

Report on Activities of Supervisory Board and Assessment of 2024 Annual Report of AS LHV Group for Submission to General Meeting of Shareholders

19 February 2025

The Supervisory Board of AS LHV Group (hereinafter LHV), consisting of Chairman of the Supervisory Board Rain Lõhmus and members of the Supervisory Board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Liisi Znatokov, discussed the following issues and concluded that:

1. Organisation of Management and Economic Activities in 2024 Financial Year

The past year saw rising geopolitical ambitions, the decline of various ideologies, structural shifts in the economy, reduced free trade, and rapid technological advancements. Uncertainty persists, but efficiency and adaptability remain essential. Interest rates have followed a cyclical pattern, with sharp increases historically giving way to shift declines – this evident in the second half of 2024, for which LHV was well-prepared. Despite various challenges, 2024 was a successful year for LHV. Following a supervisory transition, LHV restored its historically ambitious business growth. With a strong EUR 1 billion (28%) increase in the loan portfolio, supported by higher base interest rates, LHV achieved record-high business volumes and profits, prompting a financial plan update in August.

AS LHV Pank, a key subsidiary of LHV, became Estonia's second-largest bank in corporate lending, while home loans and insurance experienced strong growth. The customer base expanded by 38,000, driving increased activity across key areas. A strategic acquisition added a small but highly profitable loan portfolio. Despite solid returns, AS LHV Varahaldus, another subsidiary, saw its pension funds underperform relative to market indices. Meanwhile, LHV Bank Limited's corporate portfolio surpassed EUR 300 million, reinforcing higher long-term expectations.

In 2024, LHV refined its operational principles to strengthen its management culture and strategic focus. Customers remain the priority, with an emphasis on high-quality, fast, and seamless service. Business direction is guided by strategic focus and continuous improvement, free from ideologies and dogmas. Results take precedence over activities, and top talent is valued, with rewards tied to personal contributions. Bureaucracy is minimized, independent decision-making is encouraged, and time is LHV's most limited resource, which must be used efficiently for both customers and the company.

LHV enhanced risk management through strategic measures, including cost control, year-end redundancies, and departmental restructuring. Looking ahead to 2025 and beyond, the focus remains on sustained growth with greater efficiency.

LHV enters 2025 in a strong position. A short-term decline in profits is expected due to changes in the interest rate environment, but business growth and operational efficiency are expected to offset part of the impact. Long-term expectations remain positive, with a continuous focus on building a strong foundation for future growth.

In 2024, the Supervisory Board of LHV convened for twelve meetings and engaged in electronic decision-making on six occasions, reflecting a robust commitment to governance. Attendance was high, with three members participating in all sessions, underscoring the Supervisory Board's dedication to LHV's oversight.

The Supervisory Board's activities were comprehensive, encompassing strategic oversight, financial management, and regulatory compliance. Key undertakings included approving the Annual Report for 2023, different policies and assessing the suitability of the members of the Management Board and the Supervisory Board, also the key function holders, and managing the share option program. Strategic decisions such as increasing LHV's share capital, issuing bonds, and overseeing the successful issuance of Tier 2 subordinated bonds and MREL bonds and the redemption of older series reflected the Supervisory Board's focus on financial stability and growth. In addition, the Supervisory Board emphasized that improving efficiency remains a priority, focusing on optimizing operations and supporting long-term growth.

Throughout the year, the Supervisory Board maintained an ongoing and detailed dialogue with its four committees – Audit Committee, Risk and Capital Committee, Nomination Committee, and Remuneration Committee – emphasizing the continuous interaction that is crucial for effective governance and strategic alignment. This close collaboration facilitated for example thorough discussions over multiple quarters regarding the assumptions and content of the financial plan, illustrating the Supervisory Board's hands-on approach to financial forecasting and planning. In close cooperation with the Risk and Capital Committee, significant effort was dedicated to developing the new Risk Appetite Framework and related internal documents, a process set to be finalized in 2025. Additionally, ICAAP and ILAAP were more closely integrated into financial planning processes, enhancing the alignment between risk management and financial strategy. The Audit Committee made substantial improvements to the structure and format of its reports to the Supervisory Board, ensuring clearer and more actionable insights. Furthermore, the Supervisory Board strengthened its guidance on the coordination between the three lines of defense, fostering better collaboration not only within audit-related matters but also in broader processes, such as financial planning. To improve internal governance and efficiency, the structure of internal policies was streamlined for better traceability, while particular emphasis was placed on the need for AI integration and engineering expertise to support LHV's evolving operational landscape. These developments reinforce LHV's commitment to strong governance, risk management, and strategic foresight, ensuring financial stability and resilience.

Strategic planning was a priority, with the Supervisory Board approving LHV's long-term strategy, financial plans, and setting internal capital targets in alignment with the European Central Bank's (hereinafter ECB) requirements and supervisory expectations. The Supervisory Board's proactive approach in amending various internal regulations and engaging with diverse reports – ranging from risk assessments to employee surveys – highlighted its comprehensive role in guiding LHV's direction and ensuring adherence to governance standards. The Supervisory Board also actively engaged in discussions related to the ECB and governance issues, reinforcing the importance of regulatory compliance, effective corporate governance, and ensuring greater efficiency within LHV's operations. The Supervisory Board also discussed amendments to key governance documents, such as the ESG Policy, the Supervisory Board's Terms of Reference, and the Group Governance Policy, ensuring continued alignment with regulatory and strategic objectives.

In 2024, the Supervisory Board's actions demonstrated a meticulous approach to governance, strategic planning, and regulatory compliance, ensuring LHV's operations were well-managed and aligned with both internal objectives and external regulatory requirements. The emphasis on detailed discussions and year-long activities with committees, the careful consideration of financial plan assumptions, and the continuous focus on risk management, the ECB, and governance topics underscored the Supervisory Board's diligent oversight and strategic vision for LHV. Overall, the Supervisory Board expressed satisfaction with the management and organization of LHV's economic activities in 2024.

2. Annual Report 2024

The Supervisory Board has thoroughly reviewed the 2024 Annual Report of LHV, as compiled by the Management Board, alongside the auditor's report. The Supervisory Board believes that the Annual Report adheres to the generally accepted accounting principles, international standards, and relevant regulatory statutes governing accounting practices.

Furthermore, the Supervisory Board endorses the Annual Report as prepared by the Management Board, expresses satisfaction with the auditor's performance in 2024, and hereby presents the 2024 Annual Report to the General Meeting of LHV's shareholders for their approval.