management Board and determines the strategy, general activity plan, risk management principles and annual budget of the Company and exercises regular supervision over the compliance with them; the Supervisory Board adopts resolutions in matters not placed into the competence of the General Meeting of the Company and falling outside the everyday economic activities of the Company;

(viii) the Supervisory Board is entitled to establish committees and determine the existence, duties and role thereof within the corporate structure of the Company; the Supervisory Board establishes the audit committee and determines the rules of procedure thereof;

(ix) the Management Board comprises of one to five members elected for a period of five years, whereas the Articles of Association provide for restrictions of the rights of representation of the members of the Management Board – the Company may be represented by the Chairman of the Management Board acting alone (if there is more than one member in the Management Board) or two members of the Management Board acting jointly;

(x) the financial year of the Company is the calendar year.

7.3. Share Capital and Shares

The current registered and fully paid-in share capital of the Company is EUR 28,819,092, which is divided into 28,819,092 ordinary shares of the Company (the **Shares**) with the nominal value of EUR 1. All the issued Shares have been fully paid up. The Shares are registered in ERS under ISIN code EE3100073644 and are kept in book-entry form. No share certificates have or may be issued. The Shares are listed and traded on the Baltic Main List of the Nasdaq Tallinn Stock Exchange (ticker LHV1T).

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The Shares are ordinary shares with no restrictions on transferability. The Shares are governed by the laws of Estonia. All the Shares are of one class and rank *pari passu* with each other. All the Shares carry equal voting rights.

7.4. 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	12.5574%	Mr Rain Lõhmus, the Chairman of the Supervisory Board of the Company
Mr Rain Lõhmus	2,538,367	8.8079%	N/A
Viisemann Investments AG	2,186,432	7.5867%	Mr Andres Viisemann, Member of the Supervisory Board of the Company
Ambient Sound Investments OÜ	1,653,709	5.7383%	Ahti Heinla, Annika Tallinn, Jaan Tallinn, Priit Kasesalu, Toivo Annus[22]

The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 31.05% of all the Shares, whereas approximately 23.38% of the Shares are held by Mr Rain Lõhmus (as natural person and through AS Lõhmus Holdings and OÜ Merona Systems) and 9.68% by Mr Andres Viisemann (through Viisemann Investments AG and Viisemann Holdings OÜ). To the knowledge of the Management, Mr Rain Lõhmus and Mr Andres Viisemann have not entered into a shareholders' agreement in relation to the shareholdings in the Company and exercise their rights as Shareholders independently.

The major Shareholders of the Company do not have voting rights different than those of other Shareholders.

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.

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

7.5. Management and Key Employees Share Option Program

On 13 March 2020, the ordinary General Meetings of the shareholders of the Company resolved to approve the management and key employees share option programs after the lapse of the previous share option program, which commenced in 2015 and in the framework of which the Company issued to the employees of the Group options to acquire 2,115,225 Shares. 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 was up to 2% of the total number of Shares per one calendar year. The determination of the persons eligible to participate in the program and the number of options granted to such persons was placed into the competence of the Supervisory Board upon a proposal made by the Remuneration Committee (please see Section 8.5 “Remuneration Committee” for further details).

During 2018-2020, the Company has granted options to acquire in total 1,263,505 Shares. The option price for the 299,781 options granted in 2018 was EUR 5.33 (of which EUR 1 is the nominal value of the Share and EUR 4.33 the issue premium); the option price for the 510,943 options granted in 2019 is EUR 4.90 (of which EUR 1 is the nominal value of the Share and EUR 3.90 the issue premium) and the option price for the 452,781 options granted in 2020 is EUR 5.96 (of which EUR 1 is the nominal value of the Share and EUR 4,96 the issue premium).

As of the date of this Prospectus, the Company has carried out the following Share issues in connection with the realisation of Company’s key employees share option program:

(i) by the resolution the Management Board from 6 July 2018, the issue of 249,143 Shares for a total consideration of EUR 597,943.20 was approved. The Share issue was subscribed 100% by the option beneficiaries;

(ii) by the resolution the Management Board from 8 July 2019, the issue of 237,594 Shares for a total consideration of EUR 712,782 was approved. The Share issue was subscribed 100% by the option beneficiaries;

(iii) by the resolution the Supervisory Board from 9 April 2020, the issue of 365,013 Shares for a total consideration of EUR 1,697,310.45 was approved. The Share issue was subscribed 100% by the option beneficiaries.

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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 (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 (the **Supervisory Board**) 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 for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

Specific Duties. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least once every three months and must 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 such insolvency is not temporary, the Management Board must immediately file for bankruptcy.

The Management Board may enter into transactions 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 and, if necessary, amendment of annual report and 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, extension of authorities, 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.

(xviii) 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 on 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 up to five years, unless otherwise decided by the Supervisory Board. The Supervisory Board has decided to appoint one member to the Management Board – Mr Madis Toomsalu. The term of office of Mr Toomsalu as a member of the Management Board is valid until 5 December 2021.

Mr Madis Toomsalu. Mr Toomsalu was born in 1982. 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 finance. Within the Group, in addition to holding the position of the member of the Management Board of the Company, Mr Toomsalu is the Chairman of the supervisory board of LHV Pank and LHV Varahaldus. Previously Mr Toomsalu has held various positions within the Group. Mr Toomsalu also 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 of Shareholders of the Company (the **General Meeting**).

Duties. In accordance with the Estonian Commercial Code, before the ordinary General Meeting is held, the Supervisory Board must review the annual report and provide the General Meeting 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. 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 June 2018. 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 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 Rain Lõhmus. Mr Lõhmus was born in 1966. 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, including Osaühing Zarenor Invest from 2002 until 2012. 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 as a member of the supervisory board of LHV Pank. Additionally, he holds the position of the member of the management board of AS Lõhmus Holdings, Lohmus Kapital OÜ, OÜ Umblu Records, Osaühing Merona Systems, LHV CAPITAL I PTE. LTD and Zerospotnrg OÜ; and is the member of the supervisory board of Kodumaja AS and Thermory AS. In the past he has held the position of the member of the supervisory board of LHV Finance, Arco Vara AS, 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 OÜ Cuber Technology.

Mr Raivo Hein. Mr Hein was born in 1966. Mr Hein holds a degree in road construction from the Tallinn Technical University awarded to him in 1991. He has worked as a member of the management board of AS Starman (current business name Elisa Teleteenused AS) between 1997 and 1999 and again between 2001 and 2003. He was the head of the entrepreneurship department of the City of Tallinn between 2000 and 2002. Between 2000 and 2008, he served as the member of the management board of AS CV Keskus. Within the Group, he also serves as the member of the supervisory board of LHV Pank. In addition to his participation in the management of the Group, he is the member of the management board of Zerospotnrg OÜ, E-Finance OÜ, Higgsi Boson OÜ, Desoksüribonukleiinhape DNA OÜ, OÜ Kakssada Kakskümmend Volti, Lame Maakera OÜ, Kuu on Päike OÜ, Kõver Aegruum OÜ and OÜ Saarte Sillad. 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.

Mr Heldur Meerits. Mr Meerits was born in 1959. Mr Meerits was awarded 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 (1988 – 1991 and 1995 –1997), whereas between 1991 and 1995 he worked for the predecessor of AS Swedbank (operating under the business names AS Hoiupank and AS Hansapank). From 1999 to 2002, Mr Meerits served as a state official working for the Government Office. Since 2002, he has been engaged in investing via Amalfi AS, an investment vehicle fully-owned by Mr Meerits. 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, AS Amalfi and SIA "Valdemāra Group" and a member of the supervisory board of Kodumaja AS and non-profit organisations Audentese Koolide Sihtasutus, SA Dharma, SA Tähelaps and SA Põltsamaa Ühisgümnaasiumi Toetusfond. In the past he has held the position of the member of the supervisory board of AS Audentes, AS Smart City Group, Green Clay Manufacturing OÜ, Steri AS, Mainor Ülemiste AS, AS Ecosalvager, AS Estonian Air and the position of the member of the management board of SIA Valdemara Group, MTÜ Eesti Eraüldhariduskoolide Ühendus, AS Avatud Eesti Fond and Sihtasutus Teater NO99.

Mrs Tiina Mõis. Mrs Mõis was born in 1957. Mrs Mõis holds the degrees in econometrics and organisation of service and economic engineering from the Tallinn Technical University awarded to her in 1980. During the years 1991 to 1999 she worked as the Chief Accountant and a member of the management board of the predecessor of AS Swedbank (operating under the business name AS Hansapank). 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, 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 AS Baltika and Rocca al Mare Kooli Aktsiaselts. She has also held the position of the member of the supervisory board of Green Clay Manufacturing OÜ, Rocca al Mare Kooli SA, 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 Tauno Tats. Mr Tats was born in 1972. 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. Before assuming his current position in Ambient Sound Investments OÜ, he served as the undersecretary of the Ministry of Finance. In addition to Ambient Sound Investments OÜ, he is the member of the management board of Balti Karjäärid OÜ, Kv1 OÜ, Kv3 OÜ, Ammende Hotell OÜ, InkspinSix OÜ, OÜ Paistevälja-Paistu Põllud ja Metsad, Saardu Põllud OÜ, 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, the member of the management board of OÜ TrinTau, InkSpinFour OÜ and Perila Perjatsi Põllud ja Metsad.

Mr Sten Tamkivi. Mr Tamkivi was born in 1978. He holds a Masters' degree in management from the Standford University Graduate School awarded to him in 2013. Between 2005 and 2013 he served as a member of the management board of Skype Technologies OÜ. Between 2009 and 2012, he was the member of the management board of the Estonian Association of Information Technology and Telecommunications. Between 2009 and 2012, he worked as an advisor to the Office of the President of the Republic of Estonia. Between 2003 and 2008, he served as the member of the management board of Mercur ThinkTank OÜ. He holds the position of the member of the management board of Seikatsu OÜ, Osaluste Hellalt Hoidmise OÜ, Topia OÜand Mittetulundusühing Asutajad (with former business name Eesti Startupi Juhtide Klubi MTÜ). Mr Tamkivi serves as a member of the supervisory board of ASI Private Equity AS and 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, Teleport, Inc. and Skype Technologies OÜ.

Mr Andres Viisemann. Mr Viisemann was born in 1968. Mr Viisemann obtained a degree in finance from the University of Tartu in 1992. He was awarded a 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, in addition to his position as the member of the supervisory board of the Company, as the member of the Supervisory Board of LHV Pank and 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. Audit Committee

Role and Duties. The audit committee of the Company (the **Audit Committee**) is an advisory body to the Supervisory Board in the fields of accounting, audit, risk management, internal control and internal audit, supervision, budgeting and compliance with legal requirements. Pursuant to the Estonian Auditors Activities Act, the duties of the Audit Committee include monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process for the audit of financial statements and the supervision over the activities of auditors. The Audit Committee is also responsible for making proposals to the Supervisory Board and providing recommendations for the appointment or removal of external and internal auditors, preparation and approval of internal audit plan, prevention or elimination of problems or ineffectiveness in the organisation and for the compliance with legislation and good professional practice.

Members of Audit Committee. According to the Rules of Procedure of the Audit Committee of the Group, as approved by the Supervisory Board on 22 February 2017, the Audit Committee consists of at least three members, whereas at least two of the members of the Audit Committee must be experts in accounting, finance or law. The members of the Audit Committee are elected for a term of three years by the Supervisory Board. Currently, the Audit Committee consists of three members – Mr Urmas Peiker (the Chairman of the Audit Committee), Mrs Kristel Aarna and Mr Tauno Tats.

8.5. Remuneration Committee

Role and Duties. The Remuneration Committee is a corporate governance body formed by the Supervisory Board. The Remuneration Committee was formed for the purpose of assessing the principles of remuneration applied within the Group, developing a remuneration strategy for the members of the Management Board as well as for exercising supervision over the compliance with the applicable legal requirements in respect of risk management and capital adequacy.

Members of Remuneration Committee. In accordance with the Rules of Procedure of the Remuneration Committee, as approved by the Supervisory Board on 20 May 2020, the Remuneration Committee comprises of at least three members of the Supervisory Board of LHV Pank as appointed by the Supervisory Board. Currently, the members of the Remuneration Committee are Mr Madis Toomsalu (Chairman of the Remuneration Committee), Mr Rain Lõhmus and Mr Andres Viisemann. Please see Sections 8.2 “Management Board” and “Supervisory Board” 8.3 for their *curriculum vitae* information.

8.6. Conflict of Interests and Other Declarations

As at the date of this Prospectus, the members of the Management Board and Supervisory Board hold the following amounts of Shares representing the indicated proportion in the share capital of the Company and options to acquire the Shares (please see Section 7.5 “Management and Key Employees Share Option Program” for further details on options) either directly or indirectly:

Name	Number of Shares	Proportion	Number of Options
Mr Rain Lõhmus	6,739,005	23.38%	0
Mr Raivo Hein	522,248	1.81%	0
Mr Heldur Meerits	1,031,310	3.58%	0
Mrs Tiina Mõis	1,082,744	5.74%	0
Mr Tauno Tats	1,653,709	5.74%	0
Mr Sten Tamkivi	15,534	0.05%	0
Mr Andres Viisemann	2,790,762	9.68%	18,021
Mr Madis Toomsalu	53,509	0.19%	90,920

Apart from the above, the Management is not aware of any 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.

8.7. Statement of Compliance with Corporate Governance

The Company complies with the corporate governance regime of the Republic of Estonia. Further to the compliance with the applicable laws and regulations, the Company has committed itself to adhere the highest standards of corporate governance within the Group companies for ensuing the transparent management of the Group companies and avoiding conflicts of interests. For these purposes, the Group companies have adopted work procedure rules for all corporate governance bodies to further specify the rules, requirements, limitations and liability of their members arising in general from the applicable law and the Articles of Association. The Company follows the principles of good corporate governance arising from the Good Corporate Governance Code as adopted by the EFSA and the relevant reports are published as part of the annual reports of the Company. The Good Corporate Governance Code is binding on the basis of “comply or explain principle”, whereas the requirements, which are currently not fully followed by the Company have been described in the latest Good Corporate Governance Report made available in the Financial Statements.

8.8. Statutory Auditors

According to the Articles of Association, the appointment of statutory auditors is in the competence of the General Meeting, whereas the selection of candidates and making a proposal to the General Meeting is done by the Audit Committee. The General Meeting held on 11 April 2018 appointed AS PricewaterhouseCoopers (registry code 10142876; having its registered address at Pärnu mnt 15, 10141 Tallinn, Estonia) to act as the statutory auditor of the Company for the financial years 2018 – 2019. AS PricewaterhouseCoopers is a member of the Estonian Auditing Board. The Audited Financial Statement has been audited by AS PricewaterhouseCoopers, as independent auditors as stated in their report.

Due to the conclusion of the term of the auditing agreement with AS PricewaterhouseCoopers with finishing of the audit of the consolidated financial statement for the year ending 31 December 2019, the Company carried out a bidding process for a statutory auditor for the period 2020 – 2022 which was won by KPMG Baltics OÜ (address: Narva mnt 5, Tallinn 10117, Estonia). On 13 March 2019 the General Meeting appointed KPMG Baltics OÜ to act as the statutory auditor of the Group for the three subsequent financial years (2020 - 2022). As at the date of this Prospectus, KPMG Baltics OÜ is the statutory auditor of the Company, independent auditors as stated in their report. KPMG Baltics OÜ a member of the Estonian Auditing Board.

9. PRINCIPAL ACTIVITIES AND MARKETS

9.1. History and Development of Group

The Group's history dates back to 1999 and by today, the Group has developed into a group of companies engaged in the provision of financial services based on local (Estonian) capital.

The Company was originally established by altogether 9 individuals and 4 legal entities, including Mr Rain Lõhmus and Mr Andres Viisemann who are continuously contributing to the management and further development of the Group. In 2006, the Company was divided in a manner that the assets and shareholdings of the Company were distributed into three different companies – the Company, AS LHV Holdings and AS LHV Professional Services. As a result of the division, the Company was held by the current key Shareholders - Mr Rain Lõhmus and Mr Andres Viisemann. In the course of the division, the other previous Shareholders ceased to be the Shareholders and acquired shareholdings in AS LHV Holdings and AS LHV Professional Services instead. After the division, the main assets of the Company were the shareholdings in the investment firm LHV, which by today has been developed into LHV Pank, and in the asset management firm LHV Varahaldus.

The milestones in the history of the Company and the development of the Group are summarised in the following table:

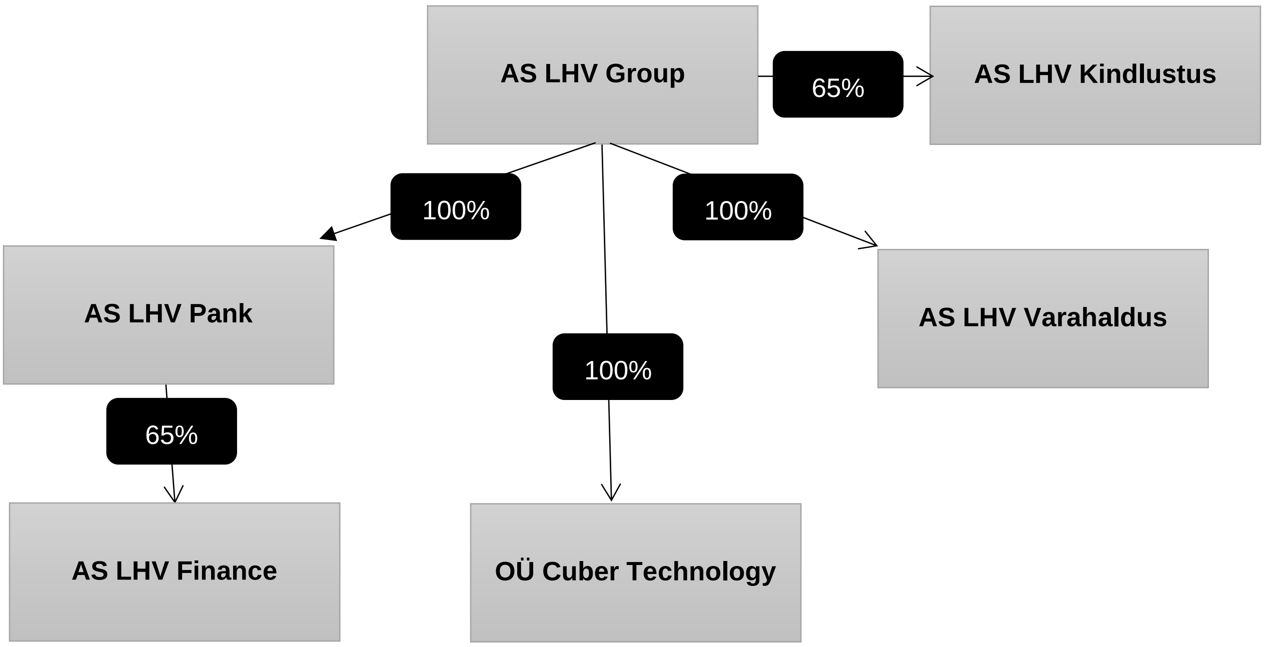
Year	Development
1999	LHV Pank was established as an investment firm, providing brokerage and portfolio management services; LHV Varahaldus was established
2002	LHV Varahaldus initiated pension funds management operations
2005	The Company was established
2009	LHV Pank obtained credit institution license and initiated depository and lending operations
2010	LHV Pank launched payments services
2011	LHV Pank launched payment cards issuing services
2013	LHV Finance was established and hire-purchase services launched; Mokilizingas was acquired
2014	LHV Pank launched payment cards acquiring services
2015	The Company became public by listing its subordinated bonds on Nasdaq Tallinn Stock Exchange; LHV Pank joined SEPA payments network as direct member and launched ATM network services
2016	LHV Varahaldus acquired Danske Capital AS, Danske Bank A/S's Estonian-established asset management company
2016	LHV Pank commenced offering of home loans to private clients
2016	LHV Varahaldus launched two passively managed pension funds – the second pillar fund LHV Pension Fund Index and the third pillar fund LHV Pension Fund Index Plus
2017	LHV Pank initiated a new line of business line and will start servicing payment service providers

2018	LHV Pank opened a branch in London, United Kingdom
2018	LHV Group sold 100% of UAB „Mokilizingas“ shares to Inbank AS
2018	Rating agency Moody’s assigned LHV Pank a credit rating of Baa1
2019	LHV Pank completed the acquisition of the loan portfolio of Versobank AS (under liquidation)
2019	LHV Pank and Danske Bank entered into a Business Transfer Agreement of private loans of Danske Bank’s Estonian branch
2020	Joining the Faster Payments scheme as a direct member in the United Kingdom.
2020	LHV Kindlustus was established

9.2. Group Structure and Group Companies

Group Structure

As at the date of this Prospectus, the Group structure is the following[23]:



[23] The Company has 100% shareholding in an Estonian private limited company (in Estonian: *osaühing* or *OÜ*) in OÜ Cuber Technology (register code in the Estonian Commercial Register 12794962, registered address Tartu mnt 2, 10145 Tallinn, Estonia). The company was established only on 4 February 2015 and has no influence on the liabilities and the results of operations of the Company or the Group.

Group Companies

AS LHV 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 and Tartu, LHV Pank established in 2018 a branch in the United Kingdom. As a result of Brexit, LHV Pank filed an application to the Financial Conduct Authority for establishing the branch in the United Kingdom as third country credit institution branch.

As of 30 June 2020, the bank employed 424 people and had about 224,000 customers.

By 30 June 2020, the total loan portfolio of the LHV Pank consolidation group (including LHV Finance) stood at EUR 1.8 billion. 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 2020, 21% of the credit portfolio of LHV Pank comprised of credit granted in the real estate sector. The real estate sector is followed by the manufacturing industry (6.9% of credit portfolio), the retail and wholesale sector (5.3% of the credit portfolio) and financial services sector (4.1% of the credit portfolio). Among sectors with higher than average credit risk, construction 1.8% and transport and logistics with 0.9% of the total credit portfolio. Loans to corporates comprise approximately 57% of the entire credit portfolio while loans to private individuals amount to 43% of the credit portfolio.

By 30 June 2020, the total amount of deposits of LHV Pank was EUR 3.1 billion. As of June 2020, LHV Pank has stopped active receipt of deposits through the deposit platforms as LHV Pank aims to reduce the cost of deposits by engaging in alternative means of raising capital. Namely, LHV Pank has participated in the second issue of the government bonds by the Republic of Estonia, receiving EUR 200 million from the issue. In June 2020, LHV Pank had the first and successful issue of covered bonds in the volume of EUR 250 million with a period of 5 years and an interest rate of 0.12% per annum.

AS LHV Varahaldus. AS LHV Varahaldus is an Estonian licensed fund manager. LHV Varahaldus is currently acting as the fund manager for eleven investment funds – eight compulsory second pillar pension funds (LHV Pensionifond XS, LHV Pensionifond S, LHV Pensionifond M, LHV Pensionifond L, LHV Pensionifond XL, LHV Pensionifond Eesti, LHV Pensionifond Indeks, LHV Pensionifond Roheline), two voluntary pension funds (LHV Täiendav Pensionifond and LHV Pensionifond Indeks Pluss) and a UCITS investing into equity instruments (LHV World Equities Fund). In September 2020, LHV Pensionifond L and LHV Pensionifond Eesti will be merged with LHV Pensionifond L as the surviving entity.

As of 30 June 2020, LHV Varahaldus employed 27 people. By the end of June 2020, the volume of assets managed by LHV Varahaldus was over 1.4 billion EUR. LHV Varahaldus has more than 180 thousand active pension fund clients. By the end of June 2020 LHV Varahaldus was the second biggest pension fund manager in Estonia with market share in terms of volume around 29% and market share in terms of number of clients 24%.

AS LHV Finance. LHV Finance is the subsidiary of the LHV Pank and is an Estonian financial institution offering hire-purchase services in the Estonian market. LHV Finance was established in 2013 as a joint venture in co-operation with Toveko Invest OÜ. Initially only hire-purchase services were provided, consumer loans were added to the offering in 2015. In 2017 LHV Finance started to offer rebranded targeted consumer loans (home loan and car loan). By 30 June 2020, the volume of the credit portfolio amounted to EUR 62,8 million and the company had over 47,000 effective loan agreements. Hire-purchase market is decreasing, and the portfolio consist approximately 78% of consumer loans and 22% of hire-purchase loans. As of 30 June 2020, the LHV Finance employed 19 people.

OÜ Cuber Technology. Cuber Technology is a start-up company with the purpose to innovate financial services using Blockchain technology. As of the date of this Prospectus, Cuber Technology has no operations and therefore it is not a material Subsidiary of the Group.

AS LHV Kindlustus. AS LHV Kindlustus is a subsidiary of the Company established as a joint venture in co-operation with Toveko Invest OÜ. The company was established with the purpose to start offering insurance products mainly to the clients of LHV Pank (mainly casco insurance, motor third party liability insurance and home insurance products) and Euronics retail store chain (mainly extended warranty and purchase insurance products), however, the insurance products are also planned to be offered to the general public through the website and the brokers. As of the date of this prospectus there are 3 employees in LHV Kindlustus. LHV Kindlustus will commence its operations after obtaining an insurance undertaking license from the EFSA, which is expected by the end of 2020.

9.3. Business Segments

Introductory Remarks. The business segments of the Group and the financial results thereof have been described in detail in the 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 EUR 250 thousand. Corporate banking segment covers all corporate customers and other legal entities with exposure over EUR 250 thousand. 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. The Estonian hire-purchase and consumer finance operations are carried out by LHV Finance.

Non-Life Insurance Products. The Company is planning to start providing non-life insurance products through its subsidiary LHV Kindlustus once the insurance undertaking license has been obtained from EFSA.

Revenues by Principal Markets. The breakdown of revenues by markets (business segments and geographical markets) where the Group companies operate is described in detail in the Financial Statements.

9.4. Investments

Introductory Remarks. The Group companies are 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 companies are financed by own funds or by additional capital engaged from the Shareholders or bondholders.

Significant Investments. In February 2019, LHV Pank completed the acquisition of the loan portfolio of Versobank AS (under liquidation) according to the agreement made on 19 December 2018 for approximately EUR 12.2 million in the total value of EUR 13.2 million. The loan portfolio acquired consisted of loan and collateral agreements and two employees related to the portfolio. The loan portfolio contained loans to Estonian companies in the amount of approximately EUR 10.4 million as well as loans to Estonian resident private customers in the amount of approximately EUR 2.8 million.

In November 2019, LHV Pank completed the acquisition of the Danske Loan Portfolio in the amount of approximately EUR 447 million for the purchase price that was derived with a EUR 39 million discount. On 8 June 2020, LHV Pank and Danske Bank A/S concluded a purchase agreement according to which LHV Pank will acquire the Danske Loan Portfolio II in an amount of EUR 312 million that will be derived with a EUR 19 million discount. The loan portfolio contains loans to public sector institutions (54%), loans to companies (42%), apartment associations (3%) and non-profit organisations (1%). The transaction is contemplated to be finalised in October 2020.

9.5. Trend Information

COVID-19. In March 2020, the World Health Organisation declared the outbreak of the virus COVID-19 (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 has resulted in a rapid deterioration of the political, socio-economic and financial situation globally. As at the date of this Prospectus, the Company is continuing to monitor the impact which the COVID-19 outbreak could have on its operations, the markets in which the Group companies operate and more broadly on the macro-economic outlook as further cases emerge and governments and international agencies impose a range of measures to deal with the outbreak. Whilst as at the date of this Prospectus it is difficult to predict the full extent of the effect which COVID-19 may have from a public health perspective and pre-emptive measures that may be adopted with a view to containing its spread (such as travel bans, quarantine, elective self-isolation and temporary business shut-downs), it could have a material adverse effect on the Group's operations and economic conditions and financial markets worldwide. In particular, in April, the Company has updated its financial plan with the key indicators being the following:

Key indicators	**Updated financial plan 2020**	**2019 results**	**Change**	**Previous financial plan 2020**
Financial results, in thousands of euros				
Total revenue	87,316	73,818	13,498	95,647
Total expenses	44,773	39,266	5,507	46,423
Impairment losses on loans	19,357	3,209	16,148	7,177
Earnings before taxes	23,185	31,342	-8,157	42,047
Net profit	19,231	27,092	-7,861	35,917
Business volumes, EUR million				
Loans	1,806	1,687	119	2,165
Deposits	2,985	2,701	284	3,127
Assets under management	1,454	1,374	80	1,576
Key ratios				
Cost / Income ratio	51.3%	53.2%	-1.90%	48.5%

ROE (pre tax)	10.2%	16.2%	-6.00%	18.1%
Capital adequacy	17.6%	18.0%	-0.4%	17.5%

The Group may further amend the prior financial prognosis and reduce the expected results of the Group depending on the spread of the COVID-19 pandemic and its further effect on the economy.

No Other Significant Change. Other than the above, the Management is not aware of any significant change in the financial performance of the Group since the end of the period covered by the Financial Statements.

9.6. Material Agreements

Introductory Remarks. The Group companies are not parties 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 "Material Agreements" provides a general description of the partnership agreement forming the grounds for the Group's partnership model for 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 Finance. On 23 January 2013, LHV Pank and Toveko Invest OÜ (registry code 12406049) 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 practice for similar agreements and form solid grounds for the parties' co-operation.

Shareholders' Agreement regarding LHV Kindlustus. On 6 May 2020, the Company and Toveko Invest OÜ (registry code 12406049) executed a shareholders' agreement, under which the parties thereto agreed upon the incorporation of LHV Kindlustus (being established), an insurance undertaking, and the principles of their co-operation as the shareholders of this company. Among other terms, the parties to the shareholders' agreement agreed upon the nature and essence of the business operations of LHV Kindlustus (being established) 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 practice 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 companies are parties 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 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. 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 No 596/2014/EU 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/EU 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 www.nasdaqbaltic.com and the website of the Company at https://investor.lhv.ee/en/.

Capital Raisings. In September 2019, the Company announced the successful completion of the share offering and disclosed the distribution of the 2,200,000 new shares to the 3,789 investors who participated in the subscription, subscribing to the offered shares for EUR 32.4 million in total (price for one share on the offer being EUR 11.50 of which EUR 1 was the nominal value and EUR 10.50 was the share premium.

In March 2020, the Company announced that the European Central Bank granted a permission to AS LHV Pank on a proposal of the EFSA to issue covered bonds. The possibility to issue covered bonds emerged after the acquisition of Danske Loan Portfolio. In May 2020, the Company announced that Moody's Investor Services initial rating to the covered bonds to be issued by LHV Pank was (P)Aa1. In May 2020, the Company also announced the establishment of the cover bonds program in the volume of EUR 1 billion. The prospectus of the cover bonds issue was approved by the Central Bank of Ireland on 19 March 2020. In June 2020, the Company announced that LHV Pank had a successful issue of covered bonds in the volume of EUR 250 million to 28 institutional investors and the issue was oversubscribed 1.9 times. Covered bonds were to be listed in the Euronext Dublin.

In April 2020, the Company announced the decision to increase its share capital by EUR 365,013. The share capital increase was necessary for issuing new shares to the employees participating in the option program approved by the general meeting of the shareholders on 29 April 2015 and 69 former and present employees participated in the share issue related to the option program. The employees subscribed for 365,013 shares with a total amount of EUR 1,697,310.45 which means full subscription of the issue.

In May 2020, the Company announced its plan to issue bonds belonging to the additional Tier 1 own funds (AT1 bonds) to financial institutions and proficient investors with a larger investment portfolio. In May 2020, the Company informed of the completion of the offering of bonds. The initial issue volume of EUR 10 million was oversubscribed more than 2 times and the Company used its right to increase the issue volume to EUR 15 million.

The Acquisition of Danske Loan Portfolio. In June 2019, the Company announced that LHV Pank intends to acquire the Danske Loan Portfolio. In November 2019, the Company announced that the transaction had been completed and as a result of the transaction, LHV Pank's loan portfolio increased by EUR 393 million.

Moody's Rating to LHV Pank. In January 2020, the Company announced that Moody's Investors Service renewed the credit rating of LHV Pank. The investment-grade credit rating with a stable outlook was affirmed at the same level as the year before. Ratings assigned to LHV Pank by Moody's Investors Service:

(i) Long- and short-term counterparty risk assessment of A3(cr)/Prime-2(cr)

(ii) Long- and short-term counterparty risk rating of A3/Prime-2

(iii) Foreign- and local currency long-term bank deposit rating Baa1

(iv) Foreign- and local currency short-term bank deposit rating Prime-2

(v) Baseline credit assessment (BCA) Baa3

(vi) Adjusted baseline credit assessment Baa3

(vii) The long-term deposit rating carries a stable outlook

Establishment of LHV Kindlustus. In February 2020, the Company announced its plans to establish a non-life insurance service provider LHV Kindlustus as a joint venture in co-operation with Toveko Invest OÜ. According to the announced plan, the Company would hold 65% of the shares and Toveko Invest OÜ 35% of the shares in the joint venture. The main insurance products offered would be casco insurance, motor third party liability insurance and home insurance. Such insurance products would be offered to the clients of the Group and to the general public. LHV Kindlustus would also start offering its insurance products to the clients of Euronics, namely extended warranty and purchase insurance products. In April 2020, the Company announced that the Estonian Competition Authority has granted a permission to the Company and Toveko Invest OÜ to concentrate. In May 2020, the Company announced the establishment of the non-life insurance company LHV Kindlustus. The supervisory board of LHV Kindlustus consists of four members – Madis Toomsalu (Chairman), Erki Kilu, Jaan Koppel and Veiko Poolgas. The management board of LHV Kindlustus consists of two members – Tarmo Koll and Jaanus Seppa (whereas Jaanus Seppa took the position as the member of the management board from 1 September 2020). It is expected that the EFSA will grant the license to operate as an insurance undertaking by the end of 2020.

EFSA's Supervisory Assessment of Capital and Addition Own Funds Requirement. In February 2020, the Company announced that EFSA has presented to the Company its supervisory assessment of capital and an additional own funds requirement (SREP). Pursuant to the decision of EFSA the Company is subject on a consolidated basis to an additional own funds requirement in an amount of 1.73% (in comparison to 1.53% in 2019) from which 0.42% has to be covered by Common Equity Tier 1 capital and 0.56% by Tier 1 Capital. The supervisory board of the Company decided based on the assessment of EFSA and by adding internal buffer to establish for a total capital 16.00% ratio, for Tier 1 capital 12.46% ratio and for Common Equity Tier 1 10.63% ratio.

The Acquisition of Danske Loan Portfolio II. In June 2020, the Company announced that LHV Pank and Danske Bank A/S have concluded a purchase agreement according to which LHV Pank will acquire Danske Loan Portfolio II. In July 2020, the Company announced that the Estonian Competition Authority has granted a permission to concentrate which was prerequisite to finalise the transaction between LHV Pank and Danske Bank A/S.

Changes in the supervisory board of LHV Finance. In June 2020, the Company announced that the shareholders of LHV Finance decided to elect Madis Toomsalu as the new member of the supervisory board of LHV Finance for harmonising the Group’s management structure. Due to this Rain Lõhmus resigned from his position in the supervisory board of LHV Finance.

10. FINANCIAL INFORMATION

10.1. Introduction

The following tables have been extracted or derived from the Audited Financial Statement and Interim Financial Statement, respectively**.** The below tables present only certain selected consolidated financial data as of and for the year ended on 31 December 2019 and as of and for the 6-month period ended on 30 June 2020 and 30 June 2019 and should be read in conjunction with the Audited Financial Statement and the Interim Financial Statement, in particular the notes thereto. The Audited Financial Statement has been prepared by the Group in accordance with the International Financial Reporting Standards as adopted in the European Union (IFRS) and the Estonian Accounting Act. The Interim Financial Statement has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting.

10.2. Selected Historical Financial Information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(in thousands of euros)	**2019**	**2018**	**6m 2020 ended on 30.06.2020**	**6m 2019 ended on 30.06.2019**
	Audited	Audited	Unaudited	Unaudited
Interest income	61,414	45,622	41,487	27,177
Interest expense	-14,026	-7,471	-9,618	-4,605
Net interest income	**47,388**	**38,151**	**31,869**	**22,572**
Fee and commission income	37,026	32,844	18,592	17,590
Fee and commission expense	-11,349	-7,799	-5,897	-4,753
Net fee and commission income	**25,677**	**25,045**	**12,695**	**12,837**
Net gains/losses from financial assets measured at fair value	591	379	-51	388
Foreign exchange rate gains/losses	79	64	-16	-7
Net gains from financial assets	**670**	**443**	**-67**	**381**
Other income	93	905	44	16
Other expense	-9	-43	-25	-23
Staff costs	-19,265	-15,756	-11,914	-9,435
Administrative and other operating expenses	-20,003	-16,387	-9,922	-9,072
Profit before credit losses	**34,551**	**32,358**	**22,680**	**17,276**
Impairment losses on loans and advances	-3,210	-4,879	-8,682	-1,649
Profit before income tax	**31,341**	**27,479**	**13,998**	**15,627**
Income tax expense	-4,249	-3,614	-2,964	-2,962
Profit from continued operations	**27,092**	**23,865**	**11,034**	**12,665**
Profit from discontinued operations	0	3,324	0	0
Net profit for the reporting period:	**27,092**	**27,189**	**11,034**	**12,665**
Other comprehensive income/loss:				
Changes in the fair value of debt instruments measured at FVOCI	0	-36	0	0
Items that will not be reclassified to profit or loss:	134	78	0	0

Net gains on investments in equity instruments designated at FVOCI				
Other comprehensive income for the reporting period				
Total profit and other comprehensive income for the reporting period:	**27,226**	**27,231**	**11,034**	**12,665**
Total profit of the reporting period attributable to:				
Owners of the parent	24,797	25,237	10,015	11,788
Non-controlling interest	2,295	1,952	1,019	877
Total profit for the reporting period:	**27,092**	**27,189**	**11,034**	**12,665**
Total profit and other comprehensive income attributable to:				
Owners of the parent	24,931	25,279	10,015	11,788
Non-controlling interest	2,295	1,952	1,019	877
Total profit and other comprehensive income for the reporting period:	**27,226**	**27,231**	**11,034**	**12,665**
Basic earnings per share (in euros)	0.91	0.97	0.35	0.45
Diluted earnings per share (in euros)	0.89	0.96	0.34	0.45
Basic earnings per share (in euros) from discontinued operations	0.91	0.85	0.35	0.45
Diluted earnings per share (in euros) from discontinued operations	0.89	0.83	0.34	0.45

Consolidated Statement of Financial Position

(in thousands of euros)	**As at 31.12.2019** Audited	**As at 31.12.2018** Audited	**As at 30.06.2020** Unaudited
Assets			
Due from central bank	1,232,733	639,862	1,329,434
Due from credit institutions	32,947	25,791	104,346
Due from investment companies	5,473	17,005	5,012
Equity instruments at fair value through other comprehensive income	432	298	652
Financial assets at fair value through profit or loss	40,530	46,856	422,465
Loans and advances to customers	1,687,034	918,761	1,804,036
Receivables from customers	3,551	3,721	3,042
Other financial assets	2,246	2,936	2,253
Other assets	1,961	1,651	1,697
Tangible assets	6,686	1,135	6,578
Intangible assets	14,705	15,470	14,383
Goodwill	3,614	3,614	3,614
Total assets	**3,031,912**	**1,677,100**	**3,697,512**
Liabilities			
Deposits from customers and loans received	2,726,562	1,443,782	3,358,487
Financial liabilities at fair value through profit or loss	8	11	19
Accounts payable and other liabilities	24,314	24,644	35,684
Subordinated debt	75,000	50,900	90,000
Total liabilities	**2,825,884**	**1,519,337**	**3,484,190**

Owner's equity			
Share capital	28,454	26,016	28,819
Share premium	70,136	46,653	71,468
Statutory reserve capital	4,713	3,451	4,713
Other reserves	3,280	2,090	2,629
Retained earnings/ accumulated deficit	94,228	75,430	100,450
Total equity attributable to owners of the parent	**200,811**	**153,640**	**208,079**
Non-controlling interest	5,217	4,123	5,243
Total equity	**206,028**	**157,763**	**213,322**
Total liabilities and equity	**3,031,912**	**1,677,100**	**3,697,512**

Consolidated Statement of Cash Flows

(in thousands of euros)	**2019**	**2018**	**6m ended on 30.06.2020**	**6m ended on 30.06.2019**
	Audited	Audited	Unaudited	Unaudited
Cash flows from operating activities				
Interest received	59,768	45,007	41,345	26,761
Interest paid	-11,005	-6,781	-10,234	-4,154
Fees and commissions received	37,026	32,844	18,592	17,590
Fees and commissions paid	-11,349	-7,799	-5,897	-4,753
Other income received	82	891	-26	-50
Staff costs paid	-17,877	-14,647	-10,340	-8,463
Administrative and other operating expenses paid	-13,873	-13,415	-7,549	-7,040
Income tax	-4,208	-3,070	-3,394	-2,962
Cash flows from operating activities before change in operating assets and liabilities	**38,564**	**33,030**	**22,497**	**16,929**
Net increase/(decrease) in operating assets:				
Net increase/(decrease) in financial assets at fair value through profit or loss	49	-115	-39	46
Loans and advances to customers	-770,388	-199,259	-120,138	-206,197
Mandatory reserve at central bank	-12,146	1,094	-4,553	-5,584
Security deposits	690	-647	-7	86
Other assets	27	-597	-4,550	-152
Net increase/(decrease) in operating liabilities:				
Demand deposits of customers	885,356	-105,607	322,717	367,882
Term deposits of customers	390,754	-9,316	63,970	292,858
Loans received	10,000	16,250	248,834	10,000
Repayments of loans received	-5,886	-722	-2,943	-2,943
Financial liabilities held for trading at fair value through profit and/or loss	-3	8	10	-2
Other liabilities	-6,295	-38,413	11,069	-833
Discontinued operations	0	-121	0	0
Net cash generated from/(used in) operating activities	**530,722**	**-304,415**	**536,868**	**472,090**
Cash flows from investing activities				

Purchase of tangible and intangible assets	-3,772	-3,450	-1,425	-5,934
Proceeds from sale of tangible and intangible assets	5	0	-220	0
Disposal of subsidiaries, net of cash disposed	0	5,046	0	0
Proceeds from disposal and redemption of investment securities available at fair value through other comprehensive income	0	520	0	0
Net changes of investment securities / investments at fair value through profit or loss	6,869	9,473	-381,945	-72,819
Net cash flow from/(used in) investing activities	**3,102**	**11,589**	**-383,590**	**-78,753**
Cash flows from financing activities				
Paid in share capital (incl. share premium)	26,013	598	2,134	0
Paid dividends	-6,664	-5,295	-6,838	-6,664
Subordinated loans received	40,000	20,000	15,000	40,000
Subordinated loans redeemed	-15,900	0	0	-15,900
Repayments of principal lease liabilities	-1,003	0	-472	0
Net cash from financing activities	**42,446**	**15,303**	**9,824**	**17,436**
Effect of exchange rate changes on cash and cash equivalents	79	64	-16	-7
Net increase/(decrease) in cash and cash equivalents	**576,349**	**-277,459**	**163,086**	**410,766**
Cash and cash equivalents at the beginning of the period	668,378	945,837	1,244,727	668,378
Cash and cash equivalents at the end of the period	**1,244,727**	**668,378**	**1,407,813**	**1,079,144**

Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Reserve capital	Other reserves	Retained earnings	**Total**	Non-controlling interest	**Total equity**
Amendments from the first-time adaption of IFRS 15								
	0	0	0	0	10,617	10,617	0	10,617
Restated Balance as at 01.01.2018 (audited)	**25,767**	**46,304**	**2,471**	**1,449**	**54,688**	**130,679**	**7,893**	**138,572**
Paid in share capital	249	349	0	0	0	**598**	0	**598**
Sale of a subsidiary	0	0	0	0	0	**0**	-4,550	-4,550
Transfer to statutory reserve capital	0	0	980	0	-980	**0**	0	**0**
Dividends paid	0	0	0	0	-4,123	**-4,123**	-1,172	**-5,295**
Share options	0	0	0	599	608	**1,207**	0	**1,207**
Profit for the year	0	0	0	0	25,237	**25,237**	1,952	**27,189**
Incl. IFRS 9 amendments	0	0	0	0	-731	**-731**	-18	**-749**
Other comprehensive profit	0	0	0	42	0	**42**	0	**42**
Total comprehensive profit for 2018	0	0	0	42	25,237	**25,279**	1,952	**27,231**
Balance as at 31.12.2018	**26,016**	**46,653**	**3,451**	**2,090**	**75,430**	**153,640**	**4,123**	**157,763**
Balance as at 01.01.2019 (audited)	**26,016**	**46,653**	**3,451**	**2,090**	**75,430**	**153,640**	**4,123**	**157,763**
Paid in share capital	2,438	23,483	0	0	0	**25,921**	0	**25,921**
Transfer to statutory reserve capital	0	0	1,262	0	-1,262	**0**	0	0
Dividends paid	0	0	0	0	-5,463	**-5,463**	-1,201	**-6,664**
Share options	0	0	0	1,056	726	**1,782**	0	**1,782**
Profit for the year	0	0	0	0	24,797	**24,797**	2,295	**27,092**

Other comprehensive profit	0	0	0	134	0	**134**	0	**134**
Total comprehensive profit for 2019	0	0	0	134	24,797	**24,931**	2,295	**27,226**
Balance as at 31.12.2019	**28,454**	**70,136**	**4,713**	**3,280**	**94,228**	**200,811**	**5,217**	**206,028**
Balance as at 01.01.2020 (unaudited)	**28,454**	**70,136**	**4,713**	**3,280**	**94,228**	**200,811**	**5,217**	**206,028**
Paid in share capital	365	1,332	0	0	0	**1,697**	438	**2,135**
Dividends paid	0	0	0	0	-5,406	**-5,406**	-1,431	**-6,837**
Share options	0	0	0	-651	1,613	**962**	0	**962**
Profit for the year	0	0	0	0	10,015	**10,015**	1,019	**11,034**
Other comprehensive profit	0	0	0	0	0	**0**	0	**0**
Total comprehensive profit for 2020	0	0	0	0	10,015	**10,015**	1,019	**11,034**
Balance as at 30.06.2020	**28,819**	**71,468**	**4,713**	**2,629**	**100,450**	**208,079**	**5,243**	**213,322**

Key Ratios and Indicators

In the opinion of the Management Board, those key ratios and indicators are the most appropriate ratios and indicators, considering the markets where the Group companies operate. The Management Board believes these ratios and indicators provide useful information for the purposes of evaluating the profitability of the operations of the Group, considering the business volumes of the Group companies.

Unaudited	**As at 31.12.2019**	**As at 31.12.2018**	**As at 30.06.2020**	**As at 30.06.2019**
Core Tier 1 CAD %[1]	12.39	13.65	12.29	12.12
Tier 1 CAD %[2]	13.88	13.65	14.75	13.99
CAD %[3]	17.97	20.91	18.63	19.16
MREL %[,4]	8.70	11.43	7.70	9.64
Leverage ratio %[5]	6.18	6.56	5.68	6.92
LCR %[6,7]	144.80	148.50	179.90	201.80
NSFR % [6,8]	152.90	147.60	159.40	175.20
Return on equity (ROE) %[9,10]	14.00	18.40	9.80	15.00
Return on assets (ROA) %[11]	1.15	1.60	0.7	1.25
CFROI %[12]	19.0	25.4	21.63	21.44
Cost to income ratio %[13]	53.19	48.30	49.05	51.72
Net interest margin (NIM) %[14]	2.04	2.34	2.10	2.23
Spread %[15]	1.99	2.32	1.90	2.23
Loan to asset %[16]	55.64	55.24	48.79	47.57
Loan to deposits %[17]	62.52	65.14	58.44	53.66
Price to earnings ratio[18]	13.77	9.75	13.55	11.41
Dividend to net profit ratio %[19]	20.17	21.60	24.50	22.00
Dividend per share[20](EUR)	0.21	0.16	0.09	0.11

Notes:

1 Common equity Tier1 % = common equity Tier1 capital/total risk-weighted assets*100
2 Tier 1 equity = Tier1 capital/total risk-weighted assets*100
3 CAD = (Tier 1 capital + Tier 2 capital)/risk weighted assets*100
4 MREL = (own funds + qualifying liabilities) / total liabilities - qualifying liabilities) * 100
5 Leverage ratio =Tier 1 Capital / total exposure*100

[6] LCR, NSFR are calculated as reported in COREP report as of end of each year
[7] LCR = stock of high quality liquid assets/total net cash outflows over the next 30 calendar days
[8] NSFR =total available stable funding/total required stable funding
[9] Return on equity is calculated based on LHV Group net profit and equity attributable to owners of the parent and does not include non-controlling interest.
[10] Return on equity (ROE) = net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100
[11] Return on assets (ROA) = net profit / average assets * 100
[12] CFROI = operating profit / capital (average)
[13] Cost to income ratio = total operating expenses / total net income * 100
[14] Net interest margin (NIM) = net interest income/average interest earning assets * 100 (annualised)
[15] Spread = yield on interest earning assets – cost of interest-bearing liabilities
[16] Loan to asset = net loans / total assets * 100
[17] Loan to deposits = net loans / deposits * 100
[18] Price to earnings ratio = share price/net profit/number of shares (average)
[19] Dividend to net profit ratio = dividend/net profit
[20] Dividend per share = dividend payment during calendar year / number of shares at moment of payment

The above table includes key regulatory ratios as reported to the competent authorities and calculated in accordance with the CRR and CRDIV and other legislative acts (Core Tier 1 CAD%, Tier 1 CAD %, CAD %, MREL %, Leverage ratio, LCR %, NSFR %) and certain data which the Company considers to constitute alternative performance measures (the **APMs**) for the purposes of the European Securities Markets Authority (the **ESMA**) Guidelines on Alternative Performance Measures. These APMs are not audited nor defined by, or presented in accordance with, IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Group's liquidity. The Company's use and method of calculation of APMs may vary from other companies' use and calculation of such measures.

11. TAXATION

This Section 11 (Taxation) is meant to give an overview of the tax regime applicable to the bondholders. 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 Bonds, each individual investor is strongly encouraged to seek specialist assistance. Furthermore, the tax laws of the investor's jurisdiction may also have an impact on the income received from the investment into the Bonds.

Capital Gains from Sale or Exchange of Bonds. Gains realised by an Estonian resident individual upon the sale or exchange of securities (including the Bonds) are subject to income tax at the rate of 20%. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution (in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until 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 bondholders receiving capital gains from the sale or exchange of the Bonds 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 Bonds) 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 Bonds may be deducted from the gains.

Taxation of Interest. Estonian resident individuals are subject to paying income tax (20%) on the interest received from loans, securities (including the Bonds) and other debt obligations. Therefore, interest (coupon payments) received by Estonian resident individuals from the Bonds is subject to income tax in Estonia, whereas such income tax is subject to withholding by the Company. Since all earnings of resident legal persons are taxed only upon distribution (as described above), interest received by Estonian resident legal persons is not subject to immediate taxation. As a rule, interest payments received by non-residents are exempt in Estonia (i.e. no withholdings are made). Note, however, that non-resident bondholders receiving interest from the Bonds may be subject to declaring and paying income tax in their respective countries of residence.

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 Bonds). 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 into the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

12. GLOSSARY

Term	Definition
APMs	shall mean 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.
Articles of Association	shall mean the Articles of Association of the Company effective as at the date of this Prospectus.
Audit Committee	shall mean the Audit Committee of the Company.
Audited Financial Statement	shall mean the audited consolidated financial statement of the Group for the financial year ended on 31 December 2019.
Bail-in Powers	shall mean any loss absorption, write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Republic of Estonia, relating to (i) the transposition of the BRRD (including but not limited to the Financial Crisis Prevention and Resolution Act (*finantskriisi ennetamise ja lahendamise seadus*) as amended or replaced from time to time and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Company (or any affiliate of the Company) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Company or any other person (or suspended for a temporary period).
Bonds	shall mean jointly the subordinated bonds with the nominal value of EUR 1,000 each, issued by the Company in accordance with the Bond Terms.
Bond Terms	shall mean the terms and conditions of the Bonds as established by the Company (approved by the Management Board of the Company on 3 September 2020 and incorporated in this Prospectus by reference).
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing the framework for the recovery and resolution of credit institutions and investment firms, as the same may be amended or replaced from time to time.
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.
CRR	shall mean 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.
Danske Loan Portfolio	shall mean private loan portfolio of Danske Bank A/S Estonian branch, which has been acquired by LHV Pank, involving 100,000 private person clients and increasing the loan portfolio of LHV Pank by EUR 393 million.
Danske Loan Portfolio II	shall mean corporate and public sector loan portfolio of Danske Bank A/S Estonian branch, which has been agreed to be acquired by LHV Pank, involving 670 corporate clients and 85 public sector clients, expected to increase the loan portfolio of LHV Pank by approximately EUR 312 million and contemplated to be finalised in October 2020.
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.
ERS	shall mean Estonian Register of Securities.
EU	shall mean the European Union.
EUR	shall mean, euro the official currency of Eurozone countries, including Estonia, Latvia and Lithuania.
Eurozone	shall mean the economic and monetary union (EMU) of the EU member states, which have adopted euro as their single official currency.
Financial Statements	shall mean the Audited Financial Statement and the Interim Financial Statement.
EFSA	shall mean the Estonian Financial Supervision Authority.
General Meeting	shall mean the General Meeting 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 EU.
Interim Financial Statement	shall mean the unaudited consolidated financial statement of the Group for the interim period of 6 months ended on 30 June 2020.
LHV Finance	shall mean AS LHV Finance, an Estonian public limited company, 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, 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 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 jointly.
Management Board	shall mean the Management Board of the Company.
Maximum Amount	shall mean the number of the Bonds indicated by the investor in the Subscription Undertaking as the maximum number of the Bonds which the investor wishes to acquire.
Nasdaq CSD	Nasdaq CSD Estonian branch, the operator of the ERS.
Nasdaq Tallinn Stock Exchange	shall mean Nasdaq Tallinn Aktsiaselts (register code 10359206), the operator of the only regulated market in Estonia.
Offer Price	shall mean the final price per each Bond, which shall be a fixed price of EUR 1,000 per one Bonds.
Offering	shall mean the offering of the Bonds by way of public offering to retail and institutional investors in Estonia. In addition, the Company may offer Bonds by the way of non-public offering to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other investors in compliance with Article 1(4) (a) and (b) of the Prospectus Regulation on terms and conditions described in this Prospectus. The Bonds will be publicly offered only in Estonia and not in any other jurisdiction.
Offer Period	shall mean the period within which the persons who have the right to participate in the Retail Offering may submit Subscription Undertakings starting from 16 September 2020 at 10:00 Estonian time and ending on 25 September 2020 at 16:00 Estonian time.
Prospectus	shall mean this Public Offering, Listing and Admission to Trading Prospectus.

Prospectus Regulation	shall mean the Regulation No 2017/1129/EU 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.
Relevant Resolution Authority	shall mean the resolution authority with the ability to exercise any Bail-in Powers in relation to the Company and/or the Group.
Section	shall mean a section of this Prospectus.
Shares	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 Undertaking	shall mean the order submitted by an investor for the purchase of the Bonds in accordance with the terms and conditions of the Offering.
Subsidiaries	shall mean LHV Pank, LHV Varahaldus, LHV Finance and LHV Kindlustus.
Supervisory Board	shall mean the Supervisory Board of the Company.
Summary	shall mean the summary of this Prospectus.
UCITS	shall mean undertakings for the collective investment in transferable securities, i.e. are investment funds regulated at EU 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 (UCITS).

COMPANY

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)

AUDITORS

Until 31 December 2019

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, 10141 Tallinn, Estonia)

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