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THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATIONS UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

Confirmation of your Representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities described in the Base Prospectus, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing the Base Prospectus, you shall be deemed to represent that you are not, and that any customer represented by you is not, a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently no responsibility whatsoever will be accepted in respect of any difference between the Base Prospectus distributed to you in electronic format and a hard copy version that may be made available to you.

BASE PROSPECTUS

AS LHV PANK

(incorporated with limited liability in the Republic of Estonia)

EUR 1,000,000,000

Covered Bond Programme

Under this EUR 1,000,000,000 Covered Bond Programme (the "**Programme**"), AS LHV Pank ("**LHV**" or the "**Issuer**" or the "**Bank**") may from time to time issue covered bonds (as defined in the Estonian Covered Bond Act; the "**ECBA**") (the "**Covered Bonds**"). Covered Bonds may be issued in bearer and/or registered form (respectively "**Bearer Covered Bonds**" and "**Registered Covered Bonds**") each denominated in any currency agreed between the Issuer and the Dealers (as defined below).

This Base Prospectus has been approved by the Central Bank of Ireland (the "**CBI**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The CBI has only approved this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Such approval relates only to Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**") and/or which are to be offered to the public in any Member State of the European Economic Area.

This Base Prospectus is valid for a period of twelve months from the date of approval. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds. The obligation to prepare a supplement to this Base Prospectus in the event of any significant new factor, material mistake or inaccuracy does not apply when the Base Prospectus is no longer valid. Application will be made to the Irish Stock Exchange plc, trading Euronext Dublin ("**Euronext Dublin**") for Covered Bonds issued under the Programme within twelve months after the date hereof to be admitted to the official list (the "**Official List**") of Euronext Dublin and to trading on the regulated market (the "**Regulated Market**") of Euronext Dublin. The Regulated Market is a regulated market for the purposes of MiFID II .

The Programme also permits Covered Bonds to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with AS LHV Pank (as defined under '*Important Notices*' below).

The Covered Bonds to be issued under the Programme may be rated by Moody's Investors Service ("**Moody's**"). Moody's is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain benchmarks. Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") are set out in the section entitled "**Benchmarks Regulation**" on page 174 of this Base Prospectus.

Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Covered Bonds are discussed under "Risk Factors" below.

Arranger and Dealer

Nordea

Dealers

Barclays
Landesbank Baden-Württemberg

UniCredit Bank

Citigroup
Swedbank

19 May 2020

IMPORTANT NOTICES

Responsibility for this Base Prospectus

The Issuer accepts responsibility for the information contained in this Base Prospectus and any Final Terms and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import.

Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Covered Bonds will be issued on the terms set out herein under "*Terms and Conditions of the Covered Bonds*" (the "**Conditions**") as completed by a document specific to each such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "*Final Terms and Drawdown Prospectuses*" below. In relation to Covered Bonds to be listed on Euronext Dublin, such Final Terms and Drawdown Prospectuses will be published on the website of Euronext Dublin (www.ise.ie).

Other relevant information

This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Covered Bonds which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Covered Bonds) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Covered Bonds) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Unauthorised information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for the acts or omissions of the Issuer or any other person (other than the relevant Dealer) in connection with the issue and offering of the Covered Bonds nor do the Dealers or any of their respective directors, affiliates, advisers or agents take any responsibility for the acts or omissions of the Issuer or any other person (other than the relevant Dealer) in connection with the issue and offering of the Notes. No fiduciary duty between the relevant Dealer and any investors has been created in respect of any issue and offering of the Covered Bonds. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Covered Bond shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial position or performance of the Issuer since the

date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Restrictions on distribution

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Covered Bonds, see "*Subscription and Sale*". In particular, Covered Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and Bearer Covered Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Covered Bonds and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Covered Bonds. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer. The Dealers have not provided any financial or taxation advice in connection with the Programme or Covered Bonds issued thereunder.

IMPORTANT – EEA AND UK RETAIL INVESTORS If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET – The Final Terms in respect of any Covered Bonds will include a legend entitled "**MiFID II Product Governance**" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

IMPORTANT - NOTICE TO INVESTORS IN BELGIUM: If the 'Prohibition of Sales to Belgian Consumers' is specified as applicable in the applicable 'Final Terms', the Covered Bonds are not intended to be offered, sold or resold, transferred or delivered or otherwise made available to and should not be offered sold or resold, transferred or delivered or otherwise made available to any individual in Belgium qualifying as a consumer (*consument/consommateur*) within the meaning of Article I.1 of the Belgian Code of Economic Law (*Wetboek van economisch recht / Code de droit économique*), as amended from time to time.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Programme limit

The maximum aggregate principal amount of Covered Bonds outstanding at any one time under the Programme will not exceed EUR 1,000,000,000 (and for this purpose, any Covered Bonds denominated in another currency shall be translated into Euro at the date of the agreement to issue such Covered Bonds (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Covered Bonds which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

Certain definitions

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area.

References to "**U.S.\$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**EUR**", "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended and references to "**NOK**" are to Norwegian kroner.

References to the "**LHV Group**" or the "**Group**" are to AS LHV Group and its subsidiaries.

Language

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Ratings

Tranches of Covered Bonds issued under the Programme will be rated or unrated. Where a Tranche of Covered Bonds is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Covered Bonds already issued. Where a Tranche of Covered Bonds is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Covered Bonds will be (1) issued by a credit rating agency established in the EEA or the UK and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA or the UK but will be endorsed by a CRA which is established in the EEA or the UK and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA or the UK but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European (including the UK) regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA or the UK and registered under the CRA Regulation. Such general restriction will also apply in the case of credit ratings issued by non-EU and non-UK credit rating agencies (1) the rating is provided by a credit rating agency not established in the EEA or the UK but is endorsed by a credit rating agency established in the EEA or the UK and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA or the UK which is certified under the CRA Regulation.

Stabilisation

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The financial statements relating to the Bank and incorporated by reference in this Base Prospectus are:

- the unaudited condensed consolidated interim financial statements as at and for the three months ended 31 March 2020 (the "**Interim Financial Statements**");
- the audited consolidated financial statements as at and for the year ended 31 December 2019 (the "**2019 Financial Statements**"); and
- the audited consolidated financial statements as at and for the year ended 31 December 2018 (the "**2018 Financial Statements**" and, together with the 2019 Financial Statements, the "**Annual Financial Statements**").

The Annual Financial Statements and the Interim Financial Statements are together referred to as the "**Financial Statements**". The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union. The Interim Financial Statements have been prepared in accordance with the international financial reporting standard IAS 34 "*Interim Financial Reporting*", as adopted in the European Union and in accordance with IFRS as adopted by European Union. The Financial Statements consolidate the Bank's 65 per cent. owned subsidiary, AS LHV Finance. For convenience and unless the context does not permit, the term "**Bank**" when used in this Base Prospectus should be read as including AS LHV Finance.

This Base Prospectus also includes financial information of the Bank for the financial year ended 31 December 2017. Such financial information is extracted from the comparative financial information included in the 2018 Financial Statements and is unaudited.

When preparing the 2019 Financial Statements, the management of the Bank introduced certain changes in the presentation of selected line items in the Bank's consolidated statement of profit or loss and other comprehensive income and the statement of cash flows. The changes were introduced to provide investors with better quality and comparability. Such presentation changes related to:

- presentation of Net gains on investments in equity instruments designated at FVOCI;
- presentation and classification of interest income; and
- presentation and classification of interest received/paid in the statement of cash flows.

These changes in presentation did not impact the consolidated profit or total equity of the Bank as at or for the financial year ended 31 December 2019. For the purposes of this Base Prospectus, consolidated financial information included in this Base Prospectus for the Bank for the financial year ended 31 December 2018 is provided on a revised presentation basis, in accordance with the 2019 Financial Statements. In addition, consolidated financial information included in this Base Prospectus for the Bank for the financial year ended 31 December 2017 has been adjusted to ensure comparability with the 2018 Financial Statements.

The Bank's financial year ends on 31 December and references in this Base Prospectus to "**2019**", "**2018**" and "**2017**" are to the 12 month period ending on 31 December in each such year.

Impact of the implementation of new IFRS

IFRS 16 "Leases"

With effect from 1 January 2019, the Bank adopted IFRS 16 "*Leases*".

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, to also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank applied a simplified retrospective approach to the implementation of IFRS 16 and did not restate its figures for previous years which results in a limited comparability of financial information of the Bank for the financial year ending 31 December 2019 as against financial information of the Bank for the financial years ending 31 December 2018 and 31 December 2017. Starting from 1 January 2019, the Bank recognised EUR 4,042 thousand on its statement of financial position as right-of-use assets and lease liabilities, thus increasing the total of the Bank's statement of financial position.

IFRS 9 "Financial instruments."

With effect from 1 January 2018, the Bank adopted IFRS 9 "*Financial instruments*".

In relation to its adoption of IFRS 9, the Bank did not restate any financial data for 2017 as the simplified application of IFRS 9 was adopted. The key features of IFRS 9 are:

- financial assets are required to be classified into three measurement categories;
- new impairment requirements;
- changes to the general hedge accounting requirements, although these had no direct effect of the Bank at the time of initial application as it was not using hedge accounting at that time.

The classification and measurement requirements of IFRS 9 states that financial assets should be classified and measured at:

- amortised cost;
- fair value through profit and loss ("**FVTPL**"); and
- fair value through other comprehensive income ("**FVOCI**").

These changes had no significant impact on the Bank's financial position, financial performance or equity in the period of initial application. A table reconciling the carrying amounts of financial assets from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018 is set out in note 2.1(a) to the 2018 Financial Statements.

The new impairment requirements of IFRS are based on an expected loss model as opposed to the previous incurred loss model. These requirements are summarised in note 2.1(a) to the 2018 Financial Statements and set out in note 2.6 to the 2019 Financial Statements.

Auditors and unaudited information

The Annual Financial Statements have been audited by AS PricewaterhouseCoopers, independent auditors ("**PwC**"), in accordance with International Standards on Auditing, who have issued unqualified reports on the Annual Financial Statements. The Interim Financial Statements have not been subject to any audit or review by independent auditors.

Certain financial information in this Base Prospectus identified as such is unaudited financial information which has been extracted without material adjustment from the accounting records of the Bank which form the underlying basis of the Financial Statements.

Certain non-IFRS financial information

This Base Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Bank believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. Certain of these ratios also constitute Alternative Performance Measures ("**APMs**"), as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. See "*Selected financial information—Selected consolidated ratios and APMs*". None of this financial information is subject to any audit or review by independent auditors.

The ratios referred to above should not be used instead of, or considered as alternatives to, the Bank's consolidated historical financial results based on IFRS. The non-IFRS measures relate to the reporting periods and are not meant to be predictive of future results. They are not defined under, or presented in accordance with, IFRS. Management of the Bank uses APMs because the Bank believes that these measures are commonly used by lenders, investors and analysts. The Bank's use of the APMs and its method of calculating APMs may vary from other companies' use and calculation of such terms. These measures are presented for purposes of providing investors with a better understanding of the Bank's financial performance, cash flows or financial position as they are used by the Issuer when managing its business.

PRESENTATION OF OTHER INFORMATION

Currencies

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in euro. The Bank's functional currency is euro and the Bank prepares its financial statements in euro.

Third party and market share data

This Base Prospectus contains information regarding the Bank's business and the industry in which it operates and competes, which the Bank has obtained from third party sources. Where third party information has been used in this Base Prospectus, the source of such information has been identified.

Statistical information relating to Estonia included in this Base Prospectus has been derived from official public sources, including the statistical releases of the Bank of Estonia, the Estonian Statistical Office and the Estonian Financial Supervision Authority. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Bank to investors who have purchased the Notes.

In some cases, independently determined industry data is not available. In these cases, any Bank market share data included in this Base Prospectus is referred to as having been estimated. All such estimates have been made by the Bank using its own information and other market information which is publicly available. The Bank believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Bank operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Bank's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Where information has not been independently sourced, it is the Bank's own information.

No incorporation of website information

The Bank is wholly owned by LHV Group AS and its website is that the same as that of its parent: www.lhv.ee. Unless specifically incorporated by reference into this Base Prospectus, information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites (including, but not limited to, investor.lhv.ee and fp.lhv.ee) has not been verified, is not incorporated by reference into, and does not form part of, this Base Prospectus, and investors should not rely on it.

Rounding

Certain data in this Base Prospectus has been rounded. As a result of such rounding, the totals of data presented in tables in this Base Prospectus may vary slightly from the arithmetic totals of such data. Where used in tables, the figure "0" means that the data for the relevant item has been rounded to zero and the symbol "—" means that there is no data in respect of the relevant item.

CONTENTS

| | Page |
|--|-------------|
| OVERVIEW OF THE PROGRAMME | 2 |
| RISK FACTORS | 8 |
| INFORMATION INCORPORATED BY REFERENCE | 37 |
| FINAL TERMS AND DRAWDOWN PROSPECTUSES | 38 |
| FORMS OF THE COVERED BONDS | 39 |
| TERMS AND CONDITIONS OF THE COVERED BONDS | 45 |
| FORM OF FINAL TERMS OF THE COVERED BONDS..... | 74 |
| SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM..... | 86 |
| SELECTED CONSOLIDATED FINANCIAL INFORMATION OF AS LHV PANK | 88 |
| DESCRIPTION OF THE BANK..... | 92 |
| FINANCIAL REVIEW | 119 |
| MARKET ENVIRONMENT | 146 |
| THE ESTONIAN HOUSING MORTGAGE MARKET | 148 |
| CHARACTERISTICS OF THE QUALIFYING COVER POOL..... | 157 |
| OVERVIEW OF ESTONIAN REGULATION REGARDING COVERED BONDS..... | 159 |
| BENCHMARKS REGULATION..... | 174 |
| TAXATION | 175 |
| SUBSCRIPTION AND SALE | 178 |
| GENERAL INFORMATION | 182 |

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Covered Bonds should be based on a consideration of the Base Prospectus as a whole and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.

| | |
|-----------------------------|---|
| Issuer: | AS LHV Pank |
| Programme Amount: | Up to EUR 1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Covered Bonds outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. |
| Arranger: | Nordea Bank Abp (the " Arranger ") |
| Description: | Covered Bond Programme |
| Dealers: | Barclays Bank Ireland PLC Barclays Bank PLC, acting through its investment bank Citigroup Global Markets Europe AG Citigroup Global Markets Limited Landesbank Baden-Württemberg Nordea Bank Abp Swedbank AB (publ) UniCredit Bank AG (together with the Arranger, the " Dealers ") |
| Fiscal Agent: | Citibank, N.A., London Branch (the " Fiscal Agent ") |
| Registrar: | Citigroup Global Markets Europe AG (the " Registrar ") |
| Currencies: | Covered Bonds may be denominated in Euros or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. |
| Method of Issue: | Covered Bonds will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Covered Bonds of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Covered Bonds of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Covered Bonds of different denominations. |
| Denominations: | The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) (subject to compliance with all applicable legal and/or regulatory and/or central bank requirements), save that the minimum denomination of each Covered Bond will be EUR 100,000 (or the equivalent in any other currency). |
| Maturities: | Any maturity, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. |
| Listing and Trading: | Application has been made to Euronext Dublin for the Covered Bonds issued under the Programme during the period of 12 months from the |

date of this Base Prospectus to be admitted to the Official List and to trading on its regulated market.

Status of the Covered Bonds: The Covered Bonds will be issued as covered bonds under the ECBA and will constitute direct and unsubordinated obligations of the Issuer. The Covered Bonds will be covered by a cover pool comprising the claims of the Issuer arising from Mortgage Loans (as defined in the Conditions) and certain other types of assets which qualify as substitute cover assets under the ECBA and are registered in the cover register maintained by the Issuer in accordance with the ECBA ("**Cover Pool**"). The Covered Bonds will rank *pari passu* among themselves and with Derivative Instruments (as defined in the Conditions) registered in the cover register in accordance with the ECBA. On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bonds together with the Cover Pool and the Derivative Instruments ("**Covered Bond Portfolio**") will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio. Pursuant to the ECBA, the separation of the Covered Bonds Portfolio will not affect the liability of the Issuer for the claims arising from the Covered Bonds. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The statutory cover conferred on holders of the Covered Bonds by the ECBA extends to Mortgage Loans owned by the Issuer and other certain other types of assets which qualify as substitute cover assets under the ECBA (together "**Eligible Assets**") included in the Cover Pool. The composition of the portfolio of such Mortgage Loans and other Eligible Assets may change from time to time due to, for example, the inclusion and removal of Mortgage Loans and other Eligible Assets to and from the Cover Pool from time to time by the Issuer, subject to the fulfilment of the requirements of the ECBA. Claims of the Covered Bondholders will not be backed by assets of the Issuer which do not qualify for this purpose or which are not included in the Cover Pool, nor will any security be taken over the Issuer's rights under any agreements entered into by the Issuer in relation to the Programme or Covered Bonds issued thereunder.

The rights of the Covered Bondholders shall be subject to any present or future Estonian laws or regulations relating to the insolvency, recovery and resolution of credit institutions and investment firms in Estonia which are or will be applicable to the Covered Bonds only as a result of the operation of such laws or regulations.

Final Terms or Drawdown Prospectus: Covered Bonds issued under the Programme may be issued either: (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds will be the Conditions as completed by the relevant Final Terms or, as the case

may be, as supplemented, amended and/or replaced by the relevant Drawdown Prospectus.

Issue Price: Covered Bonds may be issued at any price. The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Interest: Covered Bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and may vary during the lifetime of the relevant series.

Forms of Covered Bonds: Covered Bonds may be issued in bearer form ("**Bearer Covered Bonds**") or in registered form ("**Registered Covered Bonds**"). Bearer Covered Bonds will not be exchangeable for Registered Covered Bonds and Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds. No single Series or Tranche may comprise both Bearer Covered Bonds and Registered Covered Bonds.

Each Tranche of Bearer Covered Bonds will initially be in the form of either a temporary global covered bond (the "**Temporary Global Covered Bond**") or a permanent global covered bond (the "**Permanent Global Covered Bond**"), in each case as specified in the relevant Final Terms (each a "**Global Covered Bond**"). Each Global Covered Bond which is not intended to be issued in new global note form ("**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Covered Bond which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Covered Bond will be exchangeable for a Permanent Global Covered Bond or, if so specified in the relevant Final Terms, for Definitive Covered Bonds. Certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Covered Bond or receipt of any payment of interest in respect of a Temporary Global Covered Bond.

Each Permanent Global Covered Bond will be exchangeable for Definitive Covered Bonds in accordance with its terms. Definitive Covered Bonds will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Each Tranche of Registered Covered Bonds will be represented by either Individual Covered Bond Certificates or a Global Registered Covered Bond, in each case as specified in the relevant Final Terms. Each Global Registered Covered Bond which is not intended to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), as specified in the relevant Final Terms, will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common depositary. Each Global Registered Covered Bond intended to be held under the New Safekeeping Structure, as specified in the relevant Final Terms, will be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered

Covered Bond will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Redemption: Unless previously redeemed, or purchased and cancelled in accordance with the Conditions, Covered Bonds will be redeemed at their Final Redemption Amount (as specified in the relevant Final Terms) on the Maturity Date.

Optional Redemption: Subject to certain Conditions, Covered Bonds may be redeemed before the Maturity Date at the option of the Issuer (as described in Condition 9(c) (*Redemption and Purchase – Redemption at the option of the Issuer*)). No redemption at the option of the Covered Bondholders is permitted.

Early Redemption: Except as described in "*Optional Redemption*" above (and subject to certain conditions), early redemption will only be permitted for tax reasons, as described in Condition 9(b) (*Redemption and Purchase – Redemption for tax reasons*).

Extended Maturity Date: The relevant Final Terms or Drawdown Prospectus, as the case may be, may provide that an Extended Maturity Date applies to the Covered Bonds.

If:

- (a) an Extended Maturity Date is specified in the relevant Final Terms;
- (b) an insolvency, winding-up or similar event (as more fully described in Condition 9(i)(i)(B)) has occurred in respect of the Issuer; and
- (c) as a result of such an event, the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter,

the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of the Terms and Conditions will be automatically extended to the Extended Maturity Date, subject as otherwise specified in the relevant Final Terms. In that event, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. In addition, all or any part of the principal amount outstanding of the Covered Bonds may be redeemed on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date or as otherwise specified in the relevant Final Terms. In each of the above scenarios, the Issuer shall give notice to the Covered Bondholders and to the Paying Agents in accordance with Condition 9(i)(i)(C).

If an Extended Maturity Date is specified in the relevant Final Terms and, as a result of any of the events specified in Condition 9(i) (*Extension of maturity to Extended Maturity Date*) the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, the Covered Bonds will bear interest on the principal amount outstanding of such Covered Bonds from (and including) the Maturity Date to (but excluding) the date on which the Covered Bonds are redeemed and will be payable in arrear or as otherwise provided for in the relevant

Final Terms on each Interest Payment Date after the Maturity Date at the rate specified in the relevant Final Terms.

In the case of Covered Bonds with an Extended Maturity Date, those Covered Bonds may be issued as fixed rate, floating rate, or zero coupon in respect of the period from (and including) the Issue Date to (but excluding) the Maturity Date and issued as fixed rate or floating rate in respect of the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date as set out in the relevant Final Terms.

In the case of Covered Bonds which are non-interest bearing to the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the applicable Covered Bonds on the Maturity Date.

Asset Monitor: AS PricewaterhouseCoopers ("**PwC**") has been appointed pursuant to an asset monitor agreement dated 14 February 2020 (the "**Asset Monitor Agreement**") as an independent monitor to perform the tasks of a cover pool monitor which are provided in the ECBA (including carry out the required tests in respect of the Covered Bond Portfolio).

Taxation: All payments of principal and/or interest in respect of the Covered Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders and the Coupon holders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 12 (*Taxation*).

Events of Default and Cross Acceleration: The Covered Bonds will not provide for events of default entitling Covered Bondholders to demand immediate redemption and will not provide for a cross-default or cross-acceleration provision.

Clearing Systems: Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**" and together with Euroclear, the "**ICSDs**") and/or, in relation to any Tranche of Covered Bonds, any other clearing system as may be specified in the relevant Final Terms.

Risk Factors: Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its respective obligations under the Covered Bonds are discussed under "**Risk Factors**" below.

Use of Proceeds: The net proceeds of the issue of each Series of Covered Bonds will be used for the general banking and other corporate purposes of the Issuer. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Governing Law: The Covered Bonds shall be governed by English law, except for:

- (i) Condition 4 (*Status of the Covered Bonds*);
- (ii) the provisions relating to coverage and registration of the Covered Bonds and the Coupons pursuant to the ECBA; and
- (iii) other provisions relating to the Covered Bonds, where provisions of Estonian laws mandatorily apply to covered bonds issued by an issuer incorporated in Estonia, which shall be governed by Estonian law.

Ratings:

As at the date of this Base Prospectus, the Covered Bonds issued under the Programme may be rated by Moody's.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan, the Republic of Estonia and the Republic of Italy, see "*Subscription and Sale*" below.

RISK FACTORS

Any investment in the Covered Bonds is subject to a number of risks and uncertainties. Before making any investment decision, prospective investors should consider carefully the risks and uncertainties associated with an investment in the Covered Bonds, the Bank's business and the countries and markets in which it operates, together with all of the other information that is included in this Prospectus. Prospective investors should also consult their own financial and legal advisers about the risks associated with an investment in the Covered Bonds and the suitability of investing in the Covered Bonds in light of their particular circumstances, without relying on the Bank. Should one or more of the events or circumstances described as risks below occur at the same time or separately, this could have a material adverse effect on the Bank. As used in this section, "material adverse effect" and related expressions when used in relation to the Bank mean that the Bank's financial condition, results of operations, liquidity, business, prospects and/or reputation could be materially adversely affected and/or the value of the Covered Bonds could decline and these factors could result in an investor losing part or all of its investment.

There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due. Whilst the Bank believes that the following factors may affect its ability to fulfil its obligations under the Covered Bonds the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside of the Issuer's control. Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Covered Bonds are also described below.

The Bank believes that the factors described below represent the principal risks inherent in investing in the Covered Bonds, but the Bank may be unable to pay amounts due in connection with the Covered Bonds for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

RISKS RELATING TO THE BANK

The Bank's operations and assets are principally located in Estonia and, accordingly, the Bank is exposed to general economic conditions in Estonia

The Bank is an Estonian bank and the vast majority of its assets and business are located in Estonia. Reflecting this fact, the Bank is affected by general economic and geopolitical conditions in Estonia, changes in which are outside the Bank's control. The Estonian economy is a small open economy that is closely linked to the global economy and especially to macro-economic conditions in the Eurozone countries and Russia.

For a discussion of economic trends impacting the Bank in Estonia in 2017 through 2019, see "*Financial review—Principal factors affecting results of operations—Economic conditions*".

The main driver of growth in Estonia's economy is domestic demand, led by private consumption and investments. In recent years, Estonia has experienced healthy economic growth, although this has increased the risk of overheating. There can be no assurance that Estonia's economy will continue to grow at recent rates or at all. Any significant deterioration in the Estonian economy could have a direct negative impact on the financial position and profitability of the Bank. In particular, it is possible that the Estonian economy could be materially adversely affected by the impact of the infectious disease COVID-19 caused by the severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) (the "**Coronavirus**") pandemic both through its effect on Estonians and on the countries which are Estonia's major trading partners. In such a case, it is likely that the Bank will also be adversely affected, see "*The Bank may be materially adversely affected by the Coronavirus pandemic*" below.

The Bank may be materially adversely affected by the Coronavirus pandemic

In March 2020, the World Health Organisation declared the outbreak of a new infectious disease known as "COVID-19", caused by the severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2), to be a global pandemic. COVID-19 was first identified in China in December 2019 and spread rapidly in almost all regions around the world, and has resulted in a rapid deterioration of the political,

socio-economic and financial situation globally. As at the date of this Base Prospectus, the Issuer is continuing to monitor the impact which the COVID-19 outbreak could have on its operations, the markets in which the Issuer operates 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 Base 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 Issuer's operations and economic conditions and financial markets worldwide. In particular, the Issuer considers that the COVID-19 pandemic and the emergency measures applied in response to the pandemic could impact the business, financial condition and results of its operations in the following ways:

- an increase in the restructuring and impairment of its loan portfolio as the Issuer's ability to receive and claim payments from its borrowers may be negatively impacted by the pandemic and possible measures (governmental or other) in response to the pandemic and the associated economic downturn, such as possible suspension of mortgage loan payments, the adoption of new rules relating to the payment of penalty interest, the imposition of restrictions on the termination of agreements and/or the application of enforcement measures or moratoriums on insolvency and/or enforcement proceedings;
- lower interest income receipts as a result of any such restructuring of its loans;
- a decrease in deposits as customers withdraw money from accounts to increase their liquidity;
- an increase in defaults by borrowers under loans included in the Cover Pool; and
- a decrease in income receipts upon any mandatory moratorium on mortgage payments. In particular, the Bank has decided on a voluntary basis to apply the Estonian Banking Association's uniform policy for the granting of repayment moratoria in connection with the emergency situation declared in relation to the Coronavirus pandemic. For further detail see "*Description of the Bank – Corporate banking*".

In particular, and as further described above and in "*Description of the Bank – Corporate banking*", the Bank is granting grace periods to its customers in connection with the Coronavirus pandemic, including for principal payments of mortgage loans. Mortgage loans in respect of which a grace period has been granted would continue to be considered eligible for the Cover Pool, provided that they are not overdue (based on the amended repayment schedule granted to the customer) and comply with all other eligibility criteria. As at 30 April 2020, the Bank had granted grace periods in respect of mortgage loans with a total amount of EUR38 million. The granting of such grace periods may affect the income receivable on the mortgage loans included by the Issuer in the Cover Pool.

Any of the above listed effects, as well as effects which may not be identifiable at the date of this Base Prospectus, could affect the Issuer's ability to fulfil its obligations under the Covered Bonds, the value of the Mortgage Loans included in the Cover Pool, the availability of Eligible Assets for inclusion in the Cover Pool (required in order for the Issuer to meet its applicable legal and regulatory requirements in respect of the Cover Pool under the ECBA, see "*Default of Issuer's Assets or an inability to supplement the Cover Pool with Eligible Assets and Insolvency of the Covered Bond Portfolio*" below) and the value of the Covered Bonds.

The Bank is exposed to the credit risk of borrowers and other counterparties due to its lending activities

Risks arising from adverse changes in the credit quality and recoverability of lending and other amounts due from counterparties are inherent the Bank's business, principally in its lending activities. In particular, the Bank is exposed to the risk that its counterparties may not meet their obligations in respect of loans advanced by the Bank and that the collateral (if any) securing the loans advanced may be insufficient. Credit losses could arise from a deterioration in the credit quality of specific counterparties of the Bank, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, any of which could affect the recoverability and value of the Bank's assets and require an increase in its provisions for the impairment of loans and other credit exposures.

As at 31 December 2019, the Bank's loans and advances to customers amounted to €1,687.0 million, compared to €918.8 million as at 31 December 2018 and €719.4 million as at 31 December 2017. The Bank's non-performing loans (calculated in accordance with the definition of default in Article 178 of Regulation (EU) No 575/2013), which are all loans past due as well as certain other loans ("NPLs") were €4.4 million as at 31 December 2019 compared to €15.5 million as at 31 December 2018 and €18.6 million as at 31 December 2017 and its allowance for impairments in respect of its loan portfolio amounted to 0.4 per cent., 1.2 per cent. and 1.1 per cent. of the value of its loan portfolio as at 31 December 2019, 31 December 2018 and 31 December 2017, respectively.

Although the Bank makes provisions for potential credit losses in accordance with applicable requirements, the provisions are made based on available information, estimates and assumptions, which by definition are subject to uncertainty. Therefore, there can be no assurance that provisions made by the Bank are or will be sufficient to cover potential future losses. Further, if the credit quality of the Bank's loans or the financial health of any of its borrowers were to deteriorate, the Bank may have to make additional impairment provisions which could have a material adverse effect on the Bank. The recoverability of the credit provided by the Bank to its customers may be adversely affected by negative changes in the overall economic, political or regulatory environment affecting the ability of the Bank's counterparties to repay their loans, the effectiveness of enforcement proceedings, a decrease in collateral values and other circumstances beyond the Bank's control.

The Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia

Geographically, the Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia.

The Bank's loans and advances to customers were €1,687.0 million, or 56.1 per cent. of its total assets, as at 31 December 2019, compared to €918.8 million, or 55.7 per cent. of its total assets, as at 31 December 2018 and €719.4 million, or 41.4 per cent. of its total assets, as at 31 December 2017. As at 31 December 2019, 98.2 per cent. of the Bank's loans and advances to customers was classified as Estonian risk meaning that the borrowers are Estonian entities or individuals. As at 31 December 2018 and 31 December 2017, the comparative percentages were 96.5 per cent. and 90.5 per cent., respectively.

The only other materially significant class of assets on the Bank's statement of financial position is the amounts due to it from the Estonian Central Bank, which represented 41.0 per cent. of its total assets as at 31 December 2018 compared to 38.8 per cent. as at 31 December 2018 and 53.0 per cent. as at 31 December 2017.

The Bank's deposits from customers and loans received were €2,738.6 million, equal to 96.7 per cent. of its total liabilities, as at 31 December 2019, €1,469.6 million, or 96.5 per cent. of its total liabilities, as at 31 December 2018 and €1,556.6 million, or 95.0 per cent. of its total liabilities, as at 31 December 2017. As at 31 December 2019, 68.7 per cent. of the Bank's deposits from customers and loans received was classified as Estonian risk meaning that the depositors are Estonian entities. As at 31 December 2018 and 31 December 2017, the comparative percentages were 80.3 per cent. and 55.4 per cent., respectively.

In addition, in 2019 the Bank's revenue attributable to the Estonian market accounted for 99 per cent. of its total revenue.

Accordingly, any deterioration in general economic conditions in Estonia or any failure by the Bank to effectively manage its geographic risk concentrations could have a more significant adverse effect on the Bank's business than on that of a more diversified bank. See "*The Bank's operations and assets are principally located in Estonia and, accordingly, the Bank is exposed to general economic conditions in Estonia*" above.

The Bank has significant customer and sector concentrations

The Bank's loans and advances to customers are concentrated in the real estate sector, which is traditionally the sector that receives the greatest financing from commercial banks in Estonia. As at 31 December 2019, the Bank's loans and advances before impairment provisions to the real estate sector accounted for 20.9 per

cent. of its total loans and advances to customers before impairment provisions. As at 31 December 2018 and 31 December 2017, the comparative percentages were 26.6 per cent. and 27.2 per cent., respectively.

In addition, loans and advances to individuals accounted for 43.6 per cent. of the Bank's total loans and advances to customers as at 31 December 2019 compared to 23.1 per cent. as at 31 December 2018 and 19.4 per cent. as at 31 December 2017.

In addition, a small number of the Bank's loans and advances to customers carry a large risk exposure, meaning that the Bank's exposure under each loan exceeded 10 per cent. of its net own funds (broadly equal to its capital). As at 31 December 2019, the Bank had large exposure loans outstanding to 12 customers and these loans aggregated 190 per cent. of the Bank's net own funds. As at 31 December 2018, the Bank had large exposure loans outstanding to 14 customers and these loans aggregated 199 per cent. of the Bank's net own funds. As at 31 December 2019, the Bank had large exposure loans outstanding to 15 customers and these loans aggregated 215 per cent. of the Bank's net own funds.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Bank's large exposure counterparties, or any factors which negatively impact the real estate or retail sectors in Estonia to which the Bank has significant exposures, could result in the Bank having to make significant additional impairment provisions and/or experiencing significantly reduced interest income, each of which could have a material adverse effect on the Bank.

The sector specific factors referred to above might include:

- a significant decline in real estate values which would weaken the credit quality of the Bank's real estate borrowers and could also reduce the value of the real estate collateral which the Bank holds;
- low levels of economic growth or a recession in Estonia which, particularly if coupled with increased levels of unemployment, falling house prices, increased inflation or other factors constraining consumer income, could materially adversely impact the ability of the Bank's retail customers to repay their financing.

The Bank also has a high concentration of deposits. The share of the Bank's 20 largest depositors was 25.3 per cent. as at 31 December 2019 compared to 20.5 per cent. as at 31 December 2018 and more than 50 per cent. as at 31 December 2017. As at 31 December 2019, there were four customers whose deposits exceeded 1 per cent. of the Bank's total deposits from customers and loans received and their deposits aggregated €487 million. As at 31 December 2018, there were six customers whose deposits exceeded 1 per cent. of the Bank's total deposits from customers and loans received and their deposits aggregated €189 million. As at 31 December 2017, there were five customers whose deposits exceeded 1 per cent. of the Bank's total deposits from customers and loans received and their deposits aggregated €615 million.

See further "*The Bank is subject to the risk that liquidity may not always be readily available*" below.

The Bank is subject to the risk that liquidity may not always be readily available

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding and, particularly in the Bank's case, demand deposits), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, financial institutions have continued to experience periods of reduced liquidity.

The Bank's assets have, on average, a longer maturity than the Bank's funding sources. The Bank has historically principally relied on deposits from customers, which are mainly short-term and generally low cost in nature, to meet most of its funding needs. For example, as at 31 December in each of 2019, 2018 and 2017, demand and term deposits from customers amounted to 95.7 per cent., 95.0 per cent. and 94.6 per cent., respectively, of the Bank's total liabilities.

The availability of deposits is subject to fluctuation due to factors outside the Bank's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Bank to increase the return paid on its deposits to ensure that it retains sufficient deposits. As part of its liquidity risk management strategy, the Bank makes assumptions in relation to the potential deposit outflows which could occur at times of stress. If any of these assumptions prove to be incorrect, the Bank could face unplanned liquidity outflows which have not been taken into account in the Bank's liquidity contingency plans and funding plans.

On a future undiscounted cash flow basis, as at 31 December 2019, 80.3 per cent. of the Bank's deposits from customers and loans received did not have a fixed maturity although these deposits have generally proved to be a relatively stable source of funding based on historical behaviour analysis. Nevertheless, they are effectively repayable on demand. As at the same date and on the same basis, only 4.4 per cent. of the Bank's total funding (which comprises deposits from customers and loans received and subordinated debt) had a remaining contractual maturity in excess of one year. These percentages were 90.5 per cent. and 4.3 per cent., respectively, as at 31 December 2018 and 91.4 per cent. and 2.2 per cent., respectively, as at 31 December 2017. The Bank may experience outflows of deposits at times when liquidity is constrained generally in Estonia or when its major depositors experience short- or longer-term liquidity requirements.

In addition to deposits from its home market (Estonia), the Bank has also raised term deposits from deposit intermediation platforms, such as "Raisin" and "Deposit Solutions". These platforms enable the Bank to raise term (as opposed to demand) deposit funding from outside Estonia. However, the availability of these platform deposits could be more volatile than the Bank's Estonian deposits in the case of any market or idiosyncratic stress. As these term deposits mature, it is not certain that they can be rolled over and the Bank may be required to raise other types of funding to replace any of these deposits which are not rolled over.

In addition, the Bank's deposits are geographically concentrated and the Bank is reliant on certain large deposits from a limited group of customers. See "*—The Bank's loans and advances to customers and its deposits from customers and loans received are concentrated in Estonia*" above and "*—The Bank has significant customer and sector concentrations*" above.

If a substantial portion of the Bank's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Bank may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Bank will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Bank is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business generally and could potentially, result in its insolvency.

The Bank could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties

Given the high level of inter-dependence between financial institutions that became most evident during the global financial crisis of 2008 to 2010, the Bank is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the

Bank interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business generally.

The Bank is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Bank is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Bank's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing. For example, if one of the Bank's borrowers becomes associated with financial scandals or widely publicised improper behaviour, the Bank's own reputation may be affected. In common with other banks, the Bank is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Bank or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Bank's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Bank which could have a material adverse effect on the Bank.

The Bank could be adversely affected by market risks

The Bank could be adversely affected by market risks that are outside its control, including, without limitation, material adverse changes in interest rates, prices of securities and currency exchange rates. For example, an increase in interest rates generally may decrease the value of the Bank's fixed-rate loans and securities and may increase the Bank's funding costs. Further, a decrease in the level of interest rates may increase the cost of maintaining the Bank's liquidity buffer in a negative interest rate environment and decrease the revenue that the Bank earns from its floating rate loans and securities. At the same time, the Bank's ability to pass on declining interest rates to its customers on the funding side by lowering the rates on its deposits is limited. In addition, fluctuations in interest rates may result in a pricing gap between the Bank's interest-rate sensitive assets and liabilities. See note 3.3.3 to the 2019 Financial Statements which illustrates the Bank's sensitivity to a 100 basis point change in interest rates on major currencies as at 31 December 2019 and 31 December 2018. Interest rates are sensitive to many factors beyond the Bank's control, including the policies of central banks, such as European Central Bank, political factors and domestic and international economic conditions.

As a financial intermediary, the Bank is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Bank may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Bank attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set out in the Bank's internal risk management documents. However, where the Bank is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Bank against such risks. See note 3.3.1 to the 2019 Financial Statements which shows the Bank's open foreign currency positions as at 31 December 2019 and 31 December 2018.

The Bank also has a small portfolio of debt and equity financial assets held at fair value which are exposed to the effect of changes in market prices on their fair value. See note 3.3.2 to the 2019 Financial Statements which illustrates the Bank's sensitivity to a 1 and 10 per cent. change in market indices on this portfolio as at 31 December 2019 and 31 December 2018.

The Bank may enter into derivative transactions, such as interest rate swaps and currency swaps and forward contracts, as part of its ordinary customer business. There is no assurance that the Bank's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Bank will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Bank's depositors, borrowers and other counterparties which, in turn, may impact the Bank's deposit base and the quality of its credit exposures to certain borrowers and other counterparties. Ultimately, there can be no assurance that the Bank will be able to protect itself from any adverse effects

of a currency revaluation or future negative changes in interest rate or currency exchange rates or from a significant change in the prices of its securities.

The Bank is exposed to a range of operational risks. In particular, the Bank is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Bank's IT systems

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology ("IT") failures), natural disasters or the failure of external systems (for example, those of the Bank's counterparties or vendors). The Bank has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Bank faces. Losses from the failure of the Bank's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Bank's employees could engage in misrepresentation, misconduct or improper practice that could expose the Bank to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter these types of misconduct, and the precautions which the Bank takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Bank to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Bank's reputation.

The Bank is dependent on its IT systems and any disruption to these systems could materially disrupt the Bank's business

The Bank depends on its IT systems to process a large number of transactions on an accurate and timely basis and to store and process substantially all of the Bank's business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and its ability to compete effectively. The Bank's business activities would be materially disrupted if there were a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of reasons some of which are outside the Bank's control, including natural disasters, extended power outages, and computer viruses and other external electronic attacks as discussed under "*The Bank's business is dependent on its IT systems which are subject to potential cyber-attack*" below. The proper functioning of the Bank's IT systems also depends on accurate and reliable data and other system inputs, which are subject to internal human errors. Any failure or delay in recording or processing transaction data could subject the Bank to claims for losses and regulatory fines and penalties. There can be no assurance that the Bank's IT safeguards will be fully effective in the event of a disaster and or that they will protect the Bank from all losses that could occur.

The Bank's business is dependent on its IT systems which are subject to potential cyber-attack

In common with all other financial institutions, the threat to the security of the Bank's information and customer data from security breaches and cyber-attacks presents a real and growing risk to the Bank's business. Activists, rogue states and cyber criminals are among those targeting IT systems around the world. Risks to technology and cyber-security evolve and change rapidly and require continued focus, monitoring and investment in preventative measures. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. A failure to adequately manage cyber-security risk and continually monitor, review and update current processes in response to new threats could have a number of adverse effects on the Bank, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

The Bank's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. Some of the Bank's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

The Bank is subject to extensive regulation and changes in this regulation, or the interpretation or enforcement of this regulation, or any failure by the Bank to comply with this regulation could have a material adverse effect on the Bank

The financial services industry in which the Bank operates is highly regulated and the Bank's operations are subject to numerous European directives and regulations, as well as Estonian laws, policies, guidance and voluntary codes of practice. Since the global financial crisis, financial services regulation has changed materially and may continue to develop in the future. Some of the changes the Bank has had to adapt to since the global financial crisis include:

- new capital adequacy requirements, for example 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 ("**CRD IV**") which has recently been amended by Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures ("**CRD V**") and 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 ("**CRR**") which has recently been amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 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 ("**CRR II**");
- a new bank resolution framework, for example 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, which has recently been amended by Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") and 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 which has recently been amended by Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms;
- tightening requirements on anti-money laundering and anti-terrorism financing;
- new payment services regulations, for example Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market;

- new regulations on markets in financial instruments, for example Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments; and
- new data protection regulations, for example 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.

In addition, whilst the Bank has taken steps to minimise the impact of the UK's recent withdrawal from the European Union on its London branch, including commencing the process to re-register the London branch as a "third-country branch", there can be no guarantee that such re-registration will not be subject to delays or that the UK's withdrawal from the European Union will not otherwise impact the operations of the Bank's London branch.

The Bank has sought to comply with the all of the new requirements affecting it, but no assurance can be given that it will at all times and in all material respects either be or remain in compliance with applicable regulations. A number of Estonian and European authorities, including financial supervision, consumer protection, anti-money laundering, tax and other authorities, regularly perform investigations, examinations, inspections and audits of the Bank's business, including in relation to capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting and corporate governance. Any determination by any relevant authority that the Bank has not acted in compliance with all applicable laws and regulations could have serious legal and reputational consequences for the Bank, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or requirements to cease carrying all or part of its business.

The Bank may need to raise capital and it may not be able to do so as and when needed on commercially attractive terms

Recently a new legislative package for further reduction of banking risk (including CRD V and CRR II) has been adopted, most of which will become effective from December 2020. Implementation of the CRD V/CRR II requirements will necessitate significant changes to the Bank's procedures, rules and reporting systems, as well as to the calculation systems of the capital requirements applicable to the Bank. The Bank currently expects that the direct technical cost (including salary cost of involved employees) to implement these changes will be approximately €200 thousand.

Currently the capital of banks and investment firms in the EU is subject to the legal framework of CRR/CRD IV and the BRRD. As part of the crisis resolution plan provided for in the BRRD, as implemented in Estonia, the minimum requirement for own funds and eligible liabilities ("**MREL**") obliges banks and banking group's to have sufficient own funds and unsecured long-term liabilities that can be used to cover losses under the crisis resolution plan. For the LHV Group (of which the Bank is a major part), the Estonian Financial Supervisory Authority (the "**EFSA**") has set the MREL limit at 5.79 per cent. and has stated that from the middle of 2021 the limit will increase to 10.15 per cent. The level is reviewed annually. As at the end of 2019, the LHV Group's MREL level was 8.7 per cent.

In 2018, the Bank was designated as another systemically important institution in Estonia ("**O-SIIs**") and has as a result become subject to the other systemically important institutions buffer, which was 0.5 per cent. in 2018 and 1.0 per cent. in 2019. For 2020, the systemically important institutions buffer requirement was initially set at 1.0 per cent. but as of 1 May 2020, the Bank of Estonia lowered it to 0.0 per cent., to cover possible credit losses and provide additional credit support in response to the expected economic downturn as a consequence of the Coronavirus pandemic. The systemic risk buffer 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.

In addition to regulatory capital requirements, a variety of other factors may affect the Bank's capital adequacy levels. For example, a significant increase in lending, reduced profitability or any losses experienced by it would reduce the Bank's capital adequacy ratios. The Bank may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies. The ability of the Issuer to raise such capital may be affected by the guidance from the European

Banking Authority in place as at the date of this Base Prospectus to temporarily stop dividend payments to shareholders.

As a result, the Bank is likely to need to obtain additional capital in the future to support the future growth of its business. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Bank's capital ratios fall close to regulatory minimum levels or the Bank's own internal minimum levels, the Bank may need to adjust its business practices, including reducing the risk and leverage of certain activities or limiting asset growth. If the Bank is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered, its cost of funding may increase and it may suffer regulatory sanctions. Any such development may have a material adverse effect on the Bank.

The Bank is exposed to risks related to money laundering activities and sanctions violations

In general, the risk that banks will be subjected to or used for money laundering has increased worldwide. The high turnover of employees, the difficulty in consistently implementing related policies and technology systems, and the general business conditions in Estonia and proximate markets such as Russia, mean that the risk of the occurrence of money laundering is high. If financial market conditions, both globally and regionally, deteriorate, there is a risk that incidents involving money laundering may increase; this may affect the Bank's ability to monitor, detect and respond to such incidents.

In addition, banks are required to comply with a number of international sanctions regimes, including those of the European Union, the United Nations, the United States and a number of other individual countries. A wide range of countries, organisations and individuals may be subject to sanctions under these regimes and the complexity of banking operations means that steps taken to screen transactions against sanctions lists may not always be effective.

As a result, the risk of future incidents in relation to money laundering and sanctions violations always exists for financial institutions. Any violation of anti-money laundering rules or sanctions regimes, or even the suggestion of violations, may have severe legal and reputational consequences for the Bank and may, as a result, have a material adverse effect on the Bank.

The Bank is subject to the risk of changes in tax regulations reducing its profitability

Estonian tax regulations are subject to changes, 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, these institutions are required to make quarterly advance payments of income tax on the profit earned by them in the previous quarter while the companies operating in other sectors remain subject to the general corporate income tax regime under which profit is subject to taxation only upon distribution.

Advance payments of CIT are made at a rate of 14 per cent. and the first advance payment was due in September 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 any loss recorded during the preceding 19 quarters (loss carry forward for five years). However, the calculation of the loss carry forward only starts from the second quarter of 2018 and Estonian credit institutions are not permitted to account for losses that had arisen prior to that quarter. Estonian credit institutions have the right to set-off the CIT payable from dividend distributions (including from regular dividends) or distributions from their 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 an active growth phase, such as the Bank, as it reduces the own funds of the institution. Any other changes in Estonian tax regulations or in the interpretation of such regulations, may also have material adverse effect on the Bank.

The Bank's internal compliance systems might not be fully effective in all circumstances

The Bank's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Bank is subject to oversight

by regulatory authorities, including regular examination activity and annual supervisory review visits, and performs regular internal audits and employs an external auditing firm to review its internal auditing function as required by applicable regulations, the Bank cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Bank could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages that could have a material adverse effect on the Bank.

A negative change, or perceived negative change, in the Bank's credit rating could limit its ability to raise funding and may increase its borrowing costs

The Bank currently has a long-term bank deposits rating of Baa1 with a stable outlook from Moody's. This credit rating is an important factor in determining the Bank's cost of borrowings. The interest rates charged on the Bank's borrowings are also partly dependent on its credit rating.

There is no assurance that the Bank's rating will remain in effect for any given period of time or that the rating will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade, or increased risk of a downgrade, of the Bank's credit rating, or a negative change in its outlook, may:

- limit the Bank's ability to raise funding;
- increase the Bank's cost of borrowing; and
- limit the Bank's ability to raise capital.

In addition, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of the Covered Bonds.

According to Moody's, the principal credit challenges facing the Bank are (i) its high loan growth, which could result in deteriorating asset risk in a downturn, (ii) its limited access to market funding and (iii) the fact that it provides services to financial intermediaries which could lead to volatility in funding. Moody's also notes three factors which, if they materialise, could lead to a future downgrade of the Bank's rating:

- continued fast growth, leading to a further deterioration in capital levels and a build up of additional asset risk;
- deteriorating levels of liquidity; and
- lower levels of subordinated debt, which could lead to lower levels of loss absorbing obligations, increasing losses for depositors in case of failure.

In addition, the credit rating assigned to the Bank may not reflect the potential impact of all risks related to an investment in the Covered Bonds, the market, additional factors discussed in this Prospectus and other factors that may affect the value of the Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities. A rating may be subject to revision or withdrawal at any time by an assigning rating organisation.

The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Bank's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in Estonia is intensely competitive and the Bank could face challenges in recruiting and retaining such personnel to manage its businesses. Regulatory restrictions, such as the limits on certain types of remuneration paid by credit institutions and investment firms contained in CRD IV and further developed in CRD V which will need to be transposed into national law by December 2020, could adversely affect the Bank's ability to attract new qualified personnel and retain and motivate existing

employees. Any loss of the services of key employees, particularly to competitors, or any inability to attract and retain highly skilled personnel may have material adverse effect on the Bank.

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

The Bank operates in a highly competitive market which may adversely affect its results of operations if it is unable to compete effectively

The Bank operates in a highly competitive market. In addition to the licensed credit institutions and branches of foreign banks present in Estonia, there are market participants (such as non-bank lenders) who are not subject to regulatory and capital requirements as burdensome as those to which the Bank is subject and who may therefore have a competitive advantage in relation to lending. Furthermore, the credit and lending market is characterised by the development of new products and technological solutions which compete with the more conservative and traditional products and services offered by the Bank and may result in price pressure on the products and services offered by the Bank. In particular, whilst the Bank believes that its LHV Connect service is the first bank application programming interface through which FinTech companies can access euro and pound payments, it is possible that competition in this market will increase and competitors of the Bank, both traditional and new entrants, may develop new products and technological solutions which will disrupt the existing traditional banking model. If the Bank fails to respond to a more competitive environment by offering attractive and profitable product and service solutions, it may experience a loss of market share and a decrease in profitability.

The Bank is subject to legal risks

The Bank's operations are materially dependent on the validity and enforceability of the transactions and agreements it enters into, high volumes of which may be based on standard templates. These transactions and agreements may be subject to the laws of Estonia or to the laws of other countries where the Bank operates. While due care is taken to ensure that the terms of these transactions and agreements are fully enforceable under the laws applicable to them, human error or new laws and regulations and changes in interpretation of existing laws and regulations by the competent authorities and courts may create uncertainty or render part or all of a particular agreement unenforceable by the Bank. Consequently, the Bank may not be able to always enforce its contractual rights. Particularly in the context of a template agreement which has been replicated extensively, this could have a material adverse effect on the Bank.

In the ordinary course of its business, the Bank is exposed to a significant risk of claims, disputes and legal proceedings. In many cases, the Bank will be the plaintiff, typically seeking to recover money advanced and it may not always be successful in this endeavour and, even where it is successful, the costs involved in the litigation will reduce its recoveries. In cases where the Bank is a defendant, in addition to the cost of defending the claim the Bank may be required to pay significant damages and the dispute could also negatively affect the Bank's reputation.

RISKS ASSOCIATED WITH THE COVERED BONDS

Default of Issuer's Assets or an inability to supplement the Cover Pool with Eligible Assets and Insolvency of the Covered Bond Portfolio

Default of the Issuer's assets (in particular assets in the Cover Pool) or an inability to supplement the Cover Pool with Eligible Assets could jeopardise the Issuer's ability to make payments on the Covered Bonds in full or on a timely basis.

Under the ECBA, to comply with the statutory requirements, the Issuer must ensure that the present value of the total amount of the Cover Pool continuously exceeds the present value of the combined payment obligations arising from Covered Bonds and from the Derivative Instruments entered in the cover register by at least two per cent. In case of defaults of the Issuer's assets resulting in such assets ceasing to satisfy the criteria of Eligible Assets or a lack of Eligible Assets due to any other reason, the Issuer may not have

sufficient assets to add to the Cover Pool to meet such referred statutory requirement. Furthermore, after the separation of the Covered Bond Portfolio from the Issuer's assets, the Issuer is not permitted under the ECBA to make any transactions with the assets in the Covered Bond Portfolio and therefore, no addition of assets to the Cover Pool can be expected following the occurrence of a separation event which may occur due to, among other things, a declaration of bankruptcy or a moratorium in respect of the Issuer; commencement of crisis resolution proceedings in respect of the Issuer; termination of the validity of the credit institution licence or additional authorisation for issuing covered bonds held by the Issuer; the passing of a court ruling providing for compulsory dissolution of the Issuer; receiving an authorisation from the EFSA for voluntary dissolution or discontinuation of the issuance of Covered Bonds; or where the EFSA resolves that the Covered Bond Portfolio should be separated from the Issuer's assets on the grounds provided in the ECBA.

If: (i) the present value of the Cover Pool does not cover the present value of the liabilities arising from Covered Bonds and from the Derivative Instruments entered in the cover register and the expenses of management of the Covered Bond Portfolio or (ii) the Cover Pool or the income receivable from the Cover Pool is not sufficient to settle a rightful claim of at least one Covered Bondholder or at least one counterparty to a Derivative Instrument entered in the cover register and the situation is not temporary due to the financial standing of the Covered Bond Portfolio, the Covered Bond portfolio will be deemed insolvent and the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. To the extent that claims of the Covered Bondholders in respect of the Covered Bonds and counterparties to the Derivative Instruments included in the Cover Pool are not met out of the Cover Pool in the bankruptcy proceedings carried out in respect of the Covered Bond Portfolio, the Covered Bondholders and counterparties to the Derivative Instruments included in the Cover Pool may submit their claims arising from the Covered Bonds and Derivative Instruments against the Issuer or its bankruptcy estate, but such residual claims of the Covered Bondholders and counterparties to the Derivative Instruments included in the Cover Pool will not be preferred claims, will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer (save for such obligations as may be preferred by provisions of law that are both mandatory and of general application) and may thus not be satisfied in full.

Credit risk of the Issuer

An investment in Covered Bonds is subject to credit risk. The Issuer's ability to meet its obligations arising from the Covered Bonds and the ability of the holders of the Covered Bonds to receive payments arising from the Covered Bonds depends on the financial position and the results of operations of the Issuer, which are subject to other risks described in this Base Prospectus.

The statutory cover conferred on holders of Covered Bonds by the ECBA extends to Mortgage Loans owned by the Issuer and other Eligible Assets included in the Cover Pool. Upon the declaration of the Issuer's bankruptcy and upon the occurrence of certain other events stipulated in the ECBA, the Covered Bond Portfolio will be separated from the other assets and liabilities of the Issuer and will form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of any counterparties to Derivative Instruments included in the Cover Pool and to cover the expenses related to the management of the Covered Bond Portfolio. If after the separation of the Covered Bond Portfolio it becomes evident that the Cover Pool or proceeds therefrom are insufficient to discharge all liabilities arising from the Covered Bonds and Derivative Instruments recorded in the cover register and such situation is not temporary or the present value of the Cover Pool does not cover the present value of the relevant liabilities (such situation may occur, for instance, due to circumstances described under the risk factor "*Default of Issuer's Assets or an inability to supplement the Cover Pool with Eligible Assets and Insolvency of the Covered Bond Portfolio*"), the Covered Bond Portfolio will be deemed insolvent and the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. Should the Issuer's assets be insufficient to satisfy the residual claims of the Covered Bondholders and all relevant obligations of the Issuer ranking ahead of or *pari passu* with such claims, the Covered Bondholders may lose some of their investment.

No ownership rights

An investment into the Covered Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Issuer 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 Covered Bonds represent a debt obligation of the Issuer, which is covered by the assets in the Cover Pool and which grants the Covered Bondholders only such rights as set forth in the Conditions.

There is no active trading market for the Covered Bonds

There can be no assurance that a liquid market for the Covered Bonds will be maintained. The investors may find it difficult to sell their Covered Bonds or to sell them at prices producing a return comparable to returns on similar investments in the secondary market.

The Covered Bonds are new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Covered Bonds which is already issued). If a market does develop, it may not be liquid. Therefore, no liquidity of any market in the Covered Bonds can be assured; nor the ability of the holders of the Covered Bonds to sell their Covered Bonds or the prices at which they would be able to sell their Covered Bonds.

If the Covered Bonds are traded after their initial issuance, they may be traded at a discount or at a premium to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. It is possible that the market for the Covered Bonds will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of the Covered Bonds, regardless of the Issuer's prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Covered Bonds. If no active trading market develops, you may not be able to resell your holding of the Covered Bonds at a fair value, if at all.

Although an application has been made for the Covered Bonds to be admitted to listing on Euronext Dublin there can be no assurance that such application will be accepted, that any particular Tranche of Covered Bonds will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Covered Bonds.

Exchange rates and exchange controls

The Issuer will predominantly pay principal and interest on the Covered Bonds in Euro (the "**Specified Currency**"). This presents certain risks relating to currency conversions if a holder of the Covered Bonds financial activities is denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, holders of the Covered Bonds may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

An investment in the Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Covered Bonds. Particularly long-term fixed-rate Covered Bonds involve a high risk of a material decline in value if the market rate exceeds the rate paid in accordance with the fixed-rate Covered Bonds. On the other hand, holders of Covered Bonds that are subject to redemption at the option of the Issuer should not expect, in case of falling market rates, that the price would substantially exceed the redemption price. The yield to maturity on the Covered Bonds is affected by a number of factors that cannot be predicted at the time of the investment.

The Covered Bonds may be redeemed prior to maturity

Unless in the case of any particular Tranche of Covered Bonds the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Covered Bonds in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Covered Bonds the relevant Final Terms specify that the Covered Bonds are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Covered Bonds at times when prevailing interest rates may be relatively low. In such circumstances a holder of the Covered Bonds may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds and may only be able to do so at a significantly lower rate. This optional redemption feature is likely to limit the market value of the Covered Bonds. During any period when the Issuer may, or is perceived to be able, elect to redeem the Covered Bonds, the market value of the Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

Because the Global Covered Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, holders of the Covered Bonds will have to rely on their procedures for transfer, payment and communication with the Issuer

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bonds. Such Global Covered Bonds will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Covered Bond, holders of the Covered Bonds will not be entitled to receive Definitive Covered Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bonds, holders of the Covered Bonds will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their participants.

While the Covered Bonds are represented by one or more Global Covered Bonds the Issuer will discharge its payment obligations under the Covered Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Covered Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Covered Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Covered Bonds will not have a direct right under the Global Covered Bonds to take enforcement action against the Issuer in the event of a default under the relevant Covered Bonds but will have to rely upon their rights under the Deed of Covenant.

Regulation and reform of LIBOR, EURIBOR or other "benchmarks" could adversely affect any Covered Bonds linked to such "benchmarks"

LIBOR, EURIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**") on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds became applicable from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. The Benchmarks Regulation could have a material impact on any Covered Bonds linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the Benchmarks Regulation, and such changes could (amongst other

things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and subsequently, through a series of announcements has indicated that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021.

The "*Terms and Conditions of the Covered Bonds*" set out below provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be determined by an independent adviser or the Issuer or set by reference to a reference bond rate, a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an independent adviser of the Issuer, the relevant fallback provisions may not operate as intended at the relevant time. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Covered Bonds, the return on the relevant Covered Bonds and the trading market for securities (including the Covered Bonds) based on the same benchmark.

Any such consequences could have a material adverse effect on the value of and return on any such Covered Bonds. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under Floating Rate Covered Bonds or could have a material adverse effect on the value or liquidity of, and the amount payable under Floating Rate Covered Bonds. Investors should consider these matters when making their investment decision with respect to Floating Rate Covered Bonds.

The Issuer may be subject to statutory resolution

The BRRD sets out the necessary steps and powers to ensure that bank failures across the EU are managed in a way which mitigates the risk of financial instability and minimises costs for taxpayers. The BRRD is designed to provide authorities with a harmonised set of tools and powers to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contemplates that powers will be granted to supervisory authorities including (but not limited to) the introduction of a statutory "**write-down and conversion power**" (exercisable in relation to Tier 1 capital instruments and Tier 2 instruments) and a 'bail-in and loss absorption' power (exercisable in relation to other securities that are not Tier 1 or Tier 2 capital instruments), which will give the recovery and resolution authority under Directive 2014/59/EU and Regulation (EU) No 806/2014 (the "**Relevant Resolution Authority**"), the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include Covered Bonds, with the exception that the bail-in and loss absorption mechanism cannot be applied to Covered Bonds issued in accordance with the ECBA and the financial instruments used for hedging purposes which are secured in a way similar to Covered Bonds, to the extent they are secured) of a failing financial institution and/or to convert certain debt claims (which could include the Covered Bonds, with the exception that the bail-in and loss absorption mechanism cannot be applied to Covered Bonds issued in accordance with the ECBA and the financial instruments used for

hedging purposes which are secured in a way similar to Covered Bonds) into another security, including equity instruments of the surviving Issuer entity, if any. The Estonian legislation implementing the BRRD, the Estonian Financial Crisis Prevention and Resolution Act, entered into force on 29 March 2015. For more information on the implementation of the BRRD in Estonia, see "*The Estonian resolution legislation implementing the BRRD Directive*" below.

As well as a "write-down and conversion power" and a "bail-in and loss absorption" power as described above, the powers granted to the Relevant Resolution Authority under the BRRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge bank" (a publicly controlled entity) and (iii) transfer assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time. In addition, among the broader powers granted to the Relevant Resolution Authority under the BRRD, the BRRD provides powers to the Relevant Resolution Authority to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments.

The write-down and conversion power can be used to ensure that Tier 1 and Tier 2 Capital instruments fully absorb losses at the point of non-viability of an institution (or, if applicable, its group) and before any other action is taken.

The general bail-in and loss absorption powers set out in the BRRD are not intended to apply to secured debt (such as the Covered Bonds) and the Financial Crisis Prevention and Resolution Act (as amended, the "**FCPRA**"), by which the BRRD was implemented into Estonian law, provides that: (i) the bail-in and loss absorption tool may not be applied to, *inter alia*, covered bonds and financial instruments included in a covered bond portfolio and used for hedging purposes that are secured in a way similar to covered bonds; and (ii) the application of the bail-in and loss absorption tool may not affect the cover pool and upon the application of the bail-in and loss absorption tool, the cover pool shall remain segregated and with enough funding. However, to the extent that claims in relation to the Covered Bonds are not met out of the assets comprising the Cover Pool (and the Covered Bonds subsequently rank *pari passu* with unsecured debt), the Covered Bonds may be subject to write-down or conversion into equity on any application of the general bail-in and loss absorption powers, which may result in the Covered Bondholders losing some or all of their investment. Further, there remains significant uncertainty regarding the ultimate nature and scope of the bail-in and loss absorption powers under the BRRD and how they will affect the Issuer, the Group or the Covered Bondholders, and there can be no assurance that the manner in which it is implemented or the taking of any actions by the Relevant Resolution Authority currently contemplated in the BRRD would not adversely affect the rights of the Covered Bondholders, the price or value of the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds.

In addition to the BRRD, the EU has adopted a directly applicable regulation governing the resolution of the most significant financial institutions in the Eurozone, *i.e.* a regulation establishing a Single Resolution Mechanism for them (806/2014, "**SRM Regulation**"). The SRM Regulation establishes a single European resolution board (consisting of representatives from the European Central Bank (the "**ECB**"), the European Commission and the relevant national resolution authorities) (the "**Resolution Board**") having resolution powers over the entities that are subject to the SRM Regulation, thus replacing or exceeding the powers of the national resolution authorities. On 10 February 2018 the ECB determined the Issuer to be a significant financial institution and as such, the Issuer became subject to the SRM Regulation.

Under Article 5(1) of the SRM Regulation, the Resolution Board has been granted those responsibilities and powers granted to the member states' resolution authorities under the BRRD for those banks subject to direct supervision by the ECB. The SRM Regulation mirrors the BRRD and, to a large part, refers to the BRRD so that the Resolution Board is able to apply the same powers that would otherwise be available to the relevant national resolution authority. These resolution powers include the sale of business tool, the bridge institution tool, the asset separation tool, the bail-in and loss absorption tool and the mandatory write-down and conversion power in respect of capital instruments. The use of one or more of these tools will be included in a resolution scheme to be adopted by the Resolution Board. National resolution authorities will remain responsible for the execution of the resolution scheme according to the instructions of the Resolution Board.

The Resolution Board will prepare and adopt a resolution plan for the entities subject to its powers, including the Issuer. It will also determine, after consulting competent authorities including the ECB, the Minimum Requirement for own funds and Eligible Liabilities (the "MREL"), which the Issuer is expected to be required to meet at all times. The Resolution Board will also have the powers of early intervention as set forth in the SRM Regulation, including the power to require the Issuer to contact potential purchasers in order to prepare for resolution of the Issuer. The Resolution Board will have the authority to exercise the specific resolution powers under the SRM Regulation. These will be launched if the Resolution Board assesses that the following conditions are met: (i) the Issuer is failing or is likely to fail; (ii) having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures or supervisory action or the write-down or conversion of relevant capital instruments, taken in respect of the Issuer, would prevent its failure within a reasonable timeframe; and (iii) a resolution action is necessary in the public interest.

The exercise of any resolution powers or early intervention measures by the Resolution Board or any powers pursuant to BRRD with respect to the Issuer or any suggestion of such exercise will likely materially adversely affect the price or value of an investment in Covered Bonds and/or the ability of the Issuer to satisfy its obligations under such Covered Bonds and could lead to the holders of the Covered Bonds losing some or all of their investment in the Covered Bonds.

The Estonian resolution legislation implementing the BRRD Directive

The BRRD was implemented in Estonia by the FCPRA. Under the FCPRA, the Relevant Resolution Authority is the Estonian Financial Supervision Authority (the "EFSA"). The FCPRA provides for certain resolution measures, including the power to impose in certain circumstances a suspension of activities. Any suspension of activities can, to the extent determined by the EFSA, result in the partial or complete suspension of the performance of agreements entered into by the Issuer. The FCPRA also grants the power to the EFSA to take a number of resolution measures which may apply to the Issuer, including (i) a forced sale of the credit institution (sale of business), (ii) the establishment of a bridge institution bank or, (iii) the forced transfer of all or part of the assets, rights or obligations of the credit institution (asset separation) and (iv) the application of the general bail-in and loss absorption tool. In addition, the FCPRA sets forth that all credit institutions must at all times meet the MREL determined by the EFSA for each credit institution.

The powers set out in the resolution legislation will impact how credit institutions are managed as well as, in certain circumstances, the rights of creditors. The bail-in and loss absorption tool is not intended to apply to secured debt, and hence should apply to Covered Bonds only to the extent that the amounts payable in respect of the Covered Bonds exceed the value of the cover pool against which payment of those amounts is secured. However, there remains significant uncertainty as to the ultimate nature and scope of the bail-in and loss absorption tool and how it would affect the Covered Bondholders and the Issuer.

If the debt bail-in and loss absorption tool and the statutory write-down and conversion power become applicable to the Issuer, the Covered Bonds may be subject to write-down or conversion into equity on any application of the bail-in and loss absorption tool, which may result in Covered Bondholders losing some or all of their investment. Subject to certain conditions, the terms of the obligations owed by the Issuer may also be varied by the Relevant Resolution Authority (*e.g.* as to maturity, interest and interest payment dates). The exercise of any power under the resolution legislation or any suggestion of such exercise could materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any Covered Bonds and/or the ability of the Issuer to satisfy its obligations under any Covered Bonds.

There remains uncertainty regarding how the FCPRA would affect the Issuer, the price or value of an investment in the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds. Accordingly, it is not yet possible to assess the full impact of the FCPRA. The Covered Bonds may under certain circumstances described above be part of the claims and debts in respect of which the EFSA could use the bail-in and loss absorption powers to write-down or convert the principal of the Covered Bonds. There can be no assurances that the FCPRA could not adversely affect the price or value of an investment in Covered Bonds subject to the provisions of the FCPRA and/or the ability of the Issuer to satisfy its obligations under such Covered Bonds. Prospective investors in the Covered Bonds should consult their own advisors as to the consequences of the implementation of the FCPRA.

Regardless of the above, the centralised power of resolution is entrusted to the Resolution Board and the EFSA is expected work in close cooperation with it.

Changes in laws or administrative practices could entail risks

The conditions of the Covered Bonds are based on the laws of England in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or administrative practice after the date of this Base Prospectus. Furthermore, the Issuer operates in a heavily regulated environment and has to comply with extensive regulations in the Republic of Estonia (including but not limited to the Estonian Credit Institutions Act and other laws and regulations regulating the activities of credit institutions, as well as the Estonian Securities Market Act and other laws and regulations regulating the provisions of investment services). No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices of Estonia after the date of this Base Prospectus.

Denominations of the Definitive Covered Bonds may be illiquid

In relation to any issue of Covered Bonds which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Covered Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination (or its equivalent). In such a case a Covered Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination may not receive Definitive Covered Bonds in respect of such holding (should Definitive Covered Bonds be printed) and may need to purchase a principal amount of Covered Bonds such that its holding amounts to the minimum Specified Denomination.

If Definitive Covered Bonds are issued, Covered Bondholders should be aware that Definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the larger the remaining term of such securities the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Conflicts may arise between the interests of the Calculation Agent and the interests of the Covered Bondholders

Potential conflicts of interest may exist between the Calculation Agent (if any) and Covered Bondholders, including with respect to certain determinations and judgements that such Calculation Agent makes pursuant to the Conditions that may influence amounts receivable by the Covered Bondholders during the term of the Covered Bonds and upon their redemption.

The Issuer may appoint a Dealer as Calculation Agent in respect of an issuance of Covered Bonds under the Programme. In such a case the Calculation Agent is likely to be a member of an international financial group that is involved, in the ordinary course of its business, in a wide range of banking activities out of which conflicting interests may arise. Whilst such a Calculation Agent will, where relevant, have information barriers and procedures in place to manage conflicts of interest, it may in its other banking activities from time to time be engaged in transactions involving an index or related derivatives which may affect amounts receivable by Covered Bondholders during the term and on the maturity of the Covered Bonds or the market price, liquidity or value of the Covered Bonds and which could be deemed to be adverse to the interests of the Covered Bondholders.

Recognition of choice of court agreements and enforcement of foreign judgements in Estonia

In accordance with Condition 22(b) (*English courts*), the courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with the Covered Bonds (including any non-contractual obligation arising out of or in connection with the Covered Bonds). In accordance with Condition 22(d) (*Rights of the Covered Bondholders to take proceedings outside England*), notwithstanding Condition 22(b) (*English courts*), any Covered Bondholder may take proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, Covered Bondholders may take concurrent proceedings in any number of jurisdictions.

As at the date of this Base Prospectus, the transition period under the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "**Withdrawal Agreement**") is ongoing. Under item (a) of paragraph 1 of Article 67 of the Withdrawal Agreement, the provisions regarding jurisdiction of Regulation (EU) No 1215/2012 of the European Parliament and the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "**Brussels Regulation**") apply in respect of legal proceedings instituted before the end of the transition period and in respect of proceedings or actions that are related to such legal proceedings pursuant to Articles 29, 30 and 31 of the Brussels Regulation. Under item (a) of paragraph 2 of Article 67 of the Withdrawal Agreement, the Brussels Regulation shall apply to the recognition and enforcement of judgments given in any legal proceedings instituted before the end of the transition period, and to instruments formally drawn up or registered and court settlements approved or concluded before the end of the transition period. Under Estonian law, the provisions of international treaties and the Brussels Regulation have supremacy over the national law provisions on jurisdiction. Accordingly, as at the date of this Base Prospectus, the validity of the choice of jurisdiction of English courts is to be assessed in an Estonian court (should a dispute be brought to an Estonian court) and the judgements of English courts are to be recognised in Estonia in accordance with, and subject to limitations arising from, the Brussels Regulation. After the United Kingdom ceases to be a member of the European Union, the recognition of the choice of jurisdiction of English courts and the recognition and enforcement of judgements of English courts would be assessed and carried out in Estonia in accordance with the applicable international agreements, regulations and/or conventions to which the United Kingdom, the European Union and/or Estonia may be or become parties (if any). Due to a lack of certainty in respect of the relevant international agreements, regulations and/or conventions that may be applicable upon the United Kingdom's exit from the European Union, at the date of this Base Prospectus there is no clarity as to what rules will apply to the assessment of the choice of jurisdiction of English courts and the recognition of judgments of English courts in Estonia after the United Kingdom ceases to be a Member State of the EU. If no international agreements, regulations and/or conventions apply, choice of jurisdiction of English courts would be assessed and decisions made by English courts would be recognised in the Estonia in accordance with the Estonian Code of Civil Procedure. The provisions of the Estonian Code of Civil Procedure would also apply to recognition of choice of court and enforcement of judgements of courts of other countries which are not subject to the Brussels Regulation or international agreements or conventions. The Estonian Code of Civil Procedure stipulates that parties are generally free to contractually agree on a jurisdiction of their choice, provided that, among others, the contract is concluded in the course of their business activities, in writing or in a format which can be reproduced in writing and does not relate to a matter in respect of which the exclusive jurisdiction of Estonian courts is stipulated by the Estonian Code of Civil Procedure. In order to be valid, the relevant agreement concerning applicable jurisdiction should not in bad faith exclude a party's right to use Estonian jurisdiction. The validity of asymmetric jurisdiction clauses is not expressly regulated in the Estonian Code of Civil Procedure and is untested in the practice of the Estonian Supreme Court. With respect to the recognition of judgments of foreign courts, the Estonian Code of Civil Procedure provides that a court may refuse, on the application of an interested party, to recognize the judgment based on the grounds stipulated in the Estonian Code of Civil Procedure. Such grounds include, above all, conflict with public policy, failure to deliver the action and procedural documents to the defendant, existence of the conflicting court decisions and inappropriate jurisdiction, amongst others.

Thus, the ability of Covered Bondholders to bring proceedings against the Issuer in English courts or other foreign courts and the recognition and enforcement of the judgements of English courts and other foreign courts in Estonia may be subject to limitations and conditions arising from, as applicable in each particular situation, the Brussels Regulation, the international agreements or conventions or the Estonian Code of Civil Procedure.

Recognition and enforcement of choice of English law to govern the Covered Bonds and procedural rules applied in court proceedings in Estonia

Under item (a) of Article 66 of the Withdrawal Agreement, Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (the "**Rome I Regulation**") shall apply in respect of contracts concluded before the end of the transition period under the Withdrawal Agreement. As under Estonian law the provisions of international treaties and the Brussels Regulation have supremacy over the national law provisions on jurisdiction, if a dispute relating to an agreement concluded before the end of the transition period under the Withdrawal Agreement (including in respect of the Covered Bonds) is brought to an Estonian court and should such Estonian court have

jurisdiction over the dispute, the choice of governing law would be assessed by the Estonian court on the basis of the Rome I Regulation. For contracts concluded after the end of the transition period, recognition of choice of law to govern any contractual obligations would, in a situation where a relevant dispute is brought to an Estonian court (and provided that such Estonian court has jurisdiction over the dispute) be decided by the Estonian court in accordance with the applicable international agreements, regulations and/or conventions to which the United Kingdom, the European Union and/or Estonia may be or become parties (if any). Due to a lack of certainty in respect of the relevant international agreements, regulations and/or conventions that may be applicable upon expiry of the transition period of the United Kingdom's exit from the European Union, there is no clarity as to what rules will apply to the assessment of the choice of English law as the governing law after the United Kingdom ceases to be a Member State of the EU. If no international agreements, regulations and/or conventions apply, recognition of choice of law to govern any non-contractual obligations arising out of or in connection with the Documents would be decided in accordance with the Estonian Private International Law Act. In accordance with the Estonian Private International Law Act, as a general principle, an agreement shall be governed by the law chosen by the parties and, by their choice, parties may select the law applicable to the whole or part of the agreement. However, a foreign law chosen by the parties shall not be applied by Estonian courts in certain circumstances, above all, if: (i) application of a provision of foreign law is manifestly incompatible with the public policy ("ordre public") of Estonia; (ii) provisions of foreign law allow the parties to deviate from the provisions of Estonian law that have extraterritorial application or overriding mandatory provisions; or (iii) the substance of the applicable foreign law cannot be established by the Estonian court, regardless of all reasonable efforts, within a reasonable time. In such circumstances Estonian courts may apply Estonian law instead.

Further to the above, in any proceedings taken in Estonian courts or other authorities for the enforcement of the Covered Bonds, the courts and the authorities would apply procedural rules of Estonian law, and the enforcement would thus be subject to the limitations arising from Estonian law. Such limitations include, inter alia, that the enforcement of the Covered Bonds in Estonian courts may be subject to restrictions based upon principles of reasonableness and fairness, statutory limitations for filing of claims and the general discretionary authority of the courts to mitigate damages. In addition, restrictions on the enforcement of the Covered Bonds could (depending on the circumstances) arise from applicable bankruptcy, insolvency, moratorium and other laws of general application relating to or affecting generally the enforcement of creditors' rights and remedies from time to time in effect.

Any of the above may adversely affect the enforcement by Covered Bondholders of their claims against the Issuer arising from the Covered Bonds.

Laws applicable to assets included in the Cover Pool

The claims under the Mortgage Loans and the mortgages that secure such claims, which form part of the assets contained in the Cover Pool, are governed by their contractual terms and various mandatory legal requirements and limitations arising from applicable laws, including mandatory consumer protection requirements, as well as rules and requirements relating to the right to enforce mortgages and dispose of the relevant property. To the extent that such requirements may restrict, limit, hinder or even prohibit certain actions in respect of the enforcement of the claims under the Mortgage Loans and the mortgages that secure such claims, there is a risk that the ability of the Issuer to realise the assets in the relevant Cover Pool may be delayed or may result in an increase in the costs of enforcement, that may ultimately lead to a reduced return to the relevant Covered Bondholders.

Set-off by debtors of claims included in the Cover Pool

The Cover Pool shall mainly comprise the Issuer's claims against debtors which are secured by mortgages over property in Estonia. Such debtors may have a right to offset their claims against the Issuer against their obligations under the Mortgage Loans which form part of the assets in the Cover Pool. Such right may be provided in the loan agreements between the Issuer and such debtors.

Furthermore, even if the agreements between the Issuer and the debtor do not provide such right of set-off, such right may arise from mandatorily applicable Estonian laws. Also, if the agreements between the Issuer and the debtor prohibit such set-off, it is possible that such restriction may be considered void by a court, on the grounds that such restriction is an unfair standard term or contradict mandatorily applicable contract and consumer protection laws.

In addition to the above, mandatorily applicable Estonian laws prohibit precluding or restricting a consumer's right to plead defences arising from a consumer credit contract against third parties to whom the obligee assigns the claims arising from the consumer credit contract. This means that if the Covered Bond Portfolio or claims belonging to the Cover Pool are transferred to a third-party buyer, the debtors of claims which form part of the assets in the Cover Pool may be entitled to offset the relevant claims so transferred to the third-party buyer against their claims against the Issuer.

A set-off by the borrower against the Issuer before the separation of the Covered Bond Portfolio from the Issuer would require the Issuer to add additional assets to the Cover Pool, unless the Cover Pool satisfies the requirements of the ECBA regardless of the set-off. If such set-off is carried out by the borrower after the separation of the Covered Bond Portfolio from the Issuer, then the Issuer may no longer be permitted to add assets to the Cover Pool but shall be under obligation to transfer any proceeds or assets received (including by way of set-off) on account of the performance of any Mortgage Loans included in the Cover Pool to the disposal of the Cover Pool administrator (except in the case of crisis resolution proceedings). Should the Issuer be unable to fulfil such obligations, a set-off by debtors of claims which form part of the assets in the Cover Pool may reduce the amounts receivable from the assets in the Cover Pool, which may reduce the amounts receivable by the Covered Bondholders.

Sharing of the Cover Pool

Under the ECBA, Covered Bondholders (along with counterparties to Derivative Instruments) are given a statutory priority in the liquidation or bankruptcy of the Issuer in relation to the assets entered into the cover register as collateral in respect of the Covered Bonds. Accordingly, notwithstanding that the Issuer has entered into liquidation or bankruptcy proceedings (as well as upon certain other events prescribed in the ECBA), the Cover Pool shall separate from the Issuer and will form an independent pool of designated assets and the Covered Bondholders (along with counterparties to Derivative Instruments and persons entitled to satisfy their claims for the account of the Cover Pool by operation of law) have the right to receive payment before all other claims against the Issuer out of the proceeds of the Cover Pool. As described in more detail under the risk factor "*Default of Issuer's Assets*", if the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in respect of the Covered Bonds are not met out of the Cover Pool, in the bankruptcy proceedings carried out in relation to the Covered Bond Portfolio the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer. Covered Bondholders will not have any preferential right to the Issuer's assets other than those entered into the cover register as collateral in respect of the Covered Bonds. Given the *pari passu* ranking of the Covered Bonds and Derivative Instruments under the ECBA, in the event of the Issuer's liquidation or bankruptcy, the amount available to be paid to Covered Bondholders out of the Cover Pool on a prioritised basis may be affected by the amounts payable at the relevant time to counterparties of Derivative Instruments.

The funds accrued from the assets entered in the Cover Pool of the Covered Bonds after the separation of the Covered Bond Portfolio are repaid in accordance with the terms and conditions of the Covered Bonds and Derivative Instruments and in accordance with provisions of the ECBA.

Transfer of the Covered Bonds and the Cover Pool after the separation of the Covered Bond Portfolio

In case the Covered Bond Portfolio (consisting of the Covered Bonds, the Cover Pool and the Derivative Instruments entered into the Register) is separated from the Issuer, the Cover Pool administrator may, upon the permission of the EFSA, transfer the separated Covered Bond Portfolio in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds or to a credit institution of a Contracting State of the European Economic Area Agreement which is permitted to issue, in the country where it is established, securities meeting the conditions laid down in the first subparagraph of Article 52 (4) of Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. Upon such transfer, all rights and obligations related to the Covered Bond Portfolio being transferred, including the liabilities arising from the Covered Bond Portfolio before the transfer of the rights and obligations, shall be transferred to the acquirer. The proceeds received from transfer of the Covered Bond Portfolio in its entirety shall be used to cover the expenses of management of the Covered Bond Portfolio. The funds remaining after all expenses are covered shall be included by the Cover Pool administrator in the Issuer's bankruptcy estate or other assets. It should be noted, however, that there can be no assurance as to whether there will be a trading market for the collateral in the Cover Pool or an eligible

transferee to take over the obligations relating to the Covered Bonds and the corresponding collateral after the insolvency of the Issuer or separation of the Covered Bond Portfolio.

Upon any such transfer, whether the Covered Bondholders receive all payments to which they are entitled under the Covered Bonds, and the value of the Covered Bonds may be affected by the financial standing of the transferee of the Covered Bond Portfolio.

Failure of the Cover Pool to meet the requirements of the ECBA

The Issuer will be required under the ECBA to comply with certain requirements of the ECBA as long as there is any Covered Bond outstanding. Under the ECBA, if the Cover Pool does not fulfil the requirements provided for in the ECBA, then the EFSA may (depending on the circumstances and the EFSA's discretion): (i) issue a precept requiring the Issuer to add additional Eligible Assets to the Cover Pool; (ii) determine the separation of the Covered Bond Portfolio from the Issuer; (iii) submit a bankruptcy petition with respect to the Covered Bond Portfolio; and/or (iv) revoke the Issuer's additional authorisation for the issuing of Covered Bonds.

The risk of a potential breach of the requirements provided for in the ECBA is further increased by the fact that as the ECBA has been adopted relatively recently and, as at the date of this Base Prospectus, there has only been one issuance of covered bonds by an Estonian issuer under the ECBA, practical experience and know-how related to covered bond issuances and fulfilment of the obligations of the ECBA is limited.

To be able to fulfil the requirements of the ECBA continuously, the Issuer has developed a new IT system for the management and monitoring of the Covered Bond Portfolio and related aspects (e.g. the fulfilment of the insurance requirements prescribed under the ECBA (please see "*Eligible cover pool assets*" under "*Overview of Estonian Regulation Regarding Covered Bonds*" below). A third party has been involved in developing the IT system alongside the Issuer's technical team. The system specification has been written by the Issuer based on its interpretation of the requirements of the ECBA as at the date of this Base Prospectus. The system has been extensively tested by the Issuer. However, since the IT system is newly developed based on the current interpretation of the requirements of the ECBA, there is the risk that the system is not fully suitable for the Issuer or that technical issues with the system may occur. The materialisation of such risks could affect the ability of the Issuer to fulfil the requirements of the ECBA.

Any of the above risks could result in the holders of Covered Bonds receiving payment according to a schedule that is different than that contemplated by the terms of the Covered Bonds (with accelerations as well as delays) or that the holders of Covered Bonds are not paid in full, in part, due to the statutory limit to the priority of holders of Covered Bonds.

Ability of Supervisor to declare Covered Bonds due and payable

If the Covered Bond Portfolio is separated from the Issuer and the Cover Pool administrator appointed for the Cover Pool and the Covered Bond Portfolio appears to be insolvent, the Cover Pool administrator is, under the ECBA, obliged to notify the EFSA promptly thereof. On the basis of such notification or in case the EFSA itself finds that the Covered Bond Portfolio is insolvent, the EFSA may apply to court for the initiation of bankruptcy proceedings with respect to the Covered Bond Portfolio. Under the Estonian Bankruptcy Act (which applies to the bankruptcy proceedings of the Covered Bond Portfolio, with certain exceptions provided in the ECBA), as of the declaration of bankruptcy with respect to the Covered Bond Portfolio, all the claims of the creditors against the debtor are deemed to have fallen due unless otherwise provided by law. Covered Bondholders should be aware therefore that their Covered Bonds may be declared forthwith due and payable prior to their Maturity Date.

Collection of Mortgage Loans and Default by Debtors

The Mortgage Loans which secure the Covered Bonds will comprise loans secured on property located or incorporated in Estonia ("**Property**"). The Issuer will be under an obligation to substitute any assets that are, for any reason, no longer eligible for collateral with eligible assets in accordance with the ECBA. If the Issuer does not have sufficient assets to be added to the Cover Pool, the Issuer would breach its statutory obligations as stipulated by the provisions of the ECBA. This could lead to the separation of the Covered Bond Portfolio and possibly to bankruptcy proceedings being initiated in respect of the Covered Bond Portfolio. Under the ECBA, following the separation of the Covered Bond Portfolio from the Issuer's assets,

the Issuer is no longer entitled to enter into any transactions in respect of assets in the Covered Bond Portfolio, which would, among other things, restrict the ability of the Issuer to top up the Cover Pool.

A debtor may default on its obligations under its Mortgage Loan. Defaults may occur for a variety of reasons. Defaults under Mortgage Loans are subject to credit, liquidity and interest rate risks and rental yield reduction (in the case of investment Properties). Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in debtors' individual, personal or financial circumstances may affect the ability of the debtors to repay the Mortgage Loans. Loss of earnings, illness, divorce, weakening of financial conditions or results of business operations and other similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of debtors to repay the Mortgage Loans. In addition, an individual's obligation to repay a Mortgage Loan may in certain circumstances be discharged in part in his/her personal bankruptcy proceedings if the value of the collateral does not cover the entire loan and the borrower does not have sufficient other assets and earnings to discharge in the relevant procedure. In addition, the ability to sell a Property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that Property, the value of that Property and property values in general at the time. Any of the above circumstances may affect the level of proceeds available to satisfy the claims of Covered Bondholders from the Cover Pool.

Value of Security over Property

The security for a Mortgage Loan included in the Cover Pool consists of, amongst other things, the Issuer's interest in security over a Property. The value of such security and, accordingly, the level of recoveries on an enforcement of such security, may be affected by, among other things, a decline in the value of Property and the priority of such security. No assurance can be given that the values of relevant Properties will not decline or have not declined since the Mortgage Loan was originated. Although Estonian laws, in conjunction with the Estonian mortgage agreements, allow the mortgagee to commence enforcement of the mortgage without having to obtain a court ruling for such purpose, it is still possible that depending on the circumstances, the enforcement of the security may require obtaining a court decision or may be affected by court proceedings initiated by the debtor or the pledgor to delay or restrict the enforcement of the security. The ability of the Issuer to enforce a security interest, including disposal of a Property will depend on, *inter alia*: (i) the potential need to obtain a court ruling for the enforcement process and the specifics of the relevant court proceedings; (ii) the housing market or commercial property market conditions at the relevant time; (iii) the availability of buyers for the relevant Property; and (iv) the results of the specific enforcement process.

Concentration of Location of Properties

All Mortgage Loans contained in the Cover Pool will be secured on Property. The value of the Cover Pool may decline sharply and rapidly in the event of a general downturn in the value of properties in Estonia. Any such downturn may hence have an adverse effect on the Issuer's ability to satisfy its obligations under the Covered Bonds and/or the price or value of the Covered Bonds.

Proceeds available to satisfy the claims of Covered Bondholders from the Cover Pool may be reduced by the payment of mandatory costs, expenses and preferred claims from the proceeds of the Cover Pool

In accordance with the ECBA, after the separation of the Covered Bond portfolio, the Cover Pool and the proceeds received from it can be used only to satisfy the claims of the holders of the respective type of Covered Bonds and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond portfolio. The expenses related to the management of the Covered Bond Portfolio would likely mainly consist of the remuneration of the Cover Pool administrator and the expenses he or she incurs in the performance of the duties of the Cover Pool administrator. The remuneration of the Cover Pool administrator shall be decided by a court, on the proposal of the EFSA, which corresponds to the qualification of the Cover Pool administrator and the scope and complexity of his or her assignments. Pursuant to the ECBA in effect as at the date of this Base Prospectus, the yearly

remuneration of the Cover Pool administrator may not exceed 0.5 per cent. of the value of the cover assets included in the Cover Pool. There is no fixed limit on the reimbursement of the Cover Pool administrator's expenses but the ECBA provides that the Cover Pool administrator is only entitled to demand reimbursement of necessary expenses, on the basis of an application to the EFSA. The EFSA is obliged to verify whether the expenses incurred in the performance of the Cover Pool administrator's duties were justified and approve the amount of the necessary and justified expenses.

In the event that the Covered Bond Portfolio is declared bankrupt, the use and distribution of proceeds received from the Covered Bond Portfolio shall be carried out in accordance with the Estonian Bankruptcy Act, with the following specification provided in the ECBA:

- only the Covered Bondholders, the counterparties to the Derivative Instruments who have a claim under section 48 of the Bankruptcy Act, and other persons whose claims may be satisfied at the expense of the Cover Pool or proceeds received from it according to law, can be creditors in bankruptcy proceedings concerning the Covered Bond Portfolio; and
- claims arising from Derivative Instruments and Covered Bonds shall have the same ranking and shall be satisfied before the claims of other creditors.

In accordance with the above, the following payments may be made from the proceeds of the Covered Bond Portfolio prior to the satisfaction of the claims arising from Derivative Instruments and Covered Bonds:

- claims arising from the consequences of exclusion or recovery of assets;
- maintenance support paid to the debtor and his or her dependants (which would not be relevant in case of a legal entity);
- consolidated obligations; and
- the costs of the bankruptcy proceedings.

Consolidated obligations are: (i) obligations arising from transactions and other acts performed by a trustee in the performance of his or her duties in the bankruptcy proceedings; (ii) obligations arising from contracts which the debtor has failed to perform, if the trustee has continued performance of the obligations or given notification that he or she intends to require performance of the contract; (iii) taxes relating to continuation of the business activities of the debtor; (iv) obligations to compensate for the damage caused during the bankruptcy proceedings by an unlawful action of a debtor who is a legal person; and/or (v) other obligations deemed to be consolidated obligations pursuant to the Estonian Bankruptcy Act.

In the event that any of the above described costs or expenses arise, such costs and expenses would be satisfied before the claims of the Covered Bondholders and the counterparties to the Derivative Instruments, meaning that that proceeds receivable by the Covered Bondholders and the counterparties to the Derivative Instruments on the account of the Cover Pool may be reduced.

Estonian Covered Bond Legislation Untested and May be Modified

The ECBA was adopted on 13 February 2019 and came into effect on 1 March 2019. The protection afforded to the holders of the Covered Bonds by means of a preference on the Cover Pool is based only on the ECBA. As at the date of this Base Prospectus, there is no practical experience in relation to the operation of the ECBA and its interpretation by Estonian courts. Furthermore, the provisions of the ECBA may be modified from time to time after the Issue Date of the Covered Bonds (including, among other reasons, to transpose the Covered Bond Directive (Directive (EU) 2019/2162) into Estonian law).

No Events of Default

The terms and conditions of the Covered Bonds do not include any events of default relating to the Issuer, and therefore the terms and conditions of the Covered Bonds do not entitle Covered Bondholders to accelerate the Covered Bonds. As such, it is envisaged that Covered Bondholders will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the terms and conditions of the Covered Bonds. As an exception to the above, under the ECBA, the claims arising from the Covered Bonds would become due and payable upon the declaration of the bankruptcy of the separated

Covered Bond Portfolio - in such case, the Covered Bonds would become due and payable automatically, without entitling the Covered Bondholders to decide whether or not to accelerate the Covered Bonds. The absence of any events of default from the Terms and Conditions may make it less likely that the Covered Bondholders will recoup their investment in full in the event that the Issuer experiences financial distress.

Limited Description of the Cover Pool

Covered Bondholders will not receive detailed statistics or information in relation to the Mortgage Loans and other Eligible Assets covering the Covered Bonds as it is expected that the composition of the portfolio of such Mortgage Loans and other Eligible Assets may change from time to time due to, for example, the inclusion and removal of Mortgage Loans to the Cover Pool from time to time. The Issuer does, however, have an obligation under the ECBA to publish certain prescribed information set out in the ECBA every quarter on its website relating to, inter alia, (i) the nominal value and present value of outstanding covered bonds and of the cover pool; (ii) the maturity structure of the covered bonds and the cover pool; (iii) the percentage of fixed-interest assets in the cover pool and the percentage of fixed-interest covered bonds in the liabilities of the covered bond portfolio; (iv) the graduated breakdown of the interest rates on fixed-interest and non-fixed-interest assets; (v) the percentage of assets denominated in a foreign currency in the cover pool and the percentage of covered bonds denominated in a foreign currency in the liabilities of the covered bond portfolio; (vi) the geographical distribution of the value of cover assets, at least to the accuracy of the country, based on the location of the property standing as security for a mortgage credit or commercial mortgage credit, and the location of the debtor or issuer in the case of other cover assets; (vii) the distribution of substitute collateral, in terms of its value, between the types specified in subsection 20 (1) of the ECBA; (viii) the level of the liquidity buffer; and (ix) the percentage of the amount of substitute collateral, which has been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool. Furthermore, for mortgage covered bonds (such as the Covered Bonds), the ECBA requires the following information to be published on quarterly basis on the website of the issuer: (i) the graduated breakdown of the amounts of mortgage credits; and (ii) the percentage of the amount of mortgage credits, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool.

As the composition of the Cover Pool may change from time to time, there are no assurances that the credit quality of the assets in the Cover Pool will remain the same as at the date of this Base Prospectus or on or after the issue date of any Covered Bonds.

Reliance on Derivative Transaction Providers

The Issuer may from time to time enter into one or more derivative instruments ("**Derivative Instruments**") included in the Cover Pool to hedge against risks relating to Covered Bonds and recorded, in accordance with the ECBA, in the cover register maintained by the Issuer.

To provide a hedge against possible variances in the rates of interest receivable on the Mortgage Loans and other Eligible Assets from time to time included in the Cover Pool as cover assets for the Covered Bonds (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or interest rate caps or collars) and the interest rate(s) under the Covered Bonds, the Issuer may from time to time enter into one or more interest rate derivative transactions, and to provide a hedge against possible variances in the currency in which payments will be made to the Issuer in respect of the Mortgage Loans and other assets from time to time held by the Issuer as collateral for the Covered Bonds and the currencies in which the Issuer will be required to make payments in respect of the Covered Bonds, the Issuer may from time to time enter into currency swap transactions. If the Issuer enters into a relevant derivative transaction at the time of an issuance of Covered Bonds, the Issuer shall disclose in the Final Terms the nature of the hedge (for example, an interest rate swap transaction or a currency swap transaction) and the identity of the derivative transaction counterparty.

If the Issuer does not enter into any relevant derivative transaction or any derivative transaction counterparty defaults on its obligations to make payments in the relevant currency and/or at the relevant rate of interest under the relevant derivative transaction, the Issuer and the Covered Bond Portfolio will be exposed to changes in the relevant rates of interest and/or the relevant currency exchange rates. Unless one or more new or replacement Derivative Instruments are entered into, the Issuer may not have sufficient funds to make payments under all Covered Bonds then outstanding and the Covered Bond Portfolio may not be sufficient to satisfy all the claims of the Covered Bondholders.

The value of the Covered Bonds may be adversely affected by a negative change to an applicable Credit Rating

Any adverse change in an applicable credit rating could adversely affect the trading price for the Covered Bonds.

Risks relating to the ratings of the Covered Bonds

The ratings assigned to the Covered Bonds to be issued under the Programme by one or more independent credit rating agencies express a relative ranking of creditworthiness.

The expected ratings of the Covered Bonds will be set out in the relevant Final Terms for each Tranche of Covered Bonds. A rating agency may lower its rating or withdraw its rating if, in the sole judgment of a rating agency if the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.

In general, European (including the UK) regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU or the UK and registered under the CRA Regulation (and such registration has not been withdrawn or suspended) subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU or non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU or UK--registered credit rating agency or the relevant non-EU or non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Covered Bondholders should note that at any time a rating agency may revise its relevant rating methodology or revise its current ratings criteria with result that, among other things, any rating assigned to the Covered Bonds may be lowered and/or in order to comply with any such revised criteria or rating methodology, amendments may be made to the transaction documents.

Any changes to the methodology applied for rating covered bonds or the expectations a rating agency with regards to the nature of counterparty contracts and ratings of Cover Pool counterparties might lead to a downgrade of the Covered Bonds or re-affirmation of the Covered Bond rating and might require that certain amendments are made to the transaction documents to be able to satisfy the revised criteria.

For the avoidance of doubt, the Issuer will not be obliged, following a change in rating methodology by a rating agency to amend any of the Conditions of a relevant Series to maintain the then ratings of the Covered Bonds.

The Issuer may make modifications to the Conditions without the Covered Bondholders' prior consent

The Conditions and the Agency Agreement contain provisions for calling meetings of Covered Bondholders to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the written resolution or give their consent electronically, and including those Covered Bondholders who voted in a manner contrary to the majority.

Furthermore, the Conditions of the Covered Bonds provide that the Covered Bonds, the Conditions of the Covered Bonds and the Deed of Covenant may be amended without the consent of the Covered Bondholders or the Couponholders to correct a manifest error or to comply with any amendments, updates

and/or modifications to the ECBA or any other applicable legislation passed after the date hereof by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and/or modification, which impacts the Issuer's obligations in relation to the Covered Bonds or the Covered Bond Portfolio. The Issuer cannot foresee, as at the date of this Base Prospectus, what such changes may entail, however, any changes made will be binding on Covered Bondholders.

The Issuer may also agree with the Fiscal Agent and without the consent or sanction of any of the holders of any Series of Covered Bonds and/or the Couponholders to:

- (a) any modification (except for any modification that relates to a Reserved Matter) of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, not prejudicial to the interests of the Covered Bondholders; or
- (b) any modification of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with Mandatory Provisions of Law.

The parties to the Agency Agreement are also required to, without the consent or sanction of any of the holders of any Series of Covered Bonds and/or the couponholders, concur with the Issuer in making any modifications to the transaction documents and/or the Conditions that are requested by the Issuer to comply with any criteria of the rating agencies which may be published after the date of this Base Prospectus and which the Issuer certifies in writing are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a rating agency to any Series of Covered Bonds.

In addition, the parties to the Agency Agreement are required to, and Issuer may also agree to EMIR Related Modifications (as defined below), without the consent of the holders of Covered Bonds or couponholders of any Series subject to the Issuer certifying that the requested modifications of the terms and conditions applying to Covered Bonds of any one or more Series (including the Conditions), and/or Coupons and/or any relevant Conditions are to be made solely for the purpose of enabling the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the "**European Market Infrastructure Regulation**" or "**EMIR**") ("**EMIR Related Modifications**") and such EMIR Related Modifications do not relate to a Reserved Matter.

The Issuer may also amend, by a notice to, but without requiring the consent of, the Covered Bondholders, the circumstances in which automatic extension of the maturity date of the Covered Bonds can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time) See "*Extended Maturity of the Covered Bonds*" below for more details.

Extended Maturity of the Covered Bonds

If "Extended Maturity Date" is specified as applicable in the relevant Final Terms and an insolvency, winding-up or similar event (as more fully described in Condition 9(i)(ii)(B)) has occurred in respect of the Issuer and, as a result of such an event the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, the maturity of the outstanding principal amount of such Covered Bonds on the Maturity Date will be automatically extended to the Extended Maturity Date in accordance with Condition 9(i) (*Redemption and Purchase – Extension of maturity to Extended Maturity Date*) and notification of such shall be delivered to the relevant Covered Bondholders and to the Paying Agents. In the event of such extension, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. In addition, all or any part of the outstanding principal amount of such Covered Bonds may be redeemed on any extended Interest Payment Date, occurring during the period up to and including the Extended Maturity Date. The extension of the maturity of the outstanding principal amount of the Covered Bonds to the Extended Maturity Date will not result in any right of the Covered Bondholders to accelerate payments on such Covered Bonds and no payment will be payable to the Covered Bondholders in that event other than as set out in the Conditions.

If repayment of a particular Series of Covered Bonds is extended to its Extended Maturity Date, then it is possible that other Series of Covered Bonds where Extended Maturity Date is specified as being not

applicable might be fully or partially paid before such Series of Covered Bonds that have an Extended Maturity Date.

Furthermore, pursuant to Condition 9(i)(i), the Issuer may amend, by a notice to the Covered Bondholders, the circumstances in which such automatic extension can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time). By virtue of this Condition the Issuer is entitled to unilaterally specify other circumstances that are not known at the date of this Base Prospectus in which the maturity of the outstanding principal amount of the Covered Bonds will be automatically extended to the Extended Maturity Date in accordance with Condition 9(i) (*Redemption and Purchase – Extension of maturity to Extended Maturity Date*), provided that the addition of such other circumstances are permitted by the ECBA as then in force.

Under Estonian law, after the separation of the Covered Bond Portfolio from the Issuer's assets which may arise due to, amongst other things, a declaration of bankruptcy or a moratorium in respect of the Issuer; commencement of crisis resolution proceedings in respect of the Issuer; the passing of a court ruling providing for compulsory dissolution of the Issuer; or where the EFSA resolves that the Covered Bond Portfolio should be separated from the Issuer's assets on the grounds that the Issuer is likely to become insolvent in the near future, the Issuer will then not be permitted to make any transactions with the assets in the Covered Bond Portfolio. As such, unlike the period prior to occurrence of such events (see further – *Risk Factors - Risks associated with the legal and regulatory environment - Limited Description of the Cover Pool*) the Covered Bond Portfolio will not be dynamic and, as such, no enhancement of the credit quality of the assets in the Cover Pool can be expected.

INFORMATION INCORPORATED BY REFERENCE

The documents set out below that are incorporated by reference in this Base Prospectus are, where indicated, direct translations into English from the original languages of the documents. To the extent that there are any inconsistencies between the original language versions and the translations, the original language versions shall prevail. The information set out shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. **AS LHV Pank 2018:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of AS LHV Pank in respect of the year ended 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") (set out on pages 14 to 110 of the 2018 annual report of AS LHV Pank);
2. **AS LHV Group 2018:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the LHV Group in respect of the year ended 2018 prepared in accordance with IFRS (set out on pages 49 to 154 of the 2018 annual report of AS LHV Group);
3. **AS LHV Pank 2019:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of AS LHV Pank in respect of the year ended 2019 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") (set out on pages 15 to 112 of the 2019 annual report of AS LHV Pank);
4. **AS LHV Group 2019:** the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the LHV Group in respect of the year ended 2019 prepared in accordance with IFRS (set out on pages 50 to 152 of the 2019 annual report of AS LHV Group);
5. **AS LHV Pank Q1 2020:** the condensed consolidated interim financial statements of AS LHV Pank and related notes as of and for the three months ended 31 March 2020 (set out on pages 7 to 19 of the interim report January – March 2020 of AS LHV Pank); and
6. **AS LHV Group Q1 2020:** the condensed consolidated interim financial statements of the LHV Group and related notes as of and for the three months ended 31 March 2020 (set out on pages 16 to 34 of the interim report January – March 2020 of AS LHV Group).

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at Tartu mnt 2, 10145 Tallinn, Estonia.

They are also available on the LHV Group's website: <https://investor.lhv.ee/en/>

Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus. Unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus. References in the auditor's reports to "other information" are references to other information in the respective annual reports. Such other information is not incorporated by reference in this Base Prospectus.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "**necessary information**" means, in relation to any Tranche of Covered Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Covered Bonds and the reasons for the issuance and its impact on the Issuer. In relation to the different types of Covered Bonds which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Covered Bonds which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Covered Bonds.

Any information relating to the Covered Bonds which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Covered Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Covered Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of Final Terms are the Conditions described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Covered Bonds or (2) by a registration document (the "**Registration Document**") containing the necessary information relating to the Issuer, a securities note containing the necessary information relating to the relevant Covered Bonds and, if necessary, a summary note.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CBI in accordance with the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds.

FORMS OF THE COVERED BONDS

Bearer Covered Bonds

Each Tranche of Covered Bonds in bearer form ("**Bearer Covered Bonds**") will initially be in the form of either a Temporary Global Covered Bond in bearer form (the "**Temporary Global Covered Bond**"), without interest coupons, or a Permanent Global Covered Bond in bearer form (the "**Permanent Global Covered Bond**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Covered Bond or, as the case may be, Permanent Global Covered Bond (each a "**Global Covered Bond**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Covered Bonds with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, S.A., Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Covered Bond which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Covered Bonds with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the ECB announced that Covered Bonds in NGN form are in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Covered Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Covered Bonds, the relevant Final Terms will also specify whether United States Treasury Regulation § 1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation § 1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Covered Bonds or, if the Covered Bonds do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Covered Bond exchangeable for Permanent Global Covered Bond

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond**", then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Covered Bond, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Covered Bond unless exchange for interests in the Permanent Global Covered Bond is improperly withheld or refused. In addition, interest payments in respect of the Covered Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Covered Bond is to be exchanged for an interest in a Permanent Global Covered Bond, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Covered Bond to the bearer of the Temporary Global Covered Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Covered Bond in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Covered Bond to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Covered Bonds represented by the Permanent Global Covered Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Covered Bonds represented by the Permanent Global Covered Bond exceed the initial principal amount of Covered Bonds represented by the Temporary Global Covered Bond.

If:

- (a) the Permanent Global Covered Bond has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Covered Bond has requested exchange of an interest in the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond; or
- (b) the Temporary Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Temporary Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Covered Bond in accordance with the terms of the Temporary Global Covered Bond on the due date for payment,

then the Temporary Global Covered Bond (including the obligation to deliver a Permanent Global Covered Bond) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Covered Bond or others may have under the Deed of Covenant).

The Permanent Global Covered Bond will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Covered Bond, for Bearer Covered Bonds in definitive form ("**Definitive Covered Bonds**"):

- (a) on the expiry of such period of notice as may be specified in the Final Terms; or
- (b) at any time, if so specified in the Final Terms; or
- (c) if the Final Terms specifies "**in the limited circumstances described in the Permanent Global Covered Bond**", then if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Permanent Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Covered Bonds represented by the Permanent Global Covered Bond to the bearer of the Permanent Global Covered Bond against the surrender of the Permanent Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Covered Bond for Definitive Covered Bonds; or
- (b) the Permanent Global Covered Bond was originally issued in exchange for part only of a Temporary Global Covered Bond representing the Covered Bonds and such Temporary Global Covered Bond becomes void in accordance with its terms; or
- (c) the Permanent Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Permanent Global Covered Bond has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Covered Bond on the due date for payment,

then the Permanent Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Covered Bond becomes void (in the case of

(b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Covered Bond or others may have under the Deed of Covenant).

Temporary Global Covered Bond exchangeable for Definitive Covered Bonds

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for Definitive Covered Bonds**" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole but not in part, for Definitive Covered Bonds not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Temporary Global Covered Bond exchangeable for Definitive Covered Bonds**" and also specifies that the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole or in part, for Definitive Covered Bonds not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Covered Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Covered Bond to the bearer of the Temporary Global Covered Bond against the surrender of the Temporary Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Covered Bond for Definitive Covered Bonds; or
- (b) the Temporary Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Temporary Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Covered Bond on the due date for payment,

then the Temporary Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Covered Bond or others may have under the Deed of Covenant).

Permanent Global Covered Bond exchangeable for Definitive Covered Bonds

If the relevant Final Terms specifies the form of Covered Bonds as being "**Permanent Global Covered Bond exchangeable for Definitive Covered Bonds**", then the Covered Bonds will initially be in the form of a Permanent Global Covered Bond which will be exchangeable in whole, but not in part, for Definitive Covered Bonds:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "**in the limited circumstances described in the Permanent Global Covered Bond**", then if Euroclear or Clearstream, Luxembourg or any other relevant

clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Permanent Global Covered Bond is to be exchanged for Definitive Covered Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Covered Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Covered Bonds represented by the Permanent Global Covered Bond to the bearer of the Permanent Global Covered Bond against the surrender of the Permanent Global Covered Bond to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Covered Bonds have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Covered Bond for Definitive Covered Bonds; or
- (b) the Permanent Global Covered Bond (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Permanent Global Covered Bond has occurred (taking into consideration any applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Covered Bond on the due date for payment,

then the Permanent Global Covered Bond (including the obligation to deliver Definitive Covered Bonds) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Covered Bond will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Covered Bond or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Covered Bond or a Permanent Global Covered Bond which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Covered Bond or Permanent Global Covered Bond became void, they had been the holders of Definitive Covered Bonds in an aggregate principal amount equal to the principal amount of Covered Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Covered Bonds

The terms and conditions applicable to any Definitive Covered Bond will be endorsed on that Covered Bond and will consist of the terms and conditions set out under "***Terms and Conditions of the Covered Bonds***" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Covered Bond in global form will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "***Summary of Provisions Relating to the Covered Bonds while in Global Form***" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Covered Bonds having a maturity of more than 365 days, the Covered Bonds in global form, the Covered Bonds in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Covered Bonds

Each Tranche of Registered Covered Bonds will be in the form of either individual Covered Bond Certificates in registered form ("**Individual Covered Bond Certificates**") or a Global Covered Bond in registered form (a "**Global Registered Covered Bond**"), in each case as specified in the relevant Final Terms.

Each Global Registered Covered Bond will either be: (a) in the case of a Covered Bond which is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common depository and will be exchangeable in accordance with its terms; or (b) in the case of a Covered Bond to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Covered Bond will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Covered Bond Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Individual Covered Bond Certificates**", then the Covered Bonds will at all times be in the form of Individual Covered Bond Certificates issued to each Covered Bondholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Covered Bonds as being "**Global Registered Covered Bond exchangeable for Individual Covered Bond Certificates**", then the Covered Bonds will initially be in the form of a Global Registered Covered Bond which will be exchangeable in whole, but not in part, for Individual Covered Bond Certificates:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "**in the limited circumstances described in the Global Registered Covered Bond**", then if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Registered Covered Bond is to be exchanged for Individual Covered Bond Certificates, the Issuer shall procure that Individual Covered Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Covered Bond within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Covered Bond to the Registrar of such information as is required to complete and deliver such Individual Covered Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Covered Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Covered Bond at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Covered Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Covered Bond Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Covered Bond; or
- (b) any of the Covered Bonds represented by a Global Registered Covered Bond (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Covered Bonds or the date for final redemption of the Covered Bonds has occurred (taking into consideration any

applicable extended maturity date) and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Covered Bond in accordance with the terms of the Global Registered Covered Bond on the due date for payment,

then the Global Registered Covered Bond (including the obligation to deliver Individual Covered Bond Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Registered Covered Bond will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Covered Bond or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Covered Bond will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Covered Bond became void, they had been the holders of Individual Covered Bond Certificates in an aggregate principal amount equal to the principal amount of Covered Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Covered Bonds

The terms and conditions applicable to any Individual Covered Bond Certificate will be endorsed on that Individual Covered Bond Certificate and will consist of the terms and conditions set out under "**Terms and Conditions of the Covered Bonds**" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Covered Bond will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "**Summary of Provisions Relating to the Covered Bonds while in Global Form**" below.

TERMS AND CONDITIONS OF THE COVERED BONDS

The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on or incorporated by reference in each Global Covered Bond or Covered Bond in definitive form issued under the Programme. The terms and conditions applicable to any Covered Bond in global form will differ from those terms and conditions which would apply to the Covered Bond were it in definitive form to the extent described under "Summary of Provisions Relating to the Covered Bonds while in Global Form" above.

1. Introduction

- (a) **Programme:** AS LHV Pank (the "**Issuer**") has established a Covered Bond Programme (the "**Programme**") for the issuance of up to EUR1,000,000,000 in aggregate principal amount of covered bonds (the "**Covered Bonds**").
- (b) **Final Terms:** Covered Bonds issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Covered Bonds. Each Tranche is the subject of a final terms (the "**Final Terms**") which completes these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Covered Bonds are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) **Agency Agreement:** The Covered Bonds are the subject of an issue and paying agency agreement dated 19 May 2020 (the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Covered Bonds), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Covered Bonds), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Covered Bonds) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Covered Bonds). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.
- (d) **Deed of Covenant:** The Covered Bonds may be issued in bearer form ("**Bearer Covered Bonds**"), or in registered form ("**Registered Covered Bonds**"). Registered Covered Bonds are constituted by a deed of covenant dated 19 May 2020 (the "**Deed of Covenant**") entered into by the Issuer.
- (e) **The Covered Bonds:** All subsequent references in these Conditions to "**Covered Bonds**" are to the Covered Bonds which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing and copies may be obtained from AS LHV Pank, at Tartu mnt 2, 10145 Tallinn, Estonia.
- (f) **Summaries:** Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Covered Bondholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Covered Bondholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below. If the Covered Bonds are to be admitted to trading on the regulated market of Euronext Dublin, the applicable Final terms will be published on the website of Euronext Dublin (www.ise.ie).

2. Interpretation

(a) **Definitions:** In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning given in the relevant Final Terms;

"**CIBOR**" means, in respect of Danish Kroner and for any specified period, the interest rate benchmark known as the Copenhagen interbank offered rate which is calculated and published by a designated distributor (currently NASDAQ Copenhagen) in accordance with the requirements from time to time of the Danish Financial Benchmark Facility ApS based on estimated interbank borrowing rates for Danish Kroner for a number of designated maturities which are provided by a panel of contributor banks (details of historic CIBOR rates can be obtained from the designated distributor);

"**Covered Bondholder**", in the case of Bearer Covered Bonds, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Covered Bonds*) and, in the case of Registered Covered Bonds, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Covered Bonds*);

"**Coupon Sheet**" means, in respect of a Covered Bond, a coupon sheet relating to the Covered Bond;

"**Credit Institutions Act**" means the Estonian Credit Institutions Act;

"**CRR**" means Regulation 575/2013, as the same may be amended or replaced from time to time;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if "Actual/Actual (ICMA) " is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) if "Actual/Actual (ISDA) " is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) if "Actual/365 (Fixed) " is so specified, means the actual number of days in the Calculation Period divided by 365;

- (v) if "Actual/360" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) if "30/360" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30";

- (vii) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**ECBA**" has the meaning given to such term in Condition 4 (*Status of the Covered Bonds*)

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Interest Amount**" means, in relation to a Covered Bond and an Interest Period, the amount of interest payable in respect of that Covered Bond for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"Interest Payment Date" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"Interest Period" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Benchmarks Supplement" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"ISDA Definitions" means the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the relevant Final Terms)) as published by the International Swaps and Derivatives Association, Inc. including, if specified in the relevant Final Terms, the ISDA Benchmark Supplement;

"Issue Date" has the meaning given in the relevant Final Terms;

"LIBOR" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

"Mandatory Provisions of Law" means any amendments, updates and/or modifications to the ECBA or any other applicable legislation passed after the date hereof by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and/or modification, which impacts the Issuer's obligations in relation to the Covered Bonds or the Covered Bond Portfolio;

"Margin" has the meaning given in the relevant Final Terms;

"Maturity Date" has the meaning given in the relevant Final Terms;

"Maximum Redemption Amount" has the meaning given in the relevant Final Terms;

"Minimum Redemption Amount" has the meaning given in the relevant Final Terms;

"Mortgage Loan" means a loan or a credit issued to a natural person and secured by a mortgage or mortgages over residential property, in the meaning of Article 4 (1) (75) of the CRR, located in the territory of a Contracting State of the EEA Agreement which comply with the conditions provided for in the ECBA;

"**NIBOR**" means, in respect of Norwegian Kroner and for any specified period, the interest rate benchmark known as the Norwegian interbank offered rate which is calculated and published by a designated distributor (currently Global Rate Set Systems) in accordance with the requirements from time to time of the Norwegian association for banks, insurance companies and financial institutions, Finance Norway – FNO based on estimated interbank borrowing rates for Norwegian Kroner for a number of designated maturities which are provided by a panel of contributor banks (details of historic NIBOR rates can be obtained from the designated distributor);

"**Optional Redemption Amount (Call)** " means, in respect of any Covered Bond, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**Optional Redemption Date (Call)** " has the meaning given in the relevant Final Terms;

"**Payment Business Day**" means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that**:

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call) or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

"**Redemption Margin**" has the meaning given in the relevant Final Terms;

"Reference Banks" means four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate;

"Reference Price" has the meaning given in the relevant Final Terms;

"Reference Rate" means CIBOR, EURIBOR or LIBOR, NIBOR or STIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms;

"Register" has the meaning given in the Agency Agreement;

"Regular Period" means:

- (a) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Covered Bondholders;

"Relevant Financial Centre" has the meaning given in the relevant Final Terms;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"Relevant Time" has the meaning given in the relevant Final Terms;

"Reserved Matter" means any proposal to change any date fixed for payment of principal or interest in respect of the Covered Bonds, to reduce the amount of principal or interest payable on any date in respect of the Covered Bonds, to alter the method of calculating the amount of any payment in respect of the Covered Bonds or the date for any such payment, to change the currency of any payment under the Covered Bonds or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"Specified Currency" has the meaning given in the relevant Final Terms;

"Specified Denomination(s)" has the meaning given in the relevant Final Terms;

"Specified Office" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**SRM Regulation**" means Regulation No. 806/2014, as the same may be amended or replaced from time to time;

"**STIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Stockholm interbank offered rate which is calculated and published by a designated distributor (currently the Swedish Financial Benchmark Facility) in accordance with the requirements from time to time of the Swedish Financial Benchmark Facility (or any other Person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic STIBOR rates can be obtained from the designated distributor);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**");

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**Zero Coupon Covered Bond**" means a Covered Bond specified as Zero Coupon in the relevant Final Terms.

- (b) **Interpretation:** In these Conditions:
 - (i) if the Covered Bonds are Zero Coupon Covered Bonds, references to Coupons and Couponholders are not applicable;
 - (ii) if Talons are specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
 - (iii) if Talons are not specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Talons are not applicable;
 - (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Covered Bond and any other amount in the nature of principal payable pursuant to these Conditions;
 - (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
 - (vi) references to Covered Bonds being "**outstanding**" shall be construed in accordance with the Agency Agreement;
 - (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such

meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Covered Bonds; and

- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Covered Bonds.

3. **Form, Denomination, Title and Transfer**

- (a) **Bearer Covered Bonds:** Bearer Covered Bonds are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Covered Bonds with more than one Specified Denomination, Bearer Covered Bonds of one Specified Denomination will not be exchangeable for Bearer Covered Bonds of another Specified Denomination.
- (b) **Title to Bearer Covered Bonds:** Title to Bearer Covered Bonds and the Coupons will pass by delivery. In the case of Bearer Covered Bonds, "**Holder**" means the holder of such Bearer Covered Bond and "**Covered Bondholder**" and "**Couponholder**" shall be construed accordingly.
- (c) **Registered Covered Bonds:** Registered Covered Bonds are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (d) **Title to Registered Covered Bonds:** The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Covered Bond Certificate**") will be issued to each Holder of Registered Covered Bonds in respect of its registered holding. Each Covered Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Covered Bonds, "Holder" means the person in whose name such Registered Covered Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Covered Bondholder" shall be construed accordingly.
- (e) **Ownership:** The Holder of any Covered Bond or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Covered Bonds, on the Covered Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Covered Bond under the Contracts (Rights of Third Parties) Act 1999.
- (f) **Transfers of Registered Covered Bonds:** Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Covered Bond may be transferred upon surrender of the relevant Covered Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Covered Bond may not be transferred unless the principal amount of Registered Covered Bonds transferred and (where not all of the Registered Covered Bonds held by a Holder are being transferred) the principal amount of the balance of Registered Covered Bonds not transferred are Specified Denominations. Where not all the Registered Covered Bonds represented by the surrendered Covered Bond Certificate are the subject of the transfer, a new Covered Bond Certificate in respect of the balance of the Registered Covered Bonds will be issued to the transferor.
- (g) **Registration and delivery of Covered Bond Certificates:** Within five business days of the surrender of a Covered Bond Certificate in accordance with paragraph (f) (*Transfers of Registered Covered Bonds*) above, the Registrar will register the transfer in question and

deliver a new Covered Bond Certificate of a like principal amount to the Registered Covered Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

- (h) **No charge:** The transfer of a Registered Covered Bond will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) **Closed periods:** Covered Bondholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Covered Bonds.
- (j) **Regulations concerning transfers and registration:** All transfers of Registered Covered Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Covered Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Covered Bondholder who requests in writing a copy of such regulations.

4. **Status of the Covered Bonds**

Covered Bonds constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds are obligations issued in accordance with the Estonian Covered Bond Act, "ECBA" and rank *pari passu* among themselves and with Derivative Instruments entered in the cover register and included in the Cover Pool (as defined below) in accordance with the ECBA. The Covered Bonds will be covered by a cover pool which comprises the claims of the Issuer arising from Mortgage Loans and certain other types of assets which qualify as substitute cover assets under the ECBA (together the "**Eligible Assets**") and are registered in the cover register maintained by the Issuer in accordance with the ECBA (the "**Cover Pool**"). On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bonds, together with the Cover Pool (including the Derivative Instruments) (together, the "**Covered Bond Portfolio**") will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio.

Pursuant to the ECBA, the separation of the Covered Bond Portfolio will not affect the liability of the Issuer for the claims arising from the Covered Bonds. If the Covered Bond Portfolio becomes insolvent, to the extent that claims of the Covered Bondholders in relation to the Covered Bonds are not satisfied in the course of the bankruptcy proceedings of the Covered Bond Portfolio, the residual claims of the Covered Bondholders will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The rights of Covered Bondholders shall be subject to any present or future Estonian laws or regulations relating to the insolvency, recovery and resolution of credit institutions and investment firms in Estonia which are or will be applicable to the Covered Bonds only as a result of the operation of such laws or regulations.

For the purposes of this Condition 4:

"**Derivative Instruments**" means derivative instruments included in the Cover Pool to hedge against risks relating to Covered Bonds and recorded, in accordance with the ECBA, in the cover register maintained by the Issuer.

5. **Fixed Rate Covered Bond Provisions**

- (a) **Application:** This Condition 5 (*Fixed Rate Covered Bond Provisions*) is applicable to the Covered Bonds only if the Fixed Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Extended Maturity Date*) and Condition 10 (*Payments – Bearer Covered Bonds*). Each Covered Bond will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day have been paid and (ii) the day which is five days after the Fiscal Agent has notified the Covered Bondholders that it has received all sums due in respect of the Covered Bonds up to such fifth day (except to the extent that there is any subsequent default in payment).
- (c) **Fixed Coupon Amount:** The amount of interest payable in respect of each Covered Bond for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Covered Bonds are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Calculation of interest amount:** The amount of interest payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

6. **Floating Rate Covered Bond Provisions**

- (a) **Application:** This Condition 6 (*Floating Rate Covered Bond Provisions*) is applicable to the Covered Bonds only if the Floating Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable, save that Condition 8 (*Extended Maturity Date*) is always applicable where an Extended Maturity Date is specified in the relevant Final Terms (notwithstanding that Condition 5 (*Fixed Rate Covered Bonds*) may be applicable to the Covered Bonds in the period prior to the extension of the Maturity Date in accordance with Condition 9(i) (*Extension of Maturity to Extended Maturity Date*)).
- (b) **Accrual of interest:** The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Extended Maturity Date*) and Condition 10 (*Payments – Bearer Covered Bonds*).
- (c) **Screen Rate Determination:** If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be determined by the Calculation Agent on the following basis:
 - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on

the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Covered Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Covered Bonds in respect of a preceding Interest Period.

(d) **ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means

a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and
- (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
 - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (e) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Covered Bond for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (g) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents and any stock exchange by which the Covered Bonds have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Covered Bondholders and any other competent authority and/or quotation system (if any) by which the Covered Bonds have then been admitted to trading and/or quotation at such time. The Calculation

Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination.

- (h) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Covered Bondholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (i) **Benchmark Replacement:** Notwithstanding the provisions above in this Condition 6, if the Issuer (in consultation, to the extent practicable, with the Calculation Agent) determines that a Benchmark Event has occurred when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to a Reference Rate (as applicable), then the following provisions shall apply:
 - (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser and shall, to the extent practicable, consult with such Independent Adviser to determine a Successor Rate or, alternatively, if the Issuer, (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) determines that there is no Successor Rate, an Alternative Reference Rate, and, in each case, an Adjustment Spread no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Covered Bonds for all future Interest Periods (subject to the subsequent operation of this Condition 6(i));
 - (ii) if the Issuer is unable to appoint an Independent Adviser prior to the Determination Cut-off Date in accordance with sub-paragraph (i) above, then the Issuer (acting in good faith and in a commercially reasonable manner, and, to the extent practicable, in consultation, with the Calculation Agent) may determine a Successor Rate or, if the Issuer determines that there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest applicable to the Covered Bonds for all future Interest Periods (subject to the subsequent operation of this Condition 6(i)); *provided, however, that* if this sub-paragraph (ii) applies and the Issuer is unable or unwilling to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub-paragraph (ii), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of a preceding Interest Period (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period);
 - (iii) if a Successor Rate or an Alternative Reference Rate is determined in accordance with the preceding provisions, such Successor Rate or Alternative Reference Rate shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 6(i));
 - (iv) If a Successor Rate or Alternative Rate is determined in accordance with Condition 6(i)(i) above, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner shall

determine an Adjustment Spread which may be expressed as a specified quantum, or a formula or methodology for determining the applicable Adjustment Spread and which Adjustment Spread may be positive, negative or zero and shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of the Rate(s) of Interest (or the relevant component(s) thereof) by reference to such Successor Rate or Alternative Rate, as applicable;

- (v) if the Issuer determines a Successor Rate or an Alternative Reference Rate and, in each case, any Adjustment Spread in accordance with the above provisions, the Issuer (in consultation with the Independent Adviser) may also, following consultation, to the extent practicable, with the Calculation Agent, specify changes to the Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Interest Payment Date, Relevant Screen Page, and/or the definition of Reference Rate or the Adjustment Spread applicable to the Covered Bonds (and, in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Covered Bonds, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Covered Bonds for all future Interest Periods (as applicable) (subject to the subsequent operation of this Condition 6(i)). An Independent Adviser appointed pursuant to this Condition 6(i) shall (in the absence of bad faith, gross negligence and wilful misconduct) have no liability whatsoever to the Issuer, the Fiscal Agent, the Calculation Agent or Covered Bondholder for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 6(i). No Covered Bondholder consent shall be required in connection with effecting the Successor Rate or the Alternative Reference Rate (as applicable) and, in each case, the Adjustment Spread or such other changes, including for the execution of any documents, amendments or other steps by the Issuer or Fiscal Agent (if required); and
- (vi) the Issuer shall promptly following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread give notice thereof and of any changes pursuant to sub-paragraph (v) above to the Calculation Agent, the Fiscal Agent and the Covered Bondholders.

For the purposes of this Condition 6(i):

"Adjustment Spread" means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, in each case, to be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such formal recommendation has been made as described in clause (i) above, or in the case of an Alternative Reference Rate, the Issuer (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) determines is recognised or acknowledged as being in customary market usage in transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Rate or Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Issuer (acting in good faith and in a commercially reasonable manner) in its discretion determines to be appropriate;

"Alternative Reference Rate" means the reference rate (and related alternative screen page or source, if available) that the Issuer determines has replaced the relevant Reference Rate in customary market usage for the purposes of determining floating rates of interest

in respect of bonds denominated in the Specified Currency or, if the Issuer determines that there is no such rate, such other rate as the Issuer in its discretion (in consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner) in its discretion determines is most comparable to the relevant Reference Rate;

"Benchmark Event" means:

- (i) the Original Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) the later of (i) the making of a public statement by the administrator of the Original Reference Rate that it will, on or before a specified date, cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate) and (ii) the date falling six months prior to the date specified in (i) above; or
- (iii) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such Reference Rate has been or will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the date specified in (i) above; or
- (iv) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means that such Reference Rate will, on or before a specified date, be prohibited from being used or that its use will be subject to restrictions or adverse consequences and (ii) the date falling six months prior to the date specified in (i) above; or
- (v) it has or will become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Covered Bondholder using the Original Reference Rate (including, without limitation, under Regulation (EU) 2016/1011, if applicable);

"Independent Adviser" means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense;

"Original Reference Rate" means the originally-specified Reference Rate used to determine the relevant Rate of Interest (or any component part thereof) in respect of any Interest Period(s) (provided that if, following one or more Benchmark Events, such originally-specified Reference Rate (or any Successor Rate or Alternative Reference Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Reference Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Reference Rate, the term "Original Reference Rate" shall include any such Successor Rate or Alternative Reference Rate);

"Relevant Nominating Body" means, in respect of a reference rate:

- (i) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, or any other central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, (d) the International Swaps and Derivatives Association, Inc. or any part thereof, or (e) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the reference rate (and related alternative screen page or source, if available) that the Issuer (in consultation with the Independent Adviser, and acting in good faith and in a commercially reasonable manner) determines is a successor to, or replacement of, the relevant Reference Rate (for the avoidance of doubt, whether or not such Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body.

7. **Zero Coupon Covered Bond Provisions**

- (a) **Application:** This Condition 7 (*Zero Coupon Covered Bond Provisions*) is applicable to the Covered Bonds only if the Zero Coupon Covered Bond Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Late payment on Zero Coupon Covered Bonds:** If the Redemption Amount payable in respect of any Zero Coupon Covered Bond is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Covered Bondholder and (B) the day which is five days after the Fiscal Agent has notified the Covered Bondholders that it has received all sums due in respect of the Covered Bonds up to such fifth day (except to the extent that there is any subsequent default in payment).

8. **Extended Maturity Date**

If an Extended Maturity Date is specified in the relevant Final Terms and the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 9(i) (*Extension of maturity to Extended Maturity Date*) then:

- (a) such Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date. Interest shall be payable on such Covered Bonds at the rate specified in the relevant Final Terms on the principal amount outstanding of the Covered Bonds in arrear on each Interest Payment Date after the Maturity Date in respect of the interest period beginning on (and including) the Maturity Date and ending on (but excluding) the first Interest Payment Date after the Maturity Date and each subsequent interest period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the rate of interest payable from time to time under Condition 8(a) will be as specified in the relevant Final Terms and, where applicable, determined by the Calculation Agent, three Business Days after the Maturity Date in respect of the first such interest period and thereafter as specified in the relevant Final Terms; and
- (c) in the case of Zero Coupon Covered Bonds to (and including) the Maturity Date, for the purposes of this Condition 8 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

9. **Redemption and Purchase**

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Covered Bonds will be redeemed at their Final Redemption Amount on the Maturity Date, subject (i) as provided in Condition 10 (*Payments – Bearer Covered Bonds*) and (ii) Condition 9(i) (*Extension of maturity to Extended Maturity Date*).

(b) **Redemption for tax reasons:** The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part:

- (i) at any time (if the Floating Rate Covered Bond Provisions are not specified in the relevant Final Terms as being applicable); or
- (ii) on any Interest Payment Date (if the Floating Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Covered Bondholders, or such other period(s) as may be specified in the relevant final terms, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (A) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Covered Bonds; and
- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Covered Bonds may be redeemed at any time, 90 days (or such other period as may be specified in the relevant final terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due; or
- (2) where the Covered Bonds may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant final terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Covered Bonds in accordance with this Condition 9(b).

(c) **Redemption at the option of the Issuer:** If the Call Option is specified in the relevant Final Terms as being applicable, the Covered Bonds may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Covered Bondholders, or such other period(s) as may be specified in the relevant final terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Covered Bonds or, as the case may be, the Covered Bonds specified in such notice on the relevant Optional Redemption Date (Call) at the applicable amount specified in the relevant Final Terms (together, if appropriate, with accrued interest to (but

excluding) the relevant Optional Redemption Date (Call)) at the Optional Redemption Amount (Call).

- (d) **Partial redemption:** If the Covered Bonds are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), in the case of Bearer Covered Bonds, the Covered Bonds to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation and the notice to Covered Bondholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Covered Bonds so to be redeemed, and, in the case of Registered Covered Bonds, each Covered Bond shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Covered Bonds to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Covered Bonds on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) **No other redemption:** The Issuer shall not be entitled to redeem the Covered Bonds otherwise than as provided in paragraphs (a) to (d) above.
- (f) **Early redemption of Zero Coupon Covered Bonds:** Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Covered Bond at any time before the Maturity Date shall be an amount equal to the sum of:
- (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Covered Bond becomes due and payable.
- Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(f) or, if none is so specified, a Day Count Fraction of 30E/360.
- (g) **Purchase:** The Issuer, or any of its Subsidiaries, may purchase Covered Bonds in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or, in the case of Registered Covered Bonds, the Registrar for cancellation.
- (h) **Cancellation:** All Covered Bonds that are redeemed and surrendered for cancellation by the Issuer or any of its Subsidiaries (along with any unmatured Coupons attached to or surrendered with them) shall be cancelled and may not be reissued or resold.
- (i) **Extension of maturity to Extended Maturity Date:**
- (i) If:
 - (A) an Extended Maturity Date is specified in the relevant Final Terms as being applicable; and
 - (B) any of the following events has occurred:
 - (1) the Issuer becomes insolvent or is unable to pay its debts as they fall due;

- (2) an administrator or liquidator is appointed in respect of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer;
 - (3) the Issuer is declared bankrupt or a moratorium is declared in respect of the Issuer;
 - (4) an order is made, or an effective resolution is passed, for the involuntary or compulsory winding up, liquidation or dissolution of the Issuer;
 - (5) crisis resolution proceedings are commenced with respect to the Issuer; or
 - (6) the EFSA resolves the separation of the Covered Bond Portfolio from the Issuer on the ground that the Issuer is likely to become insolvent in the near future, and
- (C) as a result of such an event the Covered Bonds are not redeemed in full on the Maturity Date at their Final Redemption Amount or within three Business Days thereafter, then the maturity of the Covered Bonds and the date on which the Covered Bonds will be due and repayable for the purposes of these Conditions will be automatically extended to the Extended Maturity Date.

The Issuer may impose restrictions (which restrictions shall be effective upon notice being given to the Covered Bondholders as described below) on the circumstances in which such automatic extension can apply if it determines that such restrictions are required to ensure that the relevant Covered Bonds remain compliant with the ECBA. If the Issuer imposes restrictions on the circumstances in which such automatic extension can apply as described above, the Issuer shall give notice (which notice shall be irrevocable) to the Covered Bondholders (in accordance with Condition 19 (*Notices*)) and the Paying Agents as soon as reasonably practicable and, in any event, at least five Business Days prior to the Maturity Date.

In addition, the Issuer may amend (which amendments shall be effective upon notice being given to the Covered Bondholders as described below) the circumstances in which such automatic extension can apply if it determines that such circumstances qualify as permitted conditions for automatic extension of maturity under the ECBA (as in force at the relevant time). If the Issuer amends the circumstances in which such automatic extension can apply as described above, the Issuer shall give notice (which notice shall be irrevocable) to the Covered Bondholders (in accordance with Condition 19 (*Notices*)) and the Paying Agents as soon as reasonably practicable.

In the event the maturity of the Covered Bonds is extended, the Issuer shall redeem the outstanding principal amount of such Covered Bonds at their Final Redemption Amount on the Extended Maturity Date. The Issuer shall give notice to the Covered Bondholders in accordance with Condition 19 (*Notices*) and the Paying Agents as soon as reasonably practicable stating the basis on which an event under sub-paragraph (B) above has occurred, and confirming that the Maturity Date has been extended to the Extended Maturity Date (subject to the expiry of the three Business Day period mentioned above). In addition, all or any part of the principal amount outstanding of such Covered Bonds may be redeemed on an Interest Payment Date falling after the Maturity Date to and including the Extended Maturity Date. In such a scenario, the Issuer shall give notice to the Covered Bondholders (in accordance with Condition

19 (*Notices*)) and the Paying Agents stating its intention to redeem all or any of the principal amount outstanding of the Covered Bonds at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or, as applicable, the Extended Maturity Date, or give rise to rights to any such person.

- (ii) In the case of a Zero Coupon Covered Bond to (and including) the Maturity Date to which an Extended Maturity Date is specified in the relevant Final Terms as being applicable, for the purposes of this Condition 9(i), the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (iii) Any extension of the maturity of the Covered Bonds under this Condition 9(i) shall be irrevocable. Where this Condition 9(i) applies, any failure to redeem the relevant Covered Bonds on the Maturity Date or any extension of the maturity of such Covered Bonds under this Condition 9(i), shall not constitute a default, an event of default or acceleration of payment or other similar condition or event (however described) for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the Covered Bonds other than as expressly set out in these Conditions.
- (iv) In the event of the extension of the maturity of the Covered Bonds under this Condition 9(i), rates of interest, interest periods and interest payment dates on such Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the relevant Final Terms and Condition 8 (*Extended Maturity Date*).
- (v) If the Issuer redeems part and not all of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across such Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.
- (vi) If the maturity of the Covered Bonds is extended to the Extended Maturity Date in accordance with this Condition 9(i) for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Series of Covered Bonds, unless the proceeds of issue of such further Series of Covered Bonds are applied by the Issuer on issue to redeem in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

10. **Payments - Bearer Covered Bonds**

This Condition 10 is only applicable to Bearer Covered Bonds.

- (a) **Principal:** Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Covered Bonds at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- (b) **Interest:** Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

- (c) **Payments in New York City:** Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Covered Bonds in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Covered Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Covered Bondholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Final Terms specifies that the Fixed Rate Covered Bond Provisions are applicable and a Bearer Covered Bond is presented without all unmatured Coupons relating thereto:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this subparagraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.
- Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.
- (f) **Unmatured Coupons void:** If the relevant Final Terms specifies that the Floating Rate Covered Bond Provisions are applicable, on the due date for final redemption of any Covered Bond or early redemption in whole of such Covered Bond pursuant to Condition 9(b) (*Redemption for tax reasons*) or Condition 9(c) (*Redemption at the option of the Issuer*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (g) **Payments on business days:** If the due date for payment of any amount in respect of any Bearer Covered Bond or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) **Payments other than in respect of matured Coupons:** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Covered Bonds at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Bearer Covered Bond or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) **Exchange of Talons:** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Covered Bonds, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Covered Bond, any unexchanged Talon relating to such Covered Bond shall become void and no Coupon will be delivered in respect of such Talon.

11. **Payments - Registered Covered Bonds**

This Condition 11 is only applicable to Registered Covered Bonds.

- (a) **Principal:** Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Covered Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Covered Bond Certificates at the Specified Office of any Paying Agent.
- (b) **Interest:** Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Covered Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Covered Bond Certificates at the Specified Office of any Paying Agent.
- (c) **Payments subject to fiscal laws:** All payments in respect of the Registered Covered Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Covered Bondholders in respect of such payments.

- (d) **Payments on business days:** Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Covered Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Covered Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.
- (e) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Registered Covered Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Covered Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Covered Bond Certificate.
- (f) **Record date:** Each payment in respect of a Registered Covered Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Covered Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

12. **Taxation**

- (a) **Gross up:** All payments of principal and/or interest in respect of the Covered Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Estonia or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond or Coupon:
 - (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bond or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Covered Bond or Coupon; or
 - (ii) where the relevant Covered Bond or Coupon or Covered Bond Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Covered Bond or Coupon would have been entitled to such additional amounts on presenting or surrendering such Covered Bond or Coupon or Covered Bond Certificate for payment on the last day of such period of 30 days.
- (b) **Taxing jurisdiction:** If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Estonia, references in these Conditions to the Republic of Estonia shall be construed as references to the Republic of Estonia and/or such other jurisdiction.

13. **Undertaking of the Issuer**

On declaration of the Issuer's bankruptcy and in certain other events stipulated in the ECBA, the Covered Bond Portfolio will be separated from other assets and liabilities of the Issuer and form an independent pool of designated assets to be managed in accordance with the ECBA and to be used solely to satisfy the claims of Covered Bondholders and of the counterparties to the Derivative Instrument and to cover the expenses related to the management of the Covered Bond Portfolio. In such a scenario, the Issuer undertakes to fully co-operate with the Cover Pool administrator or the bankruptcy administrator appointed with respect to the insolvent Covered Bond Portfolio ("**Relevant Authority**") to facilitate such Relevant Authority's ability to carry out its rights and obligations under the ECBA.

14. **Prescription**

The Covered Bonds and (in the case of Bearer Covered Bonds) the Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date.

15. **Replacement of Covered Bonds and Coupons**

If any Covered Bond, Covered Bond Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Covered Bonds, or the Registrar, in the case of Registered Covered Bonds (and, if the Covered Bonds are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Covered Bond Certificates or Coupons must be surrendered before replacements will be issued.

16. **Agents**

In acting under the Agency Agreement and in connection with the Covered Bonds and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Covered Bondholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; provided, however, that:

- (a) the Issuer shall at all times maintain a fiscal agent and a registrar;
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (c) if and for so long as the Covered Bonds are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Covered Bondholders.

17. **Meetings of Covered Bondholders; Modification and Waiver**

(a) ***Meetings of Covered Bondholders***

The Agency Agreement contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than one fifth of the aggregate principal amount of the outstanding Covered Bonds. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing one more than half of the aggregate principal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting two or more persons holding or representing Covered Bonds whatever the aggregate principal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes a Reserved Matter, the quorum shall be two or more persons holding or representing at least three-quarters of the aggregate principal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting two or more persons holding or representing at least one-quarter of the aggregate principal amount of the Covered Bonds for the time being outstanding. The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than three-quarters of the votes cast on such resolution; or (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in aggregate principal amount of the Covered Bonds for the time being outstanding. An Extraordinary Resolution passed by the Covered Bondholders will be binding on all Covered Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution and on all Couponholders.

(b) ***Modification of Covered Bonds***

In addition to the modification provisions set out in Condition 9(i) (*Extension of maturity to Extended Maturity Date*) and Condition 6(i) (*Benchmark Replacement*), the Issuer may without the consent of any of the Covered Bondholders or Couponholders of any Series at any time:

- (i) agree with the Fiscal Agent:
 - (A) any modification (except for any modification that relates to a Reserved Matter) of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, not prejudicial to the interests of the Covered Bondholders; or
 - (B) any modification of the Covered Bonds, the Coupons, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with Mandatory Provisions of Law; or
- (ii) make any modifications to the Conditions (in relation to the relevant Series of Covered Bonds) that are necessary (as determined by the Issuer acting reasonably) to comply with any criteria of the rating agencies which may be published after the Issue Date and which the Issuer certifies in writing (to the Agent and to the holders of the relevant Series of Covered Bonds) are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a rating agency to such Series of the Covered Bonds; and
- (iii) make EMIR Related Modifications (as defined below), and which the Issuer certifies (to the Agent and to the holders of the relevant Series of Covered Bonds) are to be made solely for the purpose of enabling the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the "**European Market Infrastructure Regulation**" or "**EMIR**") ("**EMIR Related Modifications**") and such EMIR Related Modifications do not relate to a Reserved Matter.

Any such modification shall be binding on the Covered Bondholders and the Couponholders and shall be notified to the Noteholders in accordance with Condition 19 (*Notices*) as soon as practicable thereafter.

- (c) **Limitations on Modification of Covered Bonds:** Any modification or waiver of these Conditions which affects Covered Bonds may not be effected to the extent such modification would contradict mandatory provisions of the ECBA.

18. **Further Issues**

The Issuer may from time to time, without the consent of the Covered Bondholders or the Couponholders, create and issue further covered bonds having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Covered Bonds.

19. **Notices**

- (a) **Bearer Covered Bonds:** Notices to the Holders of Bearer Covered Bonds shall be valid if published by the Issuer in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Covered Bonds.
- (b) **Registered Covered Bonds:** Notices to the Holders of Registered Covered Bonds shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

20. **Currency Indemnity**

If any sum due from the Issuer in respect of the Covered Bonds or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Covered Bonds, the Issuer shall indemnify each Covered Bondholder, on the written demand of such Covered Bondholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Covered Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts

denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **Governing Law and Jurisdiction**

- (a) **Governing law:** The Covered Bonds and any non-contractual obligations arising out of or in connection with the Covered Bonds are governed by English law, except for:
 - (i) Condition 4 (*Status of the Covered Bonds*);
 - (ii) the provisions relating to coverage and registration of the Covered Bonds and the Coupons, and
 - (iii) other provisions relating to the Covered Bonds, where provisions of Estonian laws mandatorily apply to covered bonds issued by an issuer incorporated in Estonia, which shall be governed by Estonian law.
- (b) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Covered Bonds (including any non-contractual obligation arising out of or in connection with the Covered Bonds).
- (c) **Appropriate forum:** The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) **Rights of the Covered Bondholders to take proceedings outside England:** Notwithstanding Condition 22(b) (*English courts*), any Covered Bondholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Covered Bondholders may take concurrent Proceedings in any number of jurisdictions.
- (e) **Service of process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to AS LHV Pank, London Branch at its office at 1 Old Street Yard, London, EC1Y 8AF, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Covered Bondholders. Nothing in this paragraph shall affect the right of any Covered Bondholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

FORM OF FINAL TERMS OF THE COVERED BONDS

[PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA") or in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

[PROHIBITION OF SALES TO BELGIAN CONSUMERS - The Notes are not intended to be offered, sold or resold, transferred or delivered or otherwise made available to and should not be offered sold or resold, transferred or delivered or otherwise made available to any individual in Belgium qualifying as a consumer (*consument/consommateur*) within the meaning of Article I.1 of the Belgian Code of Economic Law (*Wetboek van economisch recht / Code de droit économique*), as amended from time to time.]¹

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [Consider any negative target market]. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [•]

AS LHV PANK

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]

EUR 1,000,000,000

Covered Bond Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 19 May 2020 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus (the "Base Prospectus") for the purposes of the Prospectus Regulation. [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus.]²

Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [is] [are] available for viewing on the website of The Irish Stock Exchange plc trading as Euronext Dublin ("Euronext

¹ Include where "Prohibition of sales to Belgian consumers" is specified as applicable in the Final Terms.

² Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area or in the United Kingdom nor offered in the European Economic Area or in the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Regulation.

Dublin") (<http://www.ise.ie>) and is also available at the LHV Group's website <https://investor.lhv.ee/en/>. Copies may also be obtained from the registered office of AS LHV Pank.

The expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

[In accordance with the Prospectus Regulation, no prospectus is required in connection with the issuance of the Covered Bonds described herein.]³

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Covered Bond that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms.]

1. (i) Issuer: AS LHV Pank
2. [(i) Series Number:] [•]
[(ii) Tranche Number:] [•]
[(iii) Date on which the Covered Bonds become fungible: [Not Applicable]/[The Covered Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph 24 below [which is expected to occur on or about [•]].]
3. Specified Currency or Currencies: [•]
4. Aggregate Nominal Amount: [•]
[(i) [Series]:] [•]
[(ii) Tranche:] [•]
5. Issue Price: [•] per cent. of the Aggregate Nominal Amount plus accrued interest from [•]
6. (i) Specified Denominations: [•]
(ii) Calculation Amount: [•]
7. (i) Issue Date: [•]
(ii) Interest Commencement Date: [•]/[Issue Date]/[Not Applicable]
8. (i) Maturity Date: [•]
(ii) Extended Maturity Date: [•]/[Not Applicable]

³ Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area or in the United Kingdom nor offered in the European Economic Area or in the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Regulation.

9. Interest Basis: [In respect of the period from (and including) the Interest Commencement Date to (but excluding) the Maturity Date:]
- [•] per cent. Fixed Rate
- [CIBOR/EURIBOR/LIBOR/NIBOR/STIBOR] [+/-] [•] per cent. Floating Rate]
- [Zero Coupon]
- (see paragraph 14/15/16/17 below)*
- [In respect of the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date (if applicable):
- [•] per cent. Fixed Rate
- [Zero Coupon]
- [CIBOR/EURIBOR/LIBOR/NIBOR/STIBOR] [+/-] [•] per cent. Floating Rate]
- (see paragraph 18/19/20 below)*
10. Redemption/Payment Basis: [Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.]
11. Change of Interest or Redemption/Payment Basis: [*Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14, 15, 18 and 19 below and identify there*]/[Not Applicable]
12. Call Options: [Issuer Call]
- (See paragraphs 20/21 below)*
13. Date Board approval for issuance of Covered Bonds obtained: [[•] and [•], respectively]/[Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Covered Bond Provisions** [Applicable]/[Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: The Initial Rate of Interest is [•] per cent. per annum payable in arrear on each Interest Payment Date.
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Amount(s): Coupon [[•] per Calculation Amount]/[Not Applicable]
- For Covered Bonds where the Interest Payment Dates are subject to modification: The amount of interest payable for any Interest Period is to be calculated in accordance with Condition 5(e)*

- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling in/on [•]
- (v) Day Count Fraction: [30/360] / [Actual]/[Actual (ICMA/ISDA)]
- (vi) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: [The Fiscal Agent/other] shall be the Calculation Agent.
15. **Floating Rate Covered Bond Provisions** [Applicable]/[Not Applicable]
- (If not applicable delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period: [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
- (v) Additional Business Centre(s): [Not Applicable]/[•]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination]/[ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [•] shall be the Calculation Agent
- (viii) Screen Rate Determination:
- Reference Rate: [CIBOR]/[EURIBOR]/[LIBOR]/[NIBOR]/[STIBOR]
 - Interest Determination Date(s): [•]
 - Relevant Screen Page: [•]
 - Relevant Time: [•]
 - Relevant Financial Centre: [•]

- (ix) ISDA Determination:
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - ISDA Benchmarks Supplement: [Applicable / Not Applicable]
- (x) Linear interpolation [Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (xi) Margin(s): [+/-][•] per cent. per annum
- (xii) Minimum Rate of Interest: [•] per cent. per annum
- (xiii) Maximum Rate of Interest: [•] per cent. per annum
- (xiv) Day Count Fraction: [•]
- (xv) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: The [Fiscal Agent/other] shall be the Calculation Agent.

16. **Zero Coupon Covered Bond Provisions** [Applicable]/[Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Accrual Yield: [•] per cent. per annum
- (ii) Reference Price: [•]
- (iii) Day Count Fraction in relation to Early Redemption Amount: [30/360] / [Actual/Actual(ICMA/ISDA/other)]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE FROM THE MATURITY DATE TO THE EXTENDED MATURITY DATE

17. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date

- | | | |
|--------|---|---|
| (ii) | Interest Payment Date(s): | [•] in each year |
| (iii) | Fixed Coupon Amount[(s)]: | [•] per Calculation Amount |
| (iv) | Broken Amount(s): | [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•] |
| (v) | Day Count Fraction: | [30/360] / [Actual]/[Actual (ICMA/ISDA)] |
| (vi) | Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: | [The Fiscal Agent/other] shall be the Calculation Agent. |
| 18. | Floating Rate Covered Bond Provisions | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i) | Specified Period: | [•] |
| (ii) | Specified Interest Payment Dates: | [•] |
| (iii) | First Interest Payment Date: | [•] |
| (iv) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] |
| (v) | Additional Business Centre(s): | [[•]/Not Applicable] |
| (vi) | Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination] |
| (vii) | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): | [•] shall be the Calculation Agent |
| (viii) | Screen Rate Determination: | |
| | • Reference Rate: | [CIBOR]/[EURIBOR]/[LIBOR]/[NIBOR]/[STIBOR] |
| | • Interest Determination Date(s): | [•] |
| | • Relevant Screen Page: | [•] |
| | • Relevant Time: | [•] |

- Relevant Financial Centre: [•]
- (ix) ISDA Determination:
- Floating Rate Option: [•]
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - ISDA Benchmarks Supplement: [Applicable / Not Applicable]
- (x) Linear interpolation [Not Applicable/ Applicable - the rate of interest for the [long]/[short] [first]/[last] Interest Period shall be calculated using Linear Interpolation]
- (xi) Margin(s): [+/-][•] per cent. per annum
- (xii) Minimum Rate of Interest: [•] per cent. per annum
- (xiii) Maximum Rate of Interest: [•] per cent. per annum
- (xiv) Day Count Fraction: [•]
- (xv) Party responsible for calculating the amount of interest payable for any interest period following any Rate Adjustment: The [Fiscal Agent/other] shall be the Calculation Agent.

PROVISIONS RELATING TO REDEMPTION

19. **Call Option** [Applicable]/[Not Applicable]
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Covered Bond: [[•] per Calculation Amount]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [•] per Calculation Amount

- (b) Maximum Redemption Amount [•] per Calculation Amount
- (iv) Notice period: [•]
20. Final Redemption Amount of each Covered Bond [•] per Calculation Amount
21. **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or other early redemption: [•]/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22. **Form of Covered Bonds:** **[Bearer Covered Bonds:**

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond]

[Temporary Global Covered Bond exchangeable for Definitive Covered Bonds on [•] days' notice]

[Permanent Global Covered Bond exchangeable for Definitive Covered Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond]

Where the exchange to Definitive Covered Bonds is permitted at the option of the Covered Bondholder ensure that the specified denominations do not permit a smaller integral amount.

(The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000".

Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Covered Bonds which is to be represented on issue by a Permanent Bearer Global Covered Bond exchangeable for Definitive Covered Bonds.)

[Registered Covered Bonds:

[Global Registered Covered Bond exchangeable for Individual Covered Bond Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Registered Covered Bond]

and

[Global Registered Covered Bond registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS)).]

23. New Global Note / New Safekeeping Structure: [Yes] / [No]
24. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable]/[give details].
Covered Bond that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraph 15(v) relates
25. Talons for future Coupons to be attached to Definitive Covered Bonds (and dates on which such Talons mature): [Yes]/[No]. [As the Covered Bonds have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]

Signed on behalf of AS LHV Pank:

By:
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Admission to Trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of Euronext Dublin with effect from [•]. Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of Euronext Dublin with effect from [•]. [Not Applicable.]

(When documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: [•]

2. RATINGS

[The Covered Bonds to be issued [have been/are expected] to be rated]/[The following ratings reflect ratings assigned to Covered Bonds of this type issued under the Programme generally]:

Ratings: [Moody's Investors Service: [•]]

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "CRA Regulation").]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:)

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its] affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 23 of the Prospectus Regulation.)]

4. [Fixed Rate Covered Bonds only – YIELD

Indication of yield: [•]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5. OPERATIONAL INFORMATION

ISIN: [•]

Common Code: [•]

| | |
|---|---|
| [FISN: | [•]] |
| [CFI Code: | [•]] |
| Delivery: | Delivery [against/free] of payment |
| Names and addresses of additional Paying Agent(s) (if any): | [insert name of additional Paying Agent / Not Applicable] |
| Intended to be held in a manner which would allow Eurosystem eligibility: | <p>[Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Covered Bonds] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/</p> <p>[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Covered Bonds]. Covered Bond that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p> |

6. **DERIVATE INSTRUMENTS**

| | |
|--|--|
| Derivative Instruments applicable to issuance of Covered Bonds: | [Yes]/[No] |
| | <i>(If "No" delete the remaining sub-paragraphs of this paragraph)</i> |
| (i) Type of Derivative Instruments: | Interest Rate Swap Transaction/ Currency Swap Transaction |
| (ii) Description of Derivative Instruments: | [•] |
| (iii) Derivative Instruments as specific collateral for this issuance: | [Yes]/[No] |
| (iv) Swap counterparty: | [•] |
| (v) Collateral posting requirements: | [•] |

7. **DISTRIBUTION**

- (i) Method of Distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated:
- (A) Names of Dealers [Not Applicable/*give names*]
- (B) Stabilisation Manager(s), if any: [Not Applicable/*give names*]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/*give names*]
- (iv) U.S. Selling Restrictions: [Reg S Compliance Category [2];
(In the case of Bearer Covered Bonds) TEFRA C/TEFRA D]
- (v) Prohibition of Sales to EEA and UK Retail Investors: [Applicable]/[Not Applicable]
- (vi) Prohibition of Sales to Belgian Consumers: [Applicable]/[Not Applicable]⁴
- (vii) Relevant Benchmarks [CIBOR]/[EURIBOR]/[LIBOR]/[NIBOR]/[STIBOR] is provided by administrator [*legal name, repeat as necessary*]. As at the date hereof, administrator [*legal name*] [appears/does not appear] [*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation]/[As far as the Issuer is aware, as at the date hereof, [CIBOR] / [EURIBOR] / [LIBOR] / [NIBOR] / [STIBOR] does not fall within the scope of the Benchmarks Regulation]/[Not Applicable]

8. **REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS**

- Reasons for the offer: [] [See["Use of Proceeds"] in Base Prospectus"/Give details] [If reasons differ from what is disclosed in the Base Prospectus, give details here.]
- Estimated net proceeds: []

⁴ If the Covered Bonds are to be placed with Belgian consumers, "Not Applicable" should be specified.

SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Covered Bonds represented by a Global Covered Bond in bearer form, references in the Terms and Conditions of the Covered Bonds to "**Covered Bondholder**" are references to the bearer of the relevant Global Covered Bond which, for so long as the Global Covered Bond is held by a depositary or a common depositary, in the case of a classic global covered bond ("**CGCB**"), or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Covered Bonds represented by a Global Registered Covered Bond, references in the Terms and Conditions of the Covered Bonds to "**Covered Bondholder**" are references to the person in whose name such Global Registered Covered Bond is for the time being registered in the Register which, for so long as the Global Registered Covered Bond is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Covered Bond or a Global Registered Covered Bond (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Covered Bond or Global Registered Covered Bond and in relation to all other rights arising under such Global Covered Bond or Global Registered Covered Bond. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Covered Bond or Global Registered Covered Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Covered Bonds are represented by a Global Covered Bond or Global Registered Covered Bond, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Covered Bonds and such obligations of the Issuer will be discharged by payment to the holder of such Global Covered Bond or Global Registered Covered Bond.

Conditions applicable to Global Covered Bonds

Each Global Covered Bond and Global Registered Covered Bond will contain provisions which modify the Terms and Conditions of the Covered Bonds as they apply to the Global Covered Bond or Global Registered Covered Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Covered Bond or Global Registered Covered Bond which, according to the Terms and Conditions of the Covered Bonds, require presentation and/or surrender of a Covered Bond, Covered Bond Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Covered Bond or Global Registered Covered Bond to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Covered Bonds. On each occasion on which a payment of principal or interest is made in respect of the Global Covered Bond, the Issuer shall procure that in respect of a CGCB the payment is noted in a schedule thereto and in respect of an NGN the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day: In the case of a Global Covered Bond, or a Global Registered Covered Bond, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Covered Bond will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing**

System Business Day" means a day on which each clearing system for which the Global Registered Covered Bond is being held is open for business.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Issuer*) in relation to some only of the Covered Bonds, the Permanent Global Covered Bond or Global Registered Covered Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Covered Bonds to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 19 (*Notices*), while all the Covered Bonds are represented by a Permanent Global Covered Bond (or by a Permanent Global Covered Bond and/or a Temporary Global Covered Bond) or a Global Registered Covered Bond and the Permanent Global Covered Bond is (or the Permanent Global Covered Bond and/or the Temporary Global Covered Bond are), or the Global Registered Covered Bond is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Covered Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Covered Bondholders in accordance with Condition 19 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF AS LHV PANK

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Financial review". See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below shows the Bank's consolidated statement of financial position as at 31 December in each of 2019, 2018 and 2017.

| | As at 31 December | | |
|---|-------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| | (€ thousand) | | |
| Assets | | | |
| Due from central bank..... | 1,232,733 | 639,862 | 920,714 |
| Due from credit institutions..... | 32,247 | 24,979 | 20,991 |
| Due from investment companies..... | 5,473 | 17,005 | 14,186 |
| Available for sale financial assets..... | — | — | 775 |
| Equity instruments at FVOCI..... | 432 | 298 | — |
| Financial assets at fair value through profit or loss..... | 32,499 | 38,913 | 49,239 |
| Loans and advances to customers..... | 1,687,034 | 918,761 | 719,390 |
| Receivables from customers..... | 2,745 | 2,509 | 7,357 |
| Other financial assets..... | 2,246 | 2,936 | 2,289 |
| Other assets..... | 1,857 | 1,341 | 836 |
| Tangible assets..... | 1,903 | 1,122 | 1,225 |
| Right-of-use assets | 4,777 | — | — |
| Intangible assets..... | 685 | 1,286 | 952 |
| Total assets..... | 3,004,631 | 1,649,012 | 1,737,954 |
| Liabilities | | | |
| Deposits from customers and loans received..... | 2,738,601 | 1,469,561 | 1,556,573 |
| Financial liabilities at fair value through profit or loss..... | 8 | 11 | 2 |
| Accounts payable and other liabilities..... | 23,774 | 23,861 | 61,858 |
| Subordinated debt..... | 70,500 | 30,000 | 20,000 |
| Total liabilities..... | 2,832,883 | 1,523,433 | 1,638,433 |
| Equity | | | |
| Share capital..... | 95,500 | 69,500 | 59,500 |
| Statutory reserve capital..... | 3,025 | 2,191 | 1,492 |
| Other reserves..... | 212 | 78 | 36 |
| Retained earnings..... | 67,793 | 49,687 | 34,963 |
| Total equity attributable to owners of the parent..... | 166,530 | 121,456 | 95,991 |
| Non-controlling interest..... | 5,218 | 4,123 | 3,530 |
| Total equity..... | 171,748 | 125,579 | 99,521 |
| Total liabilities and equity..... | 3,004,631 | 1,649,012 | 1,737,954 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below shows the Bank's consolidated statement of profit or loss and other comprehensive income for each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|--|---------------------|---------------|---------------|
| | <i>(€ thousand)</i> | | |
| Continuing operations | | | |
| Interest income | 61,413 | 45,622 | 35,492 |
| Interest expense | (13,498) | (6,601) | (4,358) |
| Net interest income | 47,915 | 39,021 | 31,134 |
| Fee and commission income | 24,157 | 18,902 | 13,096 |
| Fee and commission expense | (11,349) | (7,799) | (5,401) |
| Net fee and commission income | 12,808 | 11,103 | 7,695 |
| Net gains from financial assets measured at fair value | 126 | 404 | 420 |
| Foreign exchange rate gains | 79 | 64 | 265 |
| Net gains from financial assets | 205 | 468 | 685 |
| Other income | 176 | 951 | 6 |
| Staff costs | (17,042) | (13,878) | (11,287) |
| Administrative and other operating expenses | (15,475) | (11,865) | (9,128) |
| Profit before credit losses | 28,587 | 25,800 | 19,105 |
| Impairment losses on loans and advances | (3,210) | (4,879) | (3,584) |
| Profit before income tax | 25,377 | 20,921 | 15,521 |
| Income tax expense | (3,277) | (2,514) | — |
| Profit for the year | 22,100 | 18,407 | 15,521 |
| Other comprehensive income/(loss) | | | |
| Changes in the fair value of available for sale assets | — | — | 0 |
| Net gains on investments in equity instruments designated at FVOCI | 134 | 42 | 76 |
| Total profit and other comprehensive income for the year | 22,234 | 18,449 | 15,597 |
| Total profit attributable to: | | | |
| Owners of the parent | 19,804 | 16,642 | 13,909 |
| Non-controlling interest | 2,296 | 1,765 | 1,612 |
| | 22,100 | 18,407 | 15,521 |
| Total profit and other comprehensive income attributable to: | | | |
| Owners of the parent | 19,938 | 16,684 | 13,985 |
| Non-controlling interest | 2,296 | 1,765 | 1,612 |
| | 22,234 | 18,449 | 15,597 |

CONSOLIDATED STATEMENT OF CASH FLOWS

The table below summarises the Bank's consolidated statement of cash flows for each of 2019, 2018 and 2017.

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|---------------------|-------------|-------------|
| | <i>(€ thousand)</i> | | |
| Cash flows from operating activities before changes in operating assets and liabilities | 31,985 | 25,259 | 19,552 |
| Net cash from/(used in) operating activities | 509,890 | (299,634) | 630,694 |
| Net cash from investing activities | 4,426 | 9,970 | 13,922 |
| Net cash from financing activities | 62,066 | 16,650 | 3,000 |
| Effect of exchange rate changes on cash and cash equivalents..... | 79 | 64 | 265 |
| Net increase/(decrease) in cash and cash equivalents..... | 576,461 | (272,950) | 647,881 |
| Cash and cash equivalents at the beginning of the year..... | 667,566 | 940,516 | 292,635 |
| Cash and cash equivalents at the end of the year... | 1,244,027 | 667,566 | 940,516 |

SELECTED CONSOLIDATED RATIOS AND APMs

The table below shows selected consolidated ratios for the Bank as at, and for the years ended, 31 December in each of 2019, 2018 and 2017.

| | <u>As at/years ended 31 December</u> | | |
|---|--------------------------------------|-------------|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| | <i>(per cent.)</i> | | |
| Performance measures | | | |
| Return on average assets ⁽¹⁾ | 0.9 | 1.1 | 1.2 |
| Return on average equity ⁽²⁾ | 13.8 | 15.3 | 16.0 |
| Cost to income ratio ⁽³⁾ | 53.2 | 49.9 | 51.7 |
| Financial ratios | | | |
| Net interest margin ⁽⁴⁾ | 2.07 | 2.31 | 2.37 |
| Interest spread ⁽⁵⁾ | 2.02 | 2.29 | 2.35 |
| Asset quality | | | |
| Non-performing loans ratio ⁽⁶⁾ | 0.3 | 1.7 | 2.6 |
| Loan loss coverage ratio ⁽⁷⁾ | 150.5 | 70.8 | 43.6 |
| Loans to asset ratio ⁽⁸⁾ | 56.1 | 55.7 | 41.4 |
| Loans to deposits ratio ⁽⁹⁾ | 62.2 | 63.5 | 46.4 |
| Other ratios | | | |
| LCR ⁽¹⁰⁾ | 142.6 | 143.9 | 121.1 |
| NSFR ⁽¹⁰⁾ | 157.3 | 153.3 | 140.0 |
| Leverage ratio ⁽¹⁰⁾ | 5.70 | 6.56 | 4.99 |

| | | | |
|---|-------|-------|-------|
| Core equity tier 1 capital adequacy ratio ⁽¹⁰⁾ | 12.19 | 13.56 | 13.81 |
| Tier 1 capital adequacy ratio ⁽¹⁰⁾ | 13.96 | 13.56 | 13.81 |
| Total capital adequacy ratio ⁽¹⁰⁾ | 17.61 | 17.14 | 16.75 |

Notes:

- (1) Profit for the year of the Bank for the year divided by average assets for the year, with average assets calculated as the sum of assets at the beginning and at the end of the year divided by two.
- (2) Profit for the year attributable to owners of the parent divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of total equity attributable to owners of the parent at the beginning and at the end of the year divided by two.
- (3) The sum of staff costs and administrative and other operating expenses divided by the sum of net interest income, net fee and commission income, net gains from financial assets and other income.
- (4) Net interest income divided by average interest earning assets for the year, with average interest earning assets calculated as the sum of interest earning assets at the beginning and at the end of the year divided by two. Interest earning assets comprise assets due from central bank, credit institutions and investment companies, loans and advances to customers, and financial assets at fair value through profit and loss.
- (5) Yield on interest earning assets (calculated as interest income divided by interest earning assets) less the cost of interest bearing liabilities (calculated as interest expense divided by average interest bearing liabilities, with average interest bearing liabilities calculated as the sum of interest bearing liabilities at the beginning and at the end of the year divided by two). Interest bearing liabilities comprise deposits from customers and loans received, accounts payable and other liabilities and subordinated debt.
- (6) Non-performing loans (calculated in accordance with the definition of default in Article 178 of Regulation (EU) No 575/2013, which amounted to €4.4 million as at 31 December 2019, €15.5 million as at 31 December 2018 and €18.6 million as at 31 December 2017) as a percentage of total nominal value of the loans (being loans and advances to customers before impairment provisions at nominal value).
- (7) Impairment provisions as a percentage of non-performing loans. Provisions include provisions for loans and guarantees issued as well as provisions made for loan and guarantees commitments.
- (8) Loans and advances to customers divided by total assets.
- (9) Loans and advances to customers divided by deposits from customers.
- (10) Calculated in accordance with applicable requirements in Estonia.

DESCRIPTION OF THE BANK

INTRODUCTION

The Bank is the third largest bank in Estonia with a 13 per cent. market share in deposits and a 10 per cent. market share in corporate loans, in each case according to adjusted data provided by the EFSA as at 31 December 2019. The Bank was also named the Best Bank in Estonia for 2019 by the Financial Times magazine, The Banker, in November 2019.

The Bank is an Estonian licensed credit institution offering banking services to corporate and retail clients in Estonia. In addition to branches in Tallinn and Tartu, the Bank also:

- has a 65 per cent. owned subsidiary which provides consumer finance and hire purchase services in Estonia;
- has a London branch which was established in 2018; and
- is a participant in two deposit engagement platforms, established in July 2018 and June 2019, which accept deposits from the Austrian, Dutch, German and Spanish markets.

In 2019, the Bank's profit for the year was €22.1 million, compared to €18.4 million in 2018 and €15.5 million in 2017.

As at 31 December 2019, the Bank's loans and advances to customers amounted to €1.7 billion and its deposits from customers and loans received amounted to €2.7 billion. As at the same date, the Bank's total assets were €3.0 billion and its Tier 1 and total capital ratios were 14.0 per cent. and 17.6 per cent., respectively. As at 31 December 2019, the Bank employed 396 people (on a full time employee basis) and had over 200,000 customers.

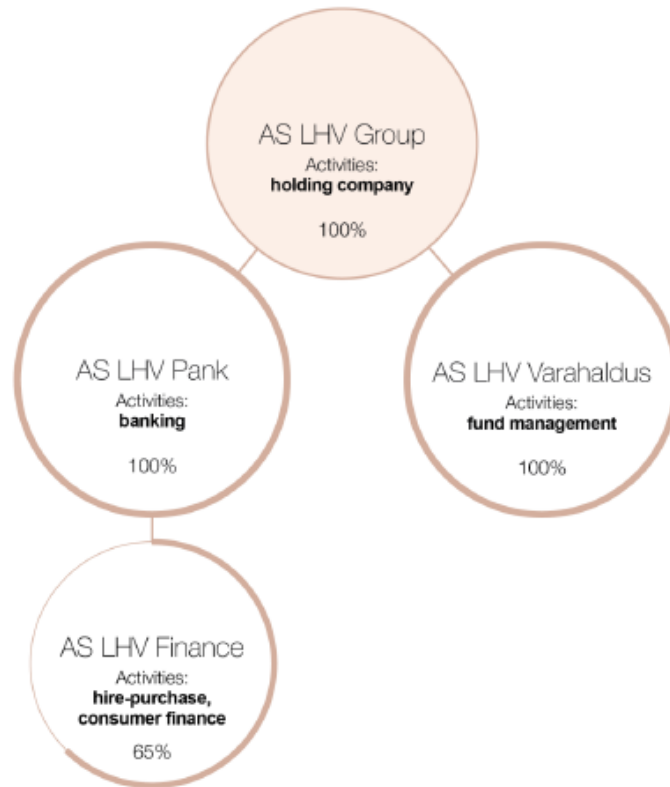
In January 2020, an independent survey company, Dive, concluded that the Bank offered the best service in Estonian banking with a score of 90.1 per cent. In July 2019, Euromoney identified the Bank as the best bank in Estonia for the second consecutive year.

HISTORY

The Bank was established on 2 March 1999 pursuant to the Estonian Commercial Code by nine individuals and four legal entities, including Mr Rain Lõhmus and Mr Andres Viisemann. In 2005, LHV Group, in which Mr Rain Lõhmus and Mr Andres Viisemann remain significant shareholders, was established as a holding company for both the Bank and a sister fund management company.

Below is a chart showing the structure of LHV Group and its subsidiaries:

LHV Group Structure



The table below summarises the Bank's history.

| | |
|------|--|
| 1999 | The Bank was established as an investment firm, providing brokerage and portfolio management services. |
| 2009 | The Bank obtained its credit institution license and initiated deposit taking and lending operations. |
| 2010 | The Bank launched payments services |
| 2011 | The Bank launched bank payment cards. |
| 2013 | AS LHV Finance was established as a majority-owned subsidiary of the Bank and launched hire-purchase services. |
| 2014 | The Bank launched bank payment cards acquiring services. |
| 2015 | The Bank joined the SEPA payments network as a direct member and launched ATM network services. |

| | |
|------|---|
| 2016 | The Bank commenced offering mortgage loans to private clients. |
| 2017 | The Bank began servicing payment service providers. |
| 2018 | The Bank opened a branch in London, United Kingdom; Moody's assigned the Bank a credit rating of Baa1. |
| 2019 | The Bank completed the acquisition of a small corporate loan portfolio from Versobank in January 2019 and a significant private loan portfolio from Danske Bank's Estonian branch in November 2019. |
| 2020 | The Bank commenced making payments as a direct member of the Faster Payments scheme in the United Kingdom. |

SHAREHOLDERS AND SUBSIDIARY

Shareholders

The Bank is wholly owned by LHV Group, which also owns 100 per cent. of the fund management company, LHV Varahaldus, and 65 per cent. of AS LHV Kindlustus (established in 2020) which intends to start offering property insurance (subject to completion of the required licensing process). LHV Group's principal shareholders are two of its founders who, although not related parties, between them controlled (directly and through related parties) 33.42 per cent. of the shares in LHV Group as at 28 February 2020. Both of these shareholders are also members of LHV Group's Supervisory Board.

The table below shows LHV Group's five largest shareholders as at 28 February 2020.

| | <u>Number of shares</u> | <u>Participation</u> |
|--|-------------------------|----------------------|
| | <i>(million)</i> | <i>(per cent.)</i> |
| Rain Lõhmus ⁽¹⁾ and related parties | 6.74 | 23.68 |
| Andres Viisemann ⁽¹⁾ & related parties..... | 2.77 | 9.74 |
| Ambient Sound Investments OÜ..... | 1.65 | 5.81 |
| Krenno OÜ | 1.21 | 4.25 |
| Tiina Mõis ⁽²⁾ and related parties | 1.08 | 3.81 |

Notes:

(1) Founder and member of the Supervisory Board.

(2) Member of the Supervisory Board.

As at 28 February 2020, LHV Group had approximately 7,600 shareholders.

To the knowledge of the Issuer, Mr Rain Lõhmus and Mr Andres Viisemann have not entered into a shareholders' agreement in relation to the shareholdings in LHV Group. Mr Rain Lõhmus and Mr Andres Viisemann are entitled to use their rights as shareholders of LHV Group in accordance with applicable law,

the Articles of Association and the rules of Nasdaq Tallinn Stock Exchange (where the shares of LHV Group are listed).

Subsidiary

The Bank has a 65 per cent. shareholding in AS LHV Finance, a joint venture with Toveko Invest OÜ, which was established to provide hire purchase services and now also offers consumer loans. The Bank and Toveko Invest OÜ are party to a shareholders agreement in relation to AS LHV Finance.

STRATEGY

The Bank's vision is that Estonian people and businesses should ambitiously engage in enterprise and invest for the future, using new technologies to sell their products and services around the world.

The Bank's strategy is to:

- focus on active, entrepreneurial and independent customers;
- ensure that its products and service are simple, transparent and relevant to its customers, with a focus on products that positively distinguish it from the market. The Bank is currently able to finance any Estonian company and issues mortgage loans all over Estonia. It makes swift decisions with extra conditions tailored to the customer. It also offers free-of-charge payments, integrated investment services, and what it believes are the quickest and the most flexible loan products;
- communicate with its customers principally through modern electronic channels and in ways preferred by its clients. For example, it provides the bulk of its services, including securities trading, private customer loan applications and loan agreement conclusion, through its mobile app; and
- partner where relevant with third parties to achieve its business pursuits. For example the Bank has an active cooperation with both of the major deposit platforms in Europe (Raisin and Deposit Solutions), where it mainly seeks term deposits and a co-operation agreement was concluded with KredEx in 2019 to provide housing loan surety to young people.

The Bank's long-term aim is to become Estonia's largest bank. In the shorter term, the Bank expects that its growth will be subdued while the economy suffers from the effects of the COVID-19. Until the situation stabilises, there will be increased focus on working with its existing customers, but the Bank targets growing its customer base and loan portfolio as the economic situation improves. To achieve this, it intends to continue focusing on efficiency, profitability, innovation and the provision of the best possible service.

In relation to its corporate customers, the Bank intends to focus on boosting the loan portfolio and the share of trade financing. It is targeting customers in search of a bank who understands the nature of their business and is able to provide the required financing structure. The Bank intends to continue its single-level decision-making process, where all decisions are made locally, swiftly and in a flexible manner. It also expects to continue its multi-year project of adopting the internal ratings-based ("**IRB**") approach to credit risk. This will allow the Bank to model not only the probability of default but also to model its own loss given default and exposure-at-default levels and enhance the Bank's return on equity through efficient capital allocation.

In relation to its retail customers, the Bank intends to focus on expanding its customer base and enhancing customer activity. Its focus lies on major Estonian cities, targeting active customers who prioritise electronic channels. It seeks to engage customers who have opened a current account with the Bank, whose

salary is transferred to the account and who use the Bank's cards for their daily financial affairs. The Bank intends to focus also on boosting its market share in mortgage loans, has recently launched ApplePay and intends to launch other card payments via smart devices, to upgrade its Mobile Bank and plans to start offering a pension investment account.

The Bank is an exporter of financial services and financial intermediation is its third business area. In the United Kingdom, the Bank has completed its key product, real-time GBP payments, and intends to develop the GBP system indirect member service in 2020.

Furthermore, the Bank intends to continue providing account services, payments, card payment acceptance, working capital loans and currency exchange services. It expects to add to its sales capacity in 2020 and will analyse the need for developing new products, including card-related products, with a view to becoming highly competitive in e-trading. The Bank also intends to seek out customers in countries other than Estonia and the United Kingdom.

STRENGTHS

The Bank believes that its principal strengths are:

- **Leading brand in Estonia.** The Bank believes that the LHV brand is well known as a leading locally owned financial group. This is supported by the expansion and success of the Bank as well as by the activities of the Bank's sister company, LHV Varahaldus, which is the second largest pension fund manager in Estonia with a market share of 28.4 per cent. of the assets under management in the Estonian pension system according to the Estonian Pension Register (Pensionikeskus) as of 2019. In addition, the Bank's subsidiary, LHV Finance, is a leading consumer finance and hire-purchase provider in Estonia. The Bank believes that the LHV Group provides services that are important for its local retail and corporate customers.
- **Superior offering in terms of quality, range of products, technological innovation and price.** The Bank aims to be in the forefront of technical innovation and to introduce these innovations into everyday use for the benefit of its retail and corporate customers. For example, the Bank has launched many novel products and has been one of the first to incorporate internationally successful products and services, such as Apple Pay. The Bank believes that its mobile banking capabilities exceed those of its competitors in terms of their intuitiveness, the range of services offered and because they bear no additional costs. The Bank is one of only a few banks in the world that can offer real-time SEPA and pound sterling payments and a list of easily accessible services for corporate customers from the financial technology sector.
- **Strong track record.** The Bank has a strong track record of low loan loss provisions throughout its 11-year history of operating in Estonia (a period which includes the global financial crisis that started in the second half of 2008). The Bank believes that this evidences its strong credit analysis and management process, and its expert staff in this area. In particular, the Bank has seen a reduction in its non-performing loans (calculated in accordance with the definition of default in Article 178 of Regulation (EU) No 575/2013) over the last three years, which were €4.3 million as at 31 December 2019, €15.5 million as at 31 December 2018 and €18.6 million as at 31 December 2017, which represented 0.3 per cent., 1.7 per cent. and 2.6 per cent. of the value of its total loans (based on nominal customer balance of the loan) as at 31 December 2019, 31 December 2018 and 31 December 2017, respectively. However, as at the date of this Base Prospectus, the Bank expects that it will enter a period of higher costs of loan provisions and actual loan losses due to the decline of the economic

situation. Such cyclicity is, however, expected and overall the Bank believes that it is well prepared to face the crises it faces.

BUSINESS

The Bank provides banking services to retail banking, corporate banking and financial intermediary clients. The retail banking services cover all private individuals and small legal entities with credit exposure under €500,000. The corporate banking services cover all corporate customers and other legal entities with exposure over €500,000. The Bank offers all of these customers universal banking services, including the settlement of payments, the issuing and acquiring of bank cards, deposit services, financing services (including loans, leasing, credit limits, overdrafts and guarantees), securities brokerage and investment services.

The Bank also provides hire-purchase and consumer finance in Estonia, through AS LHV Finance.

LHV Group discloses financial information by reporting segment in its financial statements and the table below, which is based on information in LHV Group's financial statements as at, and for the year ended, 31 December 2019 shows the relative contribution of each reporting segment to LHV Group's total net operating revenue and net profit in 2019 and to its total assets and total liabilities as at 31 December 2019. This information is included to illustrate the relative contribution of the Bank's different activities.

The relative contribution to LHV Group's total net operating revenue and profit for the year ended 31 December 2019

| | <u>The Bank</u> | | | | | | <u>Total</u> |
|-----------------------------|-----------------------|--------------------------|---------------------------------|-----------------------|---------------------------------------|-----------------------------------|--------------|
| | <u>Retail banking</u> | <u>Corporate banking</u> | <u>Financial intermediation</u> | <u>AS LHV Finance</u> | <u>Other activities⁽¹⁾</u> | <u>Intra-segment eliminations</u> | |
| | <i>(per cent.)</i> | | | | | | |
| Total net operating revenue | | | | | | | |
| | 29.3 | 42.2 | 7.7 | 12.9 | 17.0 | (9.1) | 100.0 |
| Profit ⁽²⁾ | | | | | | | |
| | 31.5 | 73.0 | (13.2) | 24.2 | 9.0 | (24.4) | 100.0 |
| Total assets | | | | | | | |
| | 35.5 | 53.2 | 9.9 | 2.2 | 7.0 | (7.7) | 100.0 |
| Total liabilities | | | | | | | |
| | 70.5 | 15.9 | 13.7 | 1.8 | 2.7 | (4.7) | 100.0 |

Notes:

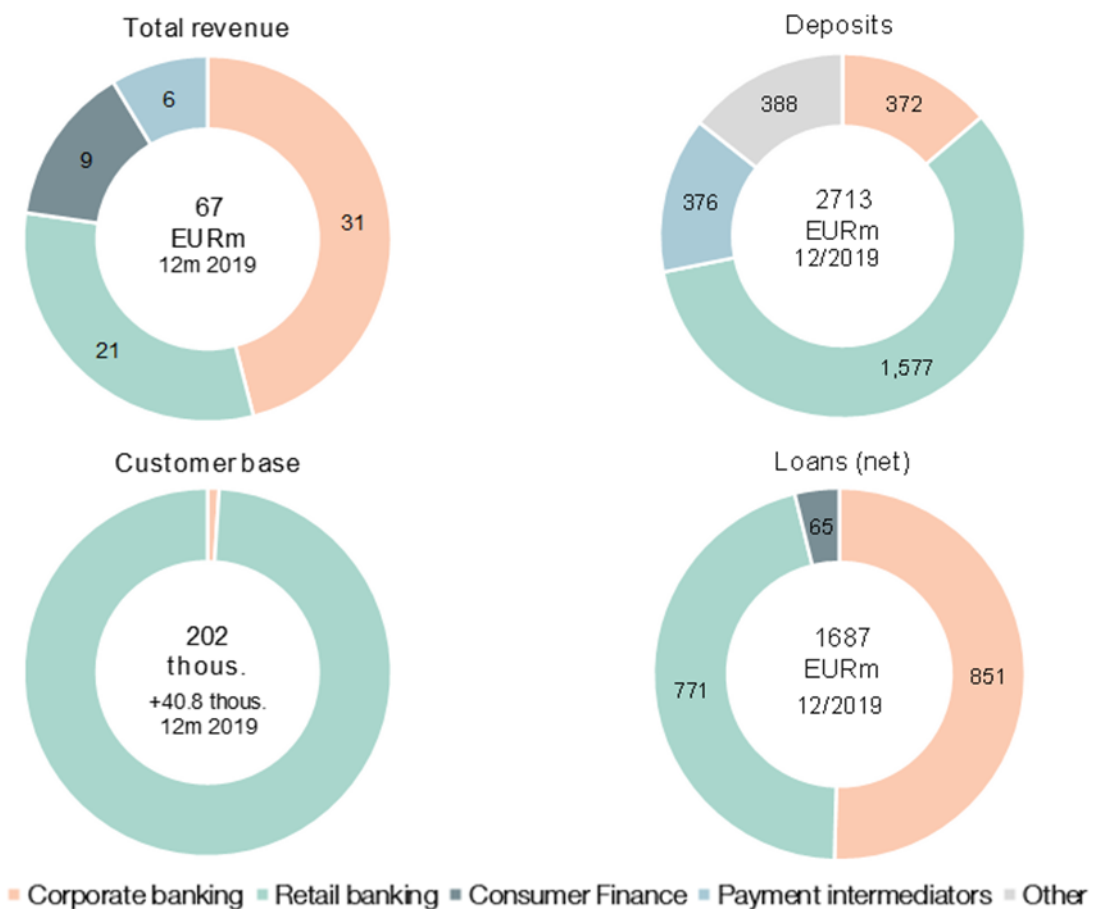
- (1) Principally asset management, as well as other corporate activities.
- (2) Profit from continuing operations.

Banking activities

The Bank is principally deposit funded through retail and corporate current account deposits and, to a smaller extent, through term deposits (mainly through deposit platforms). The loan portfolio comprises both corporate and retail loans. Historically, corporate loans have dominated the bank's lending business. However, in recent years, the Bank has increased the diversification of its loan portfolio with mortgage loans to retail clients accounting for 35 per cent. of its total credit portfolio as at 31 March 2020 and 31 December 2019 (compared to 11 per cent. as at 31 December 2018). Total loans to private individuals accounted for 44 per cent. of its total credit portfolio as at 31 March 2020 and 31 December 2019 (compared to 23 per cent. as at 31 December 2018). Loans to the real estate sector made up 21 per cent. of the total credit portfolio as at 31 March 2020 (unchanged compared to 31 December 2019 and down from 27 per cent. compared to 31 December 2018). The Bank has imposed internal limits on the proportion of loans to the real estate sector to avoid excessive sector concentration and is monitoring the split of various sectors in its credit portfolio on a regular basis.

The Bank's commitment to deliver quality service to its customers is strengthened by continuous upgrading of its technology and the training provided to its staff. The Bank's technology enables its customers to access their accounts, interact with the Bank and manage any of the Bank's products by way of internet banking and mobile banking.

Below is a diagram showing a breakdown of the business volumes of the Issuer, in the case of total revenue, for the 12 months ended 31 December 2019 and in the case of deposits, customer base and loans (gross) as at 31 December 2019.



* Note: The "Other" segment in "Deposits" above includes deposits raised from deposit platforms in the amount of €376 million and deposits from other companies of LHV Group in the amount of €12 million. Deposits from deposit platforms are considered a treasury activity and not part of any of the business units. "Total revenue" includes net interest income and net fee and commission income but does not include the treasury segment in the amount of €6.6 million.

Corporate banking

The key corporate banking product offered by the Bank is business loans (including investment loans, working capital facilities and overdraft facilities). In terms of sector breakdown, loans to the real estate sector make up the largest proportion but this has been declining over recent years as the Bank's corporate credit portfolio has become more diversified. The Bank also provides a wide range of other common banking services such as current account (both euro and foreign currency options), cash management services (including cash pool), term deposits, payments services, cards and acquiring, trade finance services (including letters of credit and guarantees as well factoring and inventory financing). The Bank also provides capital markets advisory services on the Baltic markets, both for debt and equity raising projects.

The corporate banking business provides services to all corporate and governmental sector clients. The Bank considers all Estonian corporates as its target clients, except for a few of the very largest clients where the Bank is limited in its offering due to balance sheet size.

In the longer term, the Bank is seeking to grow the size of its corporate loan portfolio while maintaining high loan credit quality and fulfilling return on equity targets. The Bank is proud of its excellent client service, including swift credit process and decision-making, understanding the client's business (including the risks) and partnering with the client when negotiating the loan. The Bank is also developing its trade finance business. As at the date of this Base Prospectus, the Bank has lowered its loan growth expectations in the short term as the Estonian economy contracts as a result of the measures implemented following the outbreak of the Coronavirus pandemic.

In light of the possible increase in requests from the Issuer's debtors for repayment moratoria in light of the Coronavirus pandemic and the associated economic downturn, the Issuer has, as at the date of this Base Prospectus, together most other Estonian credit institutions, decided on a voluntary basis to apply the Estonian Banking Association's uniform policy for the granting of repayment moratoria in connection with the emergency situation declared in relation to the Coronavirus pandemic (the "**Repayment Moratoria Guidelines**"). The Repayment Moratoria Guidelines have been prepared on the basis of the European Banking Authority's guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Coronavirus crisis (EBA-GL-2020-02) and regulate the granting of repayment moratoria to private individuals and legal entities during the period from 12 March 2020 until 30 June 2020. The moratoria granted under the Repayment Moratoria Guidelines may last up to 12 months in case of debtors who are private individuals (up to 12 months for mortgages and up to 6 months for consumer credit) and up to 6 months in case of debtors which are legal entities (legal entities with exposure up to €5 million qualify for the grace period). Only principal payments are affected and the rest of the loan conditions are not changed. The Bank has not changed its provisioning principles despite regulatory guidelines providing this option.

In addition to credit products, the Bank maintains a good offering of cash management and payments services.

Retail banking

As at the end of February 2020, the Bank had around 212,000 retail customers using its retail banking products. For retail customers, the Bank offers daily financial affairs management products and services, along with mortgage loans, and it specialises in providing the best services for growing customers' savings and investments. For small and medium sized business customers, the Bank provides flexible and appropriate financing. The Bank's products and services are simple, transparent and relevant. Modern electronic means of communication are used for customer relations (including the Bank's mobile app). Where possible, the Bank aims for higher automation of its business processes to speed up the decision making for the client and achieve greater organisational efficiency. The resultant reduced costs are also reflected in the affordable prices of the Bank's everyday banking services.

The retail banking unit is an important source of deposits for the Bank in order to fund both its mortgage and corporate banking businesses. Accordingly, the Bank focuses its sales and marketing activities on attracting private individuals who use the Bank for their core daily banking activities (including receiving salary payments), wealthy customers (to the private banking offering) and small and medium sized companies. The Bank's product offering includes a full range of services for these clients, including accounts and deposits, credit cards, debit cards and digital wallet services such as Apple Pay.

Mortgage lending is the retail banking unit's key credit product. The Bank aims to grow its market share in mortgage loans by offering clients rapid service and fast turnaround times for loan applications compared to its competitors. The Bank's target is to provide an indicative offer to a prospective customer within 24 hours after receiving an application for a mortgage loan, which is significantly faster than other banks offering mortgage loans in Estonia and can be achieved by automated internal processes and use of technology. The Bank is not aiming to be a price leader in the market but intends to offer premium service to command pricing which enables it earn targeted return on equity within acceptable risk appetite. The retail banking unit also provides loans to small and medium sized companies. The Bank's leasing offering is mainly based on motor vehicles which make up around half of the total sales. Equipment leasing of various types (including for forestry, construction and agricultural businesses) makes up the rest of the leasing business volume. The Bank's mortgage portfolio grew substantially in 2019 as it acquired the private customer loan portfolio of Danske Bank A/S Estonia branch. The transaction was finalised on 23 November 2019. As a result of the transaction, the Bank's loan portfolio increased by EUR 393 million. The transaction involved approximately 10,000 private clients. More than 90 per cent. of the portfolio consisted of mortgage loans. The migration of the agreements, collaterals and relevant data has been completed and the customers are now servicing their loans with the Bank. The level of loans with payments overdue was on average higher in the acquired portfolio compared to the loans originated by the Bank. This is due to a different servicing approach that was adopted by Danske Bank where the bank was less active in contacting the client in case of overdue payments. The Bank is more proactive in communication with its clients and the Bank applies such approach also to the purchased portfolio.

Retail banking also incorporates the Bank's private banking business which offers investment management services and certain premium banking services to its clients. The private banking unit mainly targets wealthy individuals based in Estonia as clients. Retail banking also includes the Bank's investment services offering, comprising brokerage and foreign currency services.

The Bank expects that its retail banking business will be affected by the lockdown implemented in response to the Coronavirus pandemic and the resulting impact on the economy and its customers' incomes. In particular, the Bank has decided on a voluntary basis to apply the Estonian Banking Association's uniform policy for the granting of repayment moratoria in connection with the emergency situation declared in relation to the Coronavirus pandemic (see "*Description of the Bank – Corporate banking*" for further detail).

The Bank expects to record higher provisions and loan losses which will have an impact on its income statement. Also loan growth will be lower as people will be more hesitant to take on new financial liabilities in uncertain economic conditions. However, these developments do not change the Bank's longer term goals.

In addition to deposit taking through its retail banking unit in Estonia, the Bank has been acquiring term deposits from retail depositors through two partners: Deposit Solutions and Raisin. The relevant markets are Germany, Austria, The Netherlands and Spain. The terms offered are currently six and 12 months and the deposits vary in size up to €100,000 per depositor. The Bank does not consider these activities as part of its retail business but as a source of funding within the scope of its treasury activities.

Financial intermediation

The Bank's financial intermediation business comprises the provision of Banking infrastructure and services to more than 100 payment intermediation and technology customers, including TransferWise, Coinbase, Paysafe and Trustly, and includes the activities of the Bank's branch in the United Kingdom. The Bank continues to focus on acquiring new customers and expanding the product portfolio. In addition to its recent connection to the UK's GBP instant payment system, the Bank has significantly improved its anti-money laundering systems and started legal preparation for implementing the regulatory changes to be applied to the UK branch in connection with the UK's exit from the European Union. The FinTech company market remains active and the demand for the banking services that the Bank provides to these companies continues to grow. The Bank believes that its LHV Connect service is the first bank application programming interface (API) through which FinTech companies can access euro and pound payments. The revenue base of the Bank's business in the UK is growing, with revenue generated mainly from payments, currency exchange, card payment mediation, credit services and maintenance fees.

The financial results of the financial intermediation unit include all costs related to the Bank's payments infrastructure (which is shared between all of the Bank's business units, including its retail and corporate units), as in terms of organisational set-up, the relevant team is part of the financial intermediation unit.

Delivery channels

The Bank views its electronic channels (including both the internet bank and mobile app) as the core channels for interaction with its clients. The Bank aims to continuously upgrade its electronic channels with new functionalities and to make them as convenient as possible for customers. However, it also supports its clients through more conventional delivery channels. Accordingly, the Bank's delivery channels include:

- *branches* – the Bank has three branches located in Tallinn, Tartu and London;
- *online banking* – which allows customers to monitor their account activity, transfer funds, pay bills, manage their credit cards and other loans, arrange time deposits, request and conclude agreements for services and update information. Users can also chat on the home page with a virtual assistant, Uku, to get real time answers;
- *mobile banking* – which was significantly improved in 2019 and allows customers to open an account, order a bank card, make investments and apply for various loan products. In addition to Baltic shares, customers can also buy and sell shares listed on international stock exchanges and exchange-traded funds. More than a half of the Bank's customers who use investing services hold foreign shares or index funds;

- 125 ATMs – through which customers can withdraw cash, makes certain transfers and payments and initiate certain enquiries. The ATM network was significantly expanded in 2019 following the conclusion of a shared network contract with Luminor Bank, Danske Bank and Worldline;
- almost 5,000 POS terminals – which are located at merchants' premises and enable them to accept card payments from their customers; and
- LHV Connect – an API which offers integration between the information system (such as accounting software) of the customer and the Bank.

Hire purchase and consumer financing in Estonia

The Bank provides hire purchase and consumer financing services in Estonia through its joint venture, AS LHV Finance, which was established in 2013 to provide hire-purchase services. In 2015, it began offering consumer loans as well. In 2017, AS LHV Finance started to offer rebranded targeted consumer loans (such as renovation loans and car loans). As at 31 December 2019, AS LHV Finance's credit portfolio amounted to €65.2 million and it had over 51,000 effective credit agreements. The hire-purchase market in Estonia is decreasing, and 75 per cent. of AS LHV Finance's portfolio comprised consumer loans as at 31 December 2019.

Other activities

As an institutional broker, the Bank helps Baltic companies to engage funds from investors. In 2019, the Bank assisted AS Coop Pank in organising its initial public offering of shares. It also helped the Lithuanian agricultural company, AUGA, in issuing green bonds and other Baltic companies in raising money from the public market.

The Bank is the leading market participant on the Baltic stock exchanges in terms of trading volume based on data provided by the Nasdaq Baltic stock exchange. In 2019, the Bank received the "Best Stock Exchange Member of the Year" award of the Nasdaq Baltic stock exchanges for the sixth time. The Bank also publishes research about publicly listed Baltic companies and is a market maker for seven publicly traded companies.

The Bank's securities trading system, LHV Trader, is available to customers and the funds of those customers are treated as off-balance sheet assets of the Bank. Due to the nature of the system, the Bank deposits these funds in personalised accounts with its partner and does not use them for its own business purposes. The Bank earns commission and interest income on intermediation of transactions in these accounts. The Bank has provided contractual guarantees to its partner in respect of LHV Trader accounts, guaranteeing any losses incurred from financing of the transactions executed by customers intermediated by itself, with the primary collateral being the securities used as collateral for leveraged loans. To date, no such losses have occurred.

Lending and loan portfolio

For details of the Bank's approach to lending, see "*Risk management—Credit risk*". For details of the Bank's loan portfolio, see "*Financial review—Lending*".

Deposit portfolio

For details of the Bank's loan portfolio, see "*Financial review—Liquidity and funding—Funding—Customer deposits and loans received*".

Mortgage lending process

The Bank regards mortgage loans as a core product and wants to grow its portfolio of residential mortgage loans. The Bank has accordingly set up appropriate internal processes to ensure good service for its customers as well as efficient internal procedures and appropriate risk process. The Bank's mortgage lending process is currently set up based on the following core guidelines.

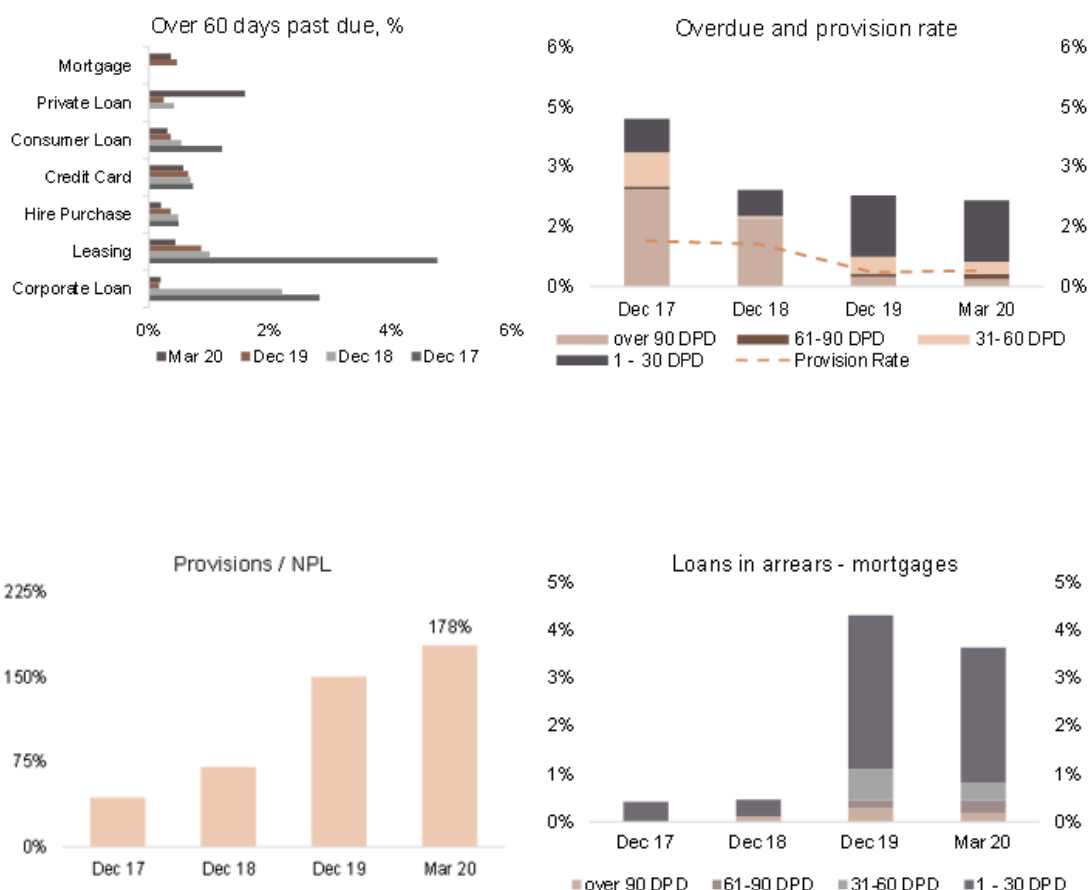
- Customers – Estonian residents. Non-residents might be accepted if there is strong connection to Estonia.
- Currency – the Bank currently provides loans in Euro only.
- Loan to Value ("**LTV**") - Maximum LTV is set at 85 per cent. In case there is a guarantee from the Estonian governmental institution Kredex, LTV can be up to 90 per cent.
- Maturity - Maximum loan maturity offered is 30 years.
- Basic overview of credit checks – Maximum debt to income ratio is set at 50% (adjusted for number of dependent persons). Income of the borrower is always verified based on bank account statements. Credit history checks to external credit bureau databases are conducted. Stress test for increase of interest rates are conducted.
- Collateral - Valuation of collateral is based on market value. Collateral for mortgage loan is immovable property encumbered with a mortgage in official land register. Majority of valuations are carried out by external values who are required to have professional certificate. In some cases, qualified internal valuer of the Bank who is part of the risk organisation can also carry out the valuation. Valuation is updated at least once a year, indexing is typically used for collateral of residential properties.
- Contract signing process - All Estonian real estate and established mortgages are listed in land register and every transaction of establishing a mortgage must be verified by notary public.
- Different layers of internal decision making authorities for approving a loan have been set, based on the loan amount.

Credit risk process

Credit risk is one of the key risks for the Bank. In order to evaluate credit risk, the Group analyses the operations and financial position of its customers and business partners. After approving the credit, the solvency of the customer and the value of the collateral are regularly monitored. The credit risk management and control are centralised in the credit risk management unit which reports regularly to the Management Board and Supervisory Board.

Economic conditions in Estonia, being the key geographic market for the Bank's operations, have been benign over the past few years prior to the impact of the Coronavirus pandemic taking effect. The Bank's provisions exceeded the amount of non-performing loans as at 31 March 2020. Mortgages in arrears have been at very low level in the Bank and only increased after the acquisition of the private loans portfolio from Danske Bank A/S Estonia Branch in November 2019. As of 31 March 2020, the share of mortgage based loans which were more than 90 days in arrears or where the contract had been terminated amounted to 0.19 per cent, compared to 0.29 per cent as of 31 December 2019 and 0.11 per cent as of 31 December 2018. The Bank has been able to reduce the share of loans in arrears in the acquired portfolio owing to a more proactive approach in contacting the clients with overdue loans.

The following graphs show the percentages of overdue loans in the Bank's portfolio by loan type; rate of provisions against overdue loans; provisions against NPLs and the percentage of overdue mortgage loans over the period 31 December 2017 to 31 March 2020.



* NPL is calculated in accordance with the definition of default in Article 178 of Regulation (EU) No 575/2013. Provisions include provisions for loans and guarantees issued as well as provisions made for loan and guarantees commitments. Provision rate is calculated as amount of provisions divided by nominal loan amount (client balance). Loan amounts used for calculating the percentage of overdue loans are nominal amounts (client balance).

COMPETITION

As at 31 December 2019, there were 15 banks operating in Estonia. Of these, six were branches of foreign credit institutions. The largest banks in Estonia are owned by Nordic financial groups (SEB and Swedbank) which together accounted for around two thirds of the market (68 per cent. of deposits, 69 per cent. of corporate loans and 67 per cent. of household loans as at 31 December 2019, according to adjusted EFSA

data⁵). Accordingly, the Estonian banking sector is fairly concentrated. The Bank and Luminor are the third and fourth largest banks in terms of market share of deposits and lending. The Bank's market share has been growing and amounted to 13 per cent. for deposits, 10 per cent. for corporate loans and 7 per cent. for household loans as at 31 December 2019, according to adjusted EFSA data.

The Bank principally seeks to compete by:

- offering premium customer service. The Bank has won awards for best service and expressly targets that it should have the best service among its competitors. The Bank focuses on understanding the needs of its clients. Among corporate clients, instead of offering completely standardised products, the Bank is willing to provide flexibility where possible to better match the client's business needs;
- providing a transparent product offering and service. The Bank seeks to make its product offering and communications easily understandable for its customers. The pricing of its products and services is transparent;
- swift decision-making and lean organisation. The Bank focuses on efficient internal processes and swift decision-making. Where possible, the Bank automates its internal processes. The Bank keeps its organisation efficient and does not create unnecessary complexity which would involve added time and cost for the Bank and ultimately for the client. The Bank is able to react to market developments by introducing new products and services without undue delay; and
- offering premium electronic channels. The Bank views its internet bank and mobile app as the key channels for communication with its clients. The Bank places great emphasis on developing the functionalities of these channels and making them as convenient for the client as possible. This approach creates efficiencies for the Bank and is also attractive for its clients.

INFORMATION TECHNOLOGY

The Bank has only two physical branches in Estonia and one in London. Instead of branches, the Bank prioritises digital channels and information technology to service its customers. One of the cornerstones of the Bank's IT strategy is a strong internal IT team, making up a quarter of the Bank's workforce. Most of the Bank's IT systems are developed in-house according to common service-oriented architecture and modular design principles, with the addition of a few third-party integrations. Modern digital channels, a strong technical footprint and automation capabilities enable the Bank to use the convenience of its mobile and internet banking facilities and speed of automated processes as a competitive advantage.

The Management Board has overall accountability for setting, approving and overseeing the implementation of the Bank's IT strategy as part of its overall business strategy as well as for establishing an effective risk management framework for IT and information security risks. The IT strategy and related action plans are reviewed and updated annually to reflect changes in the business environment and in both the size and complexity of the Bank's operations.

The overall responsibility for managing and overseeing IT and information security risks throughout the LHV Group is assigned to the Chief Information Security Officer of the Bank who reports to the Bank's

⁵ Source: EFSA, adjusted for the Latvian and Lithuanian branches of Luminor (based on Luminor Q4 2019 Interim report). The values of the Estonian total markets have been adjusted by deducting the assets and deposits of the Latvian and Lithuanian branches of Luminor in order to reflect more accurately the size of the relevant Estonian market.

Chief Risk Officer. This control function is responsible for monitoring and controlling adherence to the IT and information security risk management framework.

A separate internal audit function has the capacity to independently review and provide objective assurance of the compliance of all IT and information security related activities.

The Bank's IT and information security measures include:

- defined logical access control procedures, including access on a "need to know" basis, access management, access logging and appropriate authentication methods;
- defined physical security measures, including limited access and appropriate environmental hazard protection;
- appropriate operations security measures, including ensuring that software and firmware is maintained up to date, the implementation of secure configuration baselines of all network components, the implementation of network segmentation, data loss prevention systems and the encryption of network traffic, the implementation of protection of endpoints including servers, workstations and mobile devices, ensuring that mechanisms are in place to verify the integrity of software, firmware and data and encryption of data at rest and in transit;
- security monitoring, including policies and procedures to detect anomalous activities and security threats and to respond to them appropriately;
- information security reviews, assessment and testing, including tests carried out by independent testers with sufficient knowledge, skills and expertise and vulnerability scans and penetration tests commensurate to the level of risk identified with the business processes and systems; and
- information security training and awareness, including periodic security awareness programmes, for all staff and contractors to ensure that they are trained to perform their duties and responsibilities consistent with the relevant security policies and procedures to reduce human error, theft, fraud, misuse or loss and how to address information security related risks.

INSURANCE

The Bank maintains the following insurance policies:

- comprehensive crime and professional indemnity; and
- directors' and officers' liability.

The Bank's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations and the Bank will only receive insurance proceeds in respect of a claim made by it to the extent that the insurers have the funds to make payment. Therefore insurance may not cover all losses incurred by the Bank and no assurance is given that the Bank will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

COMPLIANCE

The Bank's compliance function plays a vital role in identifying, assessing and providing advice relating to compliance with applicable laws and regulatory requirements. In addition to monitoring and reporting on

compliance-related risks (which may give rise to legal and administrative penalties, financial loss or reputational damage), the compliance function is also responsible for conducting compliance audits. The compliance function employs three full time equivalent employees.

ANTI-MONEY LAUNDERING

The anti-money laundering ("**AML**") unit, which contains 11 full time equivalent employees, co-ordinates the Bank's AML procedures and guidelines, including assessing clients, countries and services for AML risk, monitoring and screening activities, providing internal training, being the point of contact for the Estonian Financial Intelligence Unit and reporting to the AML committee. The AML committee approves the AML control plan, consults in areas such as risk management, and suggests guidelines for the Bank's Management Board approval and regularly reports to the Bank's Management Board. The Bank adopts a zero tolerance approach to money laundering and is investing substantially in AML processes and software. In addition, the Bank regularly reviews its customer base and terminates relationships with off-shore customers (unless a clear, legitimate reason for using an off-shore structure can be established).

Potential new high-risk clients are screened by the Bank's risk client unit (which comprises 10 full time equivalent employees) and their on-boarding is approved by the Bank's Risk Client Committee and Management Board. According to LHV Bank's Customer Acceptance Principles all payment service providers and virtual asset service providers are considered as high-risk customers. Enhanced customer due diligence is applied in such cases, including in-depth on-site visits. All other new clients are approved in accordance with the Bank's know your customer (KYC) principles and procedures.

LITIGATION

The Bank is party to legal and administrative proceedings in the course of its everyday business operations. Generally, the Bank acts as plaintiff in these proceedings, seeking to recover debts by defaulting borrowers and other customers. As at the date of this Prospectus, the Bank is only acting as plaintiff on ongoing litigation all of which relates to debt recovery.

Since the Bank operates in a field which is subject to extensive regulation, it is also subject to administrative proceedings initiated primarily by the EFSA in the course of its financial supervision. As of the date of this Prospectus, none of the legal or administrative proceedings to which the Bank is a party (including any such proceedings which are pending or threatened of which management is aware) are considered likely to have a significant effect on the Bank's financial position and there are no legal or administrative proceedings to which the Bank has been party during the 12 months preceding the date of this Prospectus which may have, or have had, a significant effect on the Bank's financial position or profitability.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

In accordance with Estonian law, the Bank has a two-tier board system, consisting of the management board (the "**Management Board**") and the supervisory board (the "**Supervisory Board**"). The Management Board is responsible for the day-to-day management of the Bank's operations and is authorised to represent the Bank based on the law and the articles of association of the Bank (the "**Articles of Association**"). The Supervisory Board is responsible for strategic planning and for supervising the activities of the Management Board.

The address of operations of the Management Board and the Supervisory Board is the Bank's registered address: Tartu mnt 2, 10145 Tallinn, Estonia.

Management Board

Role and duties

The Management Board is responsible for the day-to-day management of the Bank's operations, representing the Bank and for organising its accounting. Furthermore, in accordance with the Estonian Commercial Code, it is the obligation of the Management Board to draft the Bank's annual reports and submit the annual reports to the Supervisory Board for review and to the general meeting of shareholders of the Bank (the "**General Meeting**") for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

The Management Board must present an overview of its activities, as well as the economic activities and economic situation of the Bank to the Supervisory Board at least once every three months and must give immediate notice to the Supervisory Board of any material deterioration of the economic condition of the Bank, the existence of any threat of such material deterioration or of any deviation from the prudential requirements. If the Bank is insolvent (other than on a temporary basis), the Management Board must immediately, but no later than twenty days after the date on which the insolvency became evident, submit a voluntary bankruptcy petition in respect of the Bank.

The Management Board may enter into transactions that lie outside the Bank's ordinary scope of business only with the consent of the Supervisory Board. Such transactions include, but are not limited to:

- (i) the acquisition or termination of holdings in other companies;
- (ii) the establishment and dissolving of subsidiaries;
- (iii) the acquisition or transfer of an enterprise, or the termination of its activities;
- (iv) the transfer or encumbrance of immovables or registered movables;
- (v) the foundation or closure of foreign branches;
- (vi) the making of investments exceeding a prescribed sum of expenditure for the current financial year;
- (vii) the assumption of loans or debt obligations exceeding a prescribed sum for the current financial year; and

- (viii) the granting of loans or the guarantee of debt obligations if this is beyond the scope of everyday economic activities.

In accordance with the Articles of Association, the Bank may be represented in all transactions and legal acts by two members of the Management Board acting jointly. A member of the Management Board may not represent the Bank in transactions or legal disputes with third parties in relation to which such member of the Management Board, or a person who shares economic interests with such member of the Management Board, has personal economic interests.

Members of the Management Board

According to the Articles of Association, the Management Board comprises three to seven members who are appointed by the Supervisory Board for a term of five years. As at the date of this Prospectus there are seven members in the Management Board as shown in the table below.

| Name | Role | Date appointment first registered |
|-------------------------|-------------|--|
| Mr Erki Kilu..... | Chairman | 2 June 2008 |
| Mr Andres Kitter..... | Member | 20 December 2013 |
| Mr Indrek Nuume..... | Member | 2 February 2009 |
| Mr Jüri Heero..... | Member | 19 December 2007 |
| Mr Meelis Paakspuu..... | Member | 1 September 2015 |
| Mr Martti Singi..... | Member | 12 June 2012 |
| Ms Kadri Kiisel..... | Member | 23 August 2018 |

The term of all current members of the Management Board expires on 20 September 2022.

Mr Erki Kilu

Mr Kilu is the chairman of the Management Board of the Bank. Mr Kilu was born in 1975. He holds a bachelor's degree in international business administration majoring in banking and finance from the Estonian Business School awarded to him in 1998, a master's degree in business administration from the Faculty of Economics of the University of Tartu awarded to him in 2001 and a master's degree in Engineering, Conversion Master in IT from the Institute of Computer Science of the University of Tartu awarded to him in 2018.

Before assuming the position of Chairman of the Management Board of the Bank in 2008, Mr Kilu was the Chairman of the Management Board of SE Seesam Life Insurance Vienna Insurance Group. Within the Group, in addition to being the Chairman of the Management Board of the Bank, Mr Kilu serves as the Chairman of the Supervisory Board of AS LHV Finance and as a Member of the Supervisory Board of AS LHV Varahaldus and AS LHV Kindlustus. He is also the Chairman of the Management Board of the non-profit organisation Estonian Banking Association and a Member of the Board of the non-profit organisation European Banking Federation.

Mr Andres Kitter

Mr Kitter leads the financial intermediaries business and also heads the Bank's UK branch. Mr Kitter was born in 1978. He obtained a master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003.

Between 2000 and 2007, Mr Kitter worked for AS SEB Ühisliising, holding several different positions in the company. Before assuming his position in the Bank as the Head of Retail Banking in 2013, he served as a payment operations manager and partner relations manager in Skype Technologies OÜ. In the past he has been a member of the Management Board of Kingu OÜ.

Mr Indrek Nuume

Mr Nuume is a member of the Management Board and the Head of Corporate Banking of the Bank. Mr Nuume was born in 1976 and obtained a master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2002. Before joining the Bank, Mr Nuume worked for Danske Bank A/S Estonian Branch as the Head of Corporate Banking between 1998 and 2009. He is also a member of the Supervisory Board of the non-profit organisation SA Tilsu LK Fond.

Mr Jüri Heero

Mr Heero is a member of the Management Board and the Head of IT of the Bank. Mr Heero was born in 1977 and holds a degree in economics from the Faculty of Economics and Business Administration of the University of Tartu awarded to him in 1999. During his professional career, Mr Heero worked as a software developer and consultant in several companies. Additionally, between 2000 and 2004, he was a member of the Supervisory Board of AS Cognitive Dynamics, and from 2005 to 2009, he served as a member of the Management Board of OÜ Heero Invest.

Mr Heero joined the Group in 2004 as the Head of IT and has been participating in the management of the Group since 2006. From 2006 to 2007, he served as a member of the Supervisory Board of the Bank and since 2007 he has been a member of the Management Board of the Bank.

Mr Meelis Paakspuu

Mr Paakspuu is the member of the Management Board of, and the Chief Financial Officer of, the Bank. He was born in 1974 and graduated from the University of Tartu in 1996 with a degree in economics.

During his professional career, Mr Paakspuu worked as the chief analyst of the Banking Supervision of the Bank of Estonia between 1996 and 1998 and in different positions in the treasury department of Swedbank AS (formerly AS Hansapank) including as Head of Treasury from 1998 to 2012. Before joining the Bank, Mr Paakspuu served as the Chief Financial Officer of DNB Pank AS from 2012 to 2015. In the past he has been a member of the Management Board of MP Advisory OÜ and Estonian Banking Association.

Mr Martti Singi

Mr Singi is a member of the Management Board and the Chief Risk Officer of the Bank. Mr Singi was born in 1974 and holds a master's degree in international business administration from the Estonian Business School awarded to him in 2009.

Before assuming his current position in the Bank in 2012, Mr Singi served at AS Swedbank as the Head of Group Credit Risk Control from 2007 to 2009 and as the Head of Risk Control from 2009 to 2012. Between 2000 and 2007, Mr Singi held different positions in SEB Group.

Ms Kadri Kiisel

Ms Kiisel is a member of the Management Board of the Bank. She was born in 1981 and holds an MBA degree in finance from University of Tartu.

Ms Kadri Kiisel has worked in the Bank since 2011, starting as the manager of the Bank's Tallinn branch and continuing as the head of branches of the Bank in 2017. Since 2018, Ms Kiisel has been a member of the Management Board of AS LHV Finance and since August 2018 she has also been a member of the Management Board of the Bank.

Supervisory Board

Role and duties

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

In accordance with the Estonian Commercial Code and the Articles and Association, before the annual General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report and also providing information on how the Supervisory Board has organised and supervised the Bank's activities during the year.

In accordance with the Articles of Association, the competence and obligations of the Supervisory Board include:

- (i) the approval of the Bank's strategy and general principles of operation;
- (ii) the approval of the Bank's credit and investment policy;
- (iii) the approval of the Bank's general risk management policies and strategy;
- (iv) the approval of the Bank's organisational structure and its principles;
- (v) the approval of the general principles of supervision of the Bank's operations;
- (vi) the election and recalling of members of the Management Board, the Chairman of the Management Board, the deputy to the Chairman of the Management Board and procurators, and the remuneration of such persons;
- (vii) the approval of the statutes of the internal audit unit of the Bank, the election and recalling of the head of the internal audit unit and, upon the proposal of the head of the internal audit unit, the election and recalling of the employees of the internal audit unit;
- (viii) the approval of the Bank's budget and investment plan;
- (ix) the establishment and closure of foreign branches;

- (x) the acquisition (including increase of shareholding in) and disposal (including reducing of shareholding in) of legal entities (including establishment and liquidation of legal entities), if the volume of such transaction exceeds 10 per cent. of the Banks' own fund or the other entity's share capital or where the said threshold is reached with such transaction;
- (xi) the approval of the general principles and competence of the credit committee;
- (xii) approving the conclusion of transactions that lie outside the Bank's ordinary scope of business;
- (xiii) approving the conclusion of transactions with members of the Management Board of the Bank and appointing the Bank's representatives for such transactions, in accordance with applicable law;
- (xiv) the submission of claims against members of the Management Board of the Bank and appointing the Bank's representatives for such claims;
- (xv) determining the agenda of the General Meeting (where prescribed by law); and
- (xvi) approving other matters in the competence of the Supervisory Board under law and the Articles of Association.

Members of the Supervisory Board

According to the Articles of Association, the Supervisory Board comprises five to seven members who are appointed by the General Meeting of shareholders for a period of up to five years. 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.

According to the Articles of Association, meetings of the Supervisory Board are held as necessary, with a minimum of at least one meeting every three months. A meeting of the Supervisory Board is quorate if more than half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is adopted if more than 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 six members in the Supervisory Board as shown in the table below.

| Name | Role | Date appointment first registered |
|---------------------------|-------------|--|
| Mr Madis Toomsalu | Chairman | 5 December 2016 |
| Mr Rain Lõhmus | Member | 29 December 2006 |
| Mr Andres Viisemann | Member | 10 October 2007 |
| Mrs Tiina Mõis..... | Member | 29 December 2006 |
| Mr Raivo Hein..... | Member | 23 April 2010 |
| Mr Heldur Meerits..... | Member | 18 December 2008 |

The terms of the current members of the Supervisory Board expire as follows: Madis Toomsalu and Heldur Meerits (5 December 2021), Andres Viisemann and Raivo Hein (20 September 2022) and Rain Lõhmus and Tiina Mõis (31 December 2024).

Mr Madis Toomsalu

Mr Toomsalu was born in 1982. Mr Toomsalu obtained a Bachelor's degree in business management from the Tallinn University of Technology in 2009 and Master's degree in 2011 in public finance. In addition to holding the position of Chairman of the Bank's Supervisory Board, Mr Toomsalu is also the sole member of LHV Group's Management Board and the Chairman of the supervisory board of AS LHV Varahaldus and of the supervisory board of AS LHV Kindlustus. Previously Mr Toomsalu has held various positions within LHV Group. Mr Toomsalu also acts as the member of the Management Board of non-profit organisations MTÜ FinanceEstonia.

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 worked as an investment banker and served as a member of the Management Board of several companies, including Osühing Zarenor Invest from 2002 until 2012. He has been engaged with the Group since it was established in 1999 and was one of its founders. Currently Mr Lõhmus serves as the Chairman of the Supervisory Board of the Company and as a member of the Supervisory Boards of LHV Pank and LHV Finance. Additionally, he holds the position of the member of the Management Board of AS Lõhmus Holdings, OÜ Umblu Records, Osühing Merona Systems and Zerospotnrg OÜ; and is a member of the Supervisory Board of Arco Vara AS, Kodumaja AS and Thermory AS. In the past he has held the position of member of the Supervisory Board of Kodumajagrupi AS, AS Audentes, AB Archyvų sistemas (previously AS Arhiivikeskus) and AS LH Capital and the position of member of the Management Board of OÜ Cuber Technology.

Mr Andres Viisemann

Mr Viisemann was born in 1968. Mr Viisemann obtained a degree in finance from the University of Tartu in 1992. He also holds an MBA degree from INSEAD in 1997. During his professional career, Mr Viisemann 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 its founders. Within the Group, in addition to his position as a member of the Supervisory Board, he is also a member of the Supervisory Boards of LHV Pank and LHV Varahaldus. He is also a member of the Management Board of Viisemann Holdings OÜ and Viisemann Investments AG and a member of the Supervisory Board of AS Fertilitas and non-profit organisation Rocca al Mare Kooli Sihtasutus. In the past, he has been a member of the Supervisory Board of Rocca al Mare Koolimaja AS, AS Viimsi Haigla, AS LH Capital and a member of the Management Board of Pealinna Spordiklubi and OÜ Miura Investeeringud.

Mrs Tiina Mõis

Mrs Mõis was born in 1957. Mrs Mõis holds degrees in econometrics and organisation of service and economic engineering from the Tallinn Technical University awarded to her in 1980. From 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 has been a member of the Management Board and the Managing Director of AS Genteel, her wholly-owned investment vehicle. Within the Group, she is also a member of the Supervisory Board of LHV Pank. In addition, she is a member of the Supervisory Board of AS Baltika and Rocca al Mare Kooli Aktsiaselts. She has also been a 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 a member of the Management Board of Tallinna Tehnikatilikooli Vilistlaskogu and the Estonian Chamber of Commerce and Industry.

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 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 a 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 a 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 Aeग्रuum OÜ and OÜ Saarte Sillad. He is a member of the Supervisory Board of AS Puumarket. In the past he has been a member of the Supervisory Board of Aktsiaselts Fix Idee Estonia, Moonfish Media OÜ and United Dogs and Cats OÜ; the Chairman of the Supervisory Board of OÜ Tarbegaas and a member of the Management Board of Sundog Media OÜ.

Mr Heldur Meerits

Mr Meerits was born in 1959. Mr Meerits obtained a degree in finance and credit from the University of Tartu in 1982. During his professional career Mr Meerits worked for the Estonian National Bank between 1988 and 1991 and between 1995 and 1997. 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 through his wholly-owned investment vehicle, Amalfi AS. Within the Group, in addition to his position as a member of the Supervisory Board, he is also a member of the Supervisory Board of LHV Pank. Mr Meerits is a member of the Management Board of AS Altamira and AS Amalfi and a member of the Supervisory Board of Kodumaja AS, AS Smart City Group and non-profit organisations SA Dharma, SA Tähelaps and SA Põltsamaa Ühisgümnaasiumi Toetusfond. In the past he has been a member of the Supervisory Board of AS Audentes, Green Clay Manufacturing OÜ, Steri AS, Mainor Ülemiste AS, AS Ecosalvager, AS Estonian Air and a member of the Management Board of SIA Valdemara Group, MTÜ Eesti Eraüldhariduskoolide Ühendus, AS Avatud Eesti Fond and Sihtasutus Teater NO99.

General Meeting

The General Meeting is the highest governing body of the Bank. The competence of the General Meeting includes:

- (i) approving any amendment to the Articles of Association;
- (ii) approving any increase and reduction of share capital;
- (iii) approving the issue of convertible bonds;
- (iv) approving the election, and removal, of members of the Supervisory Board;
- (v) approving the election of an auditor;
- (vi) approving the conduct of a special audit;

- (vii) approving annual reports and the distribution of profits;
- (viii) approving the dissolution, merger, division or transformation of the Bank;
- (ix) approving the conclusion, and terms and conditions, of transactions with members of the Supervisory Board, determining the conduct of legal disputes with members of the Supervisory Board and the appointment of a representative of the Bank in such transactions and disputes;
- (x) approving other matters within the competence of the General Meeting by law.

An ordinary General Meeting must be held once a year and within six months from the end of the financial year, pursuant to the procedures and at the time set forth by law and the Articles of Association.

An extraordinary General Meeting must be convened as set forth in the Articles of Association but also: (i) where the net equity of a company decreases below the legally required minimum level, or (ii) if shareholders representing at least one-tenth of the share capital, the Supervisory Board, or the Bank's auditor request that a meeting is convened or (iii) if the General Meeting is required in the interests of the Bank. If the Management Board fails to convene an extraordinary General Meeting within one month after the receipt of the relevant request from shareholders (or from the Supervisory Board or from the auditor), the shareholders (or, respectively, the Supervisory Board or the auditor) have the right to convene the General Meeting themselves.

The General Meeting will be quorate if shareholders holding shares representing more than 50 per cent. of the total voting rights represented by all shares held by shareholders are present at the General Meeting. If this quorum requirement is not met, the Management Board is required to convene a new meeting not more than three weeks, but not less than seven days, after the date of the initial meeting. There are no quorum requirements applicable to an adjourned General Meeting convened in such a manner.

Save as otherwise specified, a resolution of the General Meeting will be passed by a majority of the shareholders eligible to vote at such meeting voting in favour of such resolution. Certain resolutions, such as approving an amendment to the Articles of Association, increasing or decreasing the share capital and resolutions relating to a merger or liquidation of the Bank require a qualified majority of at least two-thirds of the votes represented at the General Meeting. In addition to such resolutions, there are resolutions which require an even higher rate of affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of three-quarters of the votes represented at the General Meeting, and the "squeeze-out" of minority shares, which requires the affirmative vote of ninety-five per cent. of the votes represented at the General Meeting.

Committees

The Bank has two principal Supervisory Board committees, each established at the end of 2019, and one committee established jointly with the supervisory board of LHV Group:

Risk and Capital committee

This committee, which was previously a committee of the LHV Group supervisory board but was formed at the Bank level in December 2019 following amendments to the Estonian Credit Institutions Act, advises and supports the Supervisory Board with regard to supervision of the general, actual and future risk appetite and strategy, considering all types of risk and ensuring their compliance with the business strategy, objectives, business practice and values.

The Risk and Capital Compliance committee has four members: Rain Lõhmus (Chairman), Andres Viisemann, Tina Mõis and Madis Toomsalu. Under its charter, it should meet at least four times a year.

Nomination committee

This committee supports the Supervisory Board in issues concerning the selection process and fit-and-proper requirements.

The Nomination committee has three members: Madis Toomsalu (chairman), Rain Lõhmus and Andres Viisemann. Under its charter, it should meet at least once a year.

Remuneration committee

This committee, which is a body formed jointly by the supervisory boards of LHV Group and the Bank, supports the supervisory boards in developing, implementing and supervising the remuneration strategy of the employees and members of the management boards of LHV Group and the Bank.

The Remuneration committee has three members appointed and removed by LHV Group's supervisory Board: Madis Toomsalu (chairman), Rain Lõhmus and Andres Viisemann. Under its charter, it should meet at least once a year.

The Bank also has three principal Management Board committees:

Risk Client Acceptance committee

This committee advises and supports the Management Board in relation to accepting clients who are categorised with higher risk regarding AML related issues.

The Risk Client Acceptance committee has three members nominated by the Management Board. It meets as often as required and usually at least once a week.

Assets and Liabilities Management committee

This committee develops and monitors the implementation of (i) risk management policies (except credit risk policies); (ii) risk management rules and guidelines (except credit risk rules); (iii) financing policies and guidelines; and (iv) capital and dividend management policies. The Asset and Liabilities Management Committee also reviews the detailed monthly risk reports and the performance of the Bank's overall business continuity plans and the results of tests performed.

The Assets and Liabilities Management committee has eight members: Mr Erki Kilu, Mr Andres Kitter, Mr Indrek Nuume, Mr Jüri Heero, Mr Meelis Paakspuu, Mr Martti Singi, Ms Kadri Kiisel and Ms Kadri Haldre.

Under its charter, it should meet at least 12 times a year.

Credit committee

This committee manages the Bank's credit risk through its approval of the granting and extension of loans above the limit determined in the Bank's Credit Risk Policy (being, as at the date of this Prospectus, EUR 500,000). The credit committee is accountable to the Management Board. Its working procedures and competence are established by the Supervisory Board and its members are appointed by the Management Board. It is required to have a minimum of five members.

The credit committee meets on a regular basis, with the frequency of meetings determined by the chair of the credit committee as necessary.

In accordance with the Articles of Association, the meetings of the credit committee are private. A meeting of the credit committee is quorate where more than half of the members of the committee are present at the meeting and a decision of the credit committee is adopted where all members of the committee who are present at the meeting vote unanimously in favour of the decision. Members of the credit committee may not refrain from voting nor remain undecided.

Conflicts of interest

There are no known actual or potential conflicts of interest between the duties of any of the members of the Management Board and the Supervisory Board named above to the Bank and their private interests or other duties.

EMPLOYEES

As at 31 March 2020, the Bank employed 431 full time equivalent staff, compared to 396 as at 31 December 2019, 345 as at 31 December 2018 and 288 as at 31 December 2017. LHV Group employed 459 full time equivalent staff as at 31 March 2020.

The Bank's remuneration policy seeks to ensure fair, motivating and transparent remuneration in accordance with the law. A broader goal of the remuneration policy is the recruitment of employees with the capabilities, skills and experience necessary to implement the Bank's strategy, reconcile the interests of employees and shareholders, motivate the employees and ensure effective risk management for growing business activities. The remuneration system consists of basic remuneration, compensation and employee benefits. The Bank does not provide its employees with services at a lower than the market price, does not make payments to a third pillar pension fund at the expense of the employer and does not provide benefits such as a company car, a mobile phone or a laptop for personal use.

The general remuneration strategy is to ensure motivating pay to achieve long-term goals, creating a strong link between remuneration and the financial results of the Bank.

The Bank's recruitment strategy is to find, engage and keep the best people in the labour market. In determining remuneration, the Bank is prepared to make exceptions rather than restricting its choices with strict remuneration intervals for a specific position. To keep its employees, the Bank seeks to develop its benefits and compensation in cooperation with its employees.

In determining remuneration, the following factors are taken into account:

- commitment and results of the employee;
- workload;
- responsibility;
- the required level of education;
- management level;
- intensity of work;

- the necessary knowledge and experience for the position;
- the existence of additional benefits;
- the situation in the labour market;
- the pay level of the geographical location; and
- the level of criticality of the position.

The determination of the amount of remuneration is objective and is paid according to the work done and its value, not according to the personality, gender, age, origin, or other factors personal to the employee.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

The discussion of the Bank's consolidated financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the heading "Risk factors".

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

OVERVIEW

The Bank is the third largest bank in Estonia with a 13 per cent. market share in deposits and a 10 per cent. market share in corporate loans, in each case according to adjusted data⁶ provided by the EFSA as at 31 December 2019. The Bank was also named the Best Bank in Estonia for 2019 by the Financial Times magazine "The Banker", in November 2019.

The Bank is an Estonian licensed credit institution offering banking services to corporate and retail clients in Estonia. In addition to branches in Tallinn and Tartu, the Bank also:

- has a 65 per cent. owned subsidiary which provides consumer finance and hire purchase services in Estonia;
- has a London branch which was established in 2018; and
- is a participant in two deposit engagement platforms and accepts deposits from the Austrian, Dutch, German and Spanish markets.

The Bank has an ambitious growth strategy with the long-term aim of becoming the largest bank in Estonia. To achieve this, it intends to continue focusing on efficiency, profitability, innovation and the provision of the best possible service.

In January 2020, an independent survey company, Dive, concluded that the Bank offered the best service in Estonian banking with a score of 90.1 per cent. In July 2019, Euromoney identified the Bank as the best bank in Estonia for the second consecutive year.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Bank's results of operations.

⁶ *Source: EFSA, adjusted for the Latvian and Lithuanian branches of Luminor (based on Luminor Q4 2019 Interim report). The values of the Estonian total markets have been adjusted by deducting the assets and deposits of the Latvian and Lithuanian branches of Luminor in order to reflect more accurately the size of the relevant Estonian market.*

Economic conditions

The Bank is an Estonian bank primarily focused on lending to, and accepting deposits from, commercial and retail customers, principally those located or resident in Estonia. As a result, its revenue and results of operations are principally affected by economic and market conditions in Estonia.

Based on data released by the Estonian central bank and the Estonian Statistical Office, Estonia's nominal GDP was €21.1 billion in 2016, €23.6 billion in 2017, €26.0 billion in 2018 and €28.0 billion in 2019. The Estonian central bank's estimate of nominal GDP for 2020 is €29.5 billion. In real terms, Estonia's GDP grew by 4.8 per cent. in 2018 and by 4.3 per cent. in 2019. The Estonian central bank's estimate of real GDP growth in 2020 is -6 per cent., reflecting the effect of the business and movement restrictions set by the government to fight the spread of the Coronavirus (assuming that the restrictions remain in place until the beginning of May). By the same estimate exports will decline by 13%, private consumption by 3% and the unemployment rate will reach 10% in 2020. On the assumption that the spread of the virus is contained and overall demand will not suffer dramatically, it is expected that all of these indicators will recover in 2021. These projections are, however, surrounded by a lot of uncertainty and the confidence bands are wider than usual. If the lockdown resulting from the spread of the Coronavirus continues for longer than assumed, the negative impact on the economy will be even greater. For further information, see "*Market Environment – Estonian macroeconomic environment*".

Prior to the sudden economic shock caused by the lockdown imposed following the spread of the Coronavirus, the Estonian economy was on an upward although decelerating growth path. Unemployment decreased to 4.4 per cent. of the labour force in 2019 (which is essentially an indicator of full employment). Private consumption expenditure showed stable growth of between 3 and 4 per cent. in the period from 2017 to 2019. Private consumption was supported by high levels of consumer confidence and an improved financial situation for families, reflecting salary growth and high levels of employment. On the downside, consumer price inflation, which remained steady at 3.4 per cent. in each of 2017 and 2018, fell to 2.3 per cent. in 2019, but is still one of the highest in the Eurozone.

In the event that is possible to contain Coronavirus in the near future, the Estonian economy has all the premises for a swift recovery. In the long-run, the Estonian economy is facing structural challenges as one of its key components, the shale-oil energy sector, is becoming steadily less competitive due to its large carbon footprint. The Bank also believes that the construction sector is saturated and low productivity branches of the processing industry are at risk from rapidly growing wages. Ongoing crises are fuelling these developments and are possibly accelerating the challenges these present. Although the real estate market is likely to go through a correction in 2020, the Bank sees the market more likely to stagnate in the long-run. On a more positive note, financing conditions remain propitious for both households and businesses and governments and central banks are more committed than ever to stimulate economic recovery and growth in the coming years.

Loan portfolio acquisitions in 2019

In January 2019, the Bank acquired a €13 million loan portfolio from Versobank for €12 million. In November 2019, the Bank acquired a €432 million private loan portfolio from Danske Bank for a price of €393 million. Versobank's loan portfolio contained 20 business customers and 47 private customers. Danske Bank's loan portfolio contained approximately 10,800 private customers, with mortgage loans comprising 97 per cent. of the portfolio. The Bank considers the Danske Bank credit portfolio to be strong and well-secured. As the interest rates of the Danske Bank housing loans were relatively close to cost price, the portfolio could only be purchased at a discount. The transaction significantly improved and diversified the structure of the Bank's loan portfolio, balancing the corporate loan portfolio.

The Bank's loan volumes grew by 84 per cent. to €1,687 million during 2019. Corporate loans grew by 32 per cent. to €851 million and retail loans by 202 per cent. to €836 million, with most of the retail loan growth reflecting the acquisition of the Danske Bank portfolio. As at 31 December 2019, the retail loan portfolio consisted of housing loans (70 per cent.), leasing (11 per cent.) and other loans (19 per cent.).

Factors affecting total net operating revenues

The Bank's total net operating revenues principally comprises its net interest income and, to a lesser extent, its net fee and commission income. The Bank's total net operating revenues (which comprises net interest income, net fee and commission income and net gains from financial assets) amounted to €60.9 million in 2019, €50.6 million in 2018 and €39.5 million in 2017. The Bank's net interest income comprised 78.6 per cent. of its total net operating revenues in 2019, 77.1 per cent. in 2018 and 78.8 per cent. in 2017 whilst its net fee and commission income comprised 21.0 per cent. of its total net operating revenues in 2019, 21.9 per cent. in 2018 and 19.5 per cent. in 2017.

Within the Bank's net interest income:

- interest income on loans to companies (including retail loans) is the major contributor to total interest income, comprising 60.5 per cent. of the Bank's total interest income in 2019, 60.7 per cent. in 2018 and 58.6 per cent. in 2017. Interest income on consumer loans and mortgage loans comprised 11.8 per cent. and 8.5 per cent., respectively, of the Bank's total interest income in 2019, 11.6 per cent. and 3.9 per cent., respectively, in 2018 and 11.3 per cent. and nil per cent., respectively, in 2017; and
- interest expense paid on deposits from customers and loans received is a major contributor to total interest expense, comprising 41.3 per cent. of the Bank's total interest expense in 2019, 28.5 per cent. in 2018 and 27.9 cent. in 2017. Interest expense on balances with the central bank comprised 31.6 per cent. of the Bank's total interest expense in 2019, 50.9 per cent. in 2018 and 40.7 per cent. in 2017 and interest expense on subordinated debt comprised 27.1 per cent. of the Bank's total interest expense in 2019, 20.6 per cent. in 2018 and 31.4 cent. in 2017.

The Bank's net interest income is affected by a number of factors. It is primarily determined by the volume of interest-earning assets relative to interest-bearing liabilities, as well as the differential between the rates earned on interest-earning assets and the rates paid on interest-bearing liabilities.

The Bank's net interest income for 2019 was €8.9 million, or 22.8 per cent., higher than its net interest income in 2018 which, in turn, was €7.9 million, or 25.3 per cent., higher than its net interest income in 2017.

For a discussion of the trends in the Bank's net interest income, see "*Results of operations—Net interest income*".

Within the Bank's net fee and commission income:

- fees from cards and settlements is the major contributor to total fee and commission income, comprising 51.7 per cent. of the Bank's total fee and commission income in 2019, 46.4 per cent. in 2018 and 44.9 per cent. in 2017. Security brokerage and commission fees comprised 15.1 per cent. of the Bank's total fee and commission income in 2019, 19.5 per cent. in 2018 and 23.5 per cent. in 2017; and
- fees related to bank cards paid is a major contributor to total fee and commission expense, comprising 35.1 per cent. of the Bank's total fee and commission expense in 2019, 35.5 per cent. in 2018 and 37.5 cent. in 2017. Fees related to acquiring paid comprised 35.0 per cent. of the Bank's total fee and commission expense in 2019, 36.3 per cent. in 2018 and 36.7 cent. in 2017.

The Bank's net fee and commission income is affected by a number of factors. Card-related fees (both earned and paid) are primarily determined by the amounts spent on those cards whilst acquiring fees (both earned and paid) are primarily determined by the volume of acquiring transactions, although in both cases changes in the amount of fee charged would also have a significant affect.

The Bank's net fee and commission income for 2019 was €1.7 million, or 15.4 per cent., higher than its net fee and commission income in 2018 which, in turn, was €3.4 million, or 44.3 per cent., higher than its net interest income in 2017.

For a discussion of the trends in the Bank's net fee and commission income, see "*—Results of operations—Net fee and commission income*".

Operating expense items

The Bank's principal operating expense items are staff costs and administrative and other operating expenses. Together, these expense items amounted to €32.5 million in 2019 compared to €25.7 million in 2018 and €20.4 million in 2017, growth rates of 26.3 per cent. in 2019 and 26.1 per cent. in 2018. The Bank's cost income ratio⁷ fell from 51.7 per cent. in 2017 to 49.9 per cent. in 2018 and then grew to 53.2 per cent. in 2019.

The increase in the Bank's operating expenses in 2018 principally reflected an increase in business volumes and was more than matched by growth in the Bank's income. Only the deposits of financial institutions (which are fully matched with the liquidity buffer on the assets side) decreased in 2018, causing the whole balance sheet to decrease. The increase in the Bank's operating expenses in 2019 principally reflected growth in its business as its assets increased by 82.2 per cent., in part reflecting the Danske Bank portfolio acquisition, although also reflecting organic loan growth and growth in amounts due from the central bank, as well as growth in its liabilities, which increased by 86.0 per cent. driven by growth in deposits from customers and loans received.

For a discussion of the trends in the Bank's operating expenses, see "*—Results of operations—Other income and expense items*".

RECENT DEVELOPMENTS

On 21 April 2020, the Bank published the Interim Financial Statements, which are incorporated by reference in this document. Below is a summary of the key developments of the Bank for the period 1 January 2020 to 31 March 2020.

- In the first quarter of 2020, the Bank's net profit was €8.1 million (compared to €4.2 million as at 31 March 2019). Total net operating revenues was €20.5 million (compared to €13.9 million as at 31 March 2019) and operating expenses increased to €9.4 million from €7.5 million as at 31 March 2019. Impairment losses on loans and advances remained at the same level as at 31 March 2019 at €1.0 million (a decrease from €1.55 million for the fourth quarter of 2019 ended on 31 December 2019). Return on equity increased to 18 per cent. as at 31 March 2020 from 12.7 per cent. as at 31 December 2019 and 12.5 per cent. as at 31 March 2019.
- Whilst the Bank's customer numbers increased by 14,400 during the first quarter of 2020, the number dropped to just 4,300 in March following the declaration of the Coronavirus pandemic by the World Health Organisation. Whilst standard client activity of the bank had dropped by nearly 30 per cent. by 31 March 2020, the activities of financial intermediaries increased significantly.
- The Bank was the first bank in Estonia to announce grace periods for business clients in the first half of March, which was subsequently extended to private clients. For further detail see "*Description of the Bank – Corporate banking*".
- The Bank launched Apple Pay, allowing a contactless payment at a POS, on the internet and in various applications.

⁷ The sum of staff costs and administrative and other operating expenses divided by the sum of net interest income, net fee and commission income, net gains from financial assets and other income.

- The Bank continues making provisions to reflect the impact of the Coronavirus pandemic on its loan portfolio. The Bank has published that for the month of April 2020 it recorded loan loss provisions of EUR 5.6 million, compared to EUR 42 thousand in the month of April 2019. As a result of high provisions, the Bank recorded a net loss of EUR 2.1 million for the month of April 2020, compared to a net profit of EUR 2.1 million for the month of April 2019.

As at the date of this Base Prospectus, the Bank is continuing to offer grace periods for business clients and private clients in line with the uniform policy of the Estonian Banking Association for granting repayment moratoria in connection with the Coronavirus pandemic. As of 30 April 2020, the grace periods granted by the Bank covered mortgage loan contracts in the amount of €38 million, other loan contracts of private individuals in the amount of €4 million and loan contracts of legal entities in the amount of €136 million.

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the significant accounting policies applied by the Bank generally, see note 2 to the 2019 Financial Statements.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing the Bank's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Bank's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Bank's financial statements, see note 4 to the 2019 Financial Statements, which identifies, as the most significant factor, the estimated and assumptions required in applying IFRS 9.

RESULTS OF OPERATIONS

Net interest income

The Bank's net interest income is the difference between its interest income and its interest expense.

The Bank's interest income comprises the interest it receives on:

- the loans that it advances to customers (including corporate loans, consumer loans, mortgage loans, private loans, credit card loans, and leveraged loans and lending of securities); and
- hire purchase transactions;
- leasing transactions;
- debt securities it holds; and
- balances it places with credit institutions and investment companies (including its minimum reserve requirements with the Estonian Central Bank).

The Bank's interest expense comprises the interest it pays on:

- customer deposits and loans received;
- balances with the central bank, reflecting the negative yield on those balances; and
- subordinated debt which it has borrowed.

The Bank recognises interest income and interest expense using the effective interest method, which is explained in note 2.16 to the 2019 Financial Statements.

The table below shows the breakdown of the Bank's net interest income in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|--|---------------------|-----------------------|-----------------------|
| | <i>(€ thousand)</i> | | |
| Interest income | | | |
| Loans to companies (including retail loans)..... | 37,130 | 27,701 ⁽¹⁾ | 21,703 ⁽¹⁾ |
| <i>of which, stage 3 interests⁽¹⁾</i> | <i>164</i> | <i>340</i> | <i>421</i> |
| Mortgage loans..... | 5,248 | 1,761 ⁽¹⁾ | 635 ⁽¹⁾ |
| Consumer loans..... | 7,240 | 5,313 | 4,018 |
| Hire purchase | 3,968 | 4,055 | 4,182 |
| Leasing..... | 3,253 | 2,439 | 1,845 |
| Credit card loans..... | 813 | 770 | 694 |
| Leveraged loans and lending of securities | 500 | 456 | 147 |
| From balances with credit institutions and investment companies..... | 270 | 141 | 39 |
| From debt securities | 356 | 136 | 206 |
| Private loan | 1,744 | 1,514 | 1,152 |
| Other loans | 891 | 1,336 ⁽¹⁾ | 871 ⁽¹⁾ |
| Total interest income..... | 61,413 | 45,622 | 35,492 |
| Interest expense | | | |
| Deposits from customers and loans received..... | (5,579) | (1,881) | (1,218) |
| From balances with central bank..... | (4,265) | (3,360) | (1,773) |
| Subordinated debt..... | (3,654) | (1,360) | (1,367) |
| Total interest expense..... | (13,498) | (6,601) | (4,358) |
| Net interest income..... | 47,915 | 39,021 | 31,134 |

Note:

- (1) In 2018, the LHV Group sold a small discontinued business. The comparative figures of the Bank for 2018 included in the relevant notes to the 2019 Financial Statements are not directly comparable with the equivalent figures for 2018 included in the relevant notes to the 2018 Financial Statements due to reclassification of interest income from the discontinued business between the separate lines. The 2018 figures noted in the table above are derived from the 2019 Financial Statements and the corresponding figures for 2017 have been adjusted to also reflect the sale of the discontinued business. Additionally, in its 2018 Financial Statements, the Bank included mortgage loans aggregated with other loans under "Other loans". In its 2019 Financial Statements the Bank started showing these loans on a separate line. The corresponding figures for 2018 and 2017 have been adjusted correspondingly.

The Bank's net interest income amounted to €47.9 million in 2019 compared to €39.0 million in 2018 and €31.1 million in 2017.

2019 and 2018 compared

The increase of €8.9 million, or 22.8 per cent., in net interest income in 2019 compared to 2018 reflected an increase of €15.8 million, or 34.6 per cent., in interest income and an increase of €6.9 million, or 104.5 per cent., in interest expense.

The €15.8 million increase in interest income in 2019 principally reflected:

- a €9.4 million, or 34.0 per cent., increase in interest income from loans to companies (including retail loans) from €27.7 million in 2018 to €37.1 million in 2019, which was driven by an increase in volumes;
- a €3.5 million, or 198.0 per cent., increase in interest income from mortgage loans from €1.8 million in 2018 to €5.2 million in 2019, which was driven by an organic increase in the portfolio and the acquisition of the Danske Bank portfolio in November 2019;
- a €1.9 million, or 36.3 per cent., increase in interest income from consumer loans from €5.3 million in 2018 to €7.2 million in 2019, which was driven by an increase in volumes.

The €6.9 million increase in interest expense in 2019 principally reflected:

- a €3.7 million, or 196.6 per cent., increase in interest expense on deposits from customers and loans received from €1.9 million in 2018 to €5.6 million in 2019, which was driven by an increase in term deposits gathered for financing the Danske portfolio acquisition;
- a €2.3 million, or 168.7 per cent., increase in interest expense on subordinated debt from €1.4 million in 2018 to €3.7 million in 2019, which was driven by an increase in outstanding subordinated loans; and
- a €0.9 million, or 26.9 per cent., increase in interest expense on balances with the central bank from €3.4 million in 2018 to €4.3 million in 2019, which was driven by a lower negative ECB interest rate and higher balances kept in the Estonian central bank.

2018 and 2017 compared

The increase of €7.9 million, or 25.3 per cent., in net interest income in 2018 compared to 2017 reflected an increase of €10.1 million, or 28.5 per cent., in interest income and an increase of €2.2 million, or 51.5 per cent., in interest expense.

The €10.1 million increase in interest income in 2018 principally reflected:

- a €6.0 million, or 27.6 per cent., increase in interest income from loans to companies (including retail loans) from €21.7 million in 2017 to €27.7 million in 2018, which was driven by an increase in the volumes;
- a €1.3 million, or 32.2 per cent., increase in interest income from consumer loans from €4.0 million in 2017 to €5.3 million in 2018, which was driven by an increase in the volumes;
- a €1.1 million, or 177.3 per cent., increase in interest income from mortgage loans from €0.6 million in 2017 to €1.8 million in 2018, which was driven by an increase in volumes; and

- a €0.8 million, or 40.9 per cent., increase in interest income from other loans from €2.0 million in 2017 to €2.8 million in 2018, which was driven by an increase in volumes.

The €2.2 million increase in interest expense in 2018 principally reflected:

- a €1.6 million, or 89.5 per cent., increase in interest expense on balances with the central bank from €1.8 million in 2017 to €3.4 million in 2018, which was driven by an increase in balances kept with the Estonian central bank; and
- a €0.7 million, or 54.4 per cent., increase in interest expense on customer deposits and loans received from €1.2 million in 2017 to €1.9 million in 2018, which was driven by increasing deposit volumes and additional funding from the capital markets.

Net fee and commission income

The Bank's net fee and commission income is the difference between its fee and commission income and its fee and commission expense.

The Bank's fee and commission income principally relates to:

- the card and settlement services that its provides to customers;
- its security brokerage activities;
- its asset management activities; and
- currency exchange services that it provides to customers.

The Bank's fee and commission expense principally relates to:

- cards;
- acquiring services;
- consumer loans and hire purchase costs; and
- security brokerage costs.

The Bank recognises fee and commission income and fee and commission expense after the service has been received and when the liability has been incurred.

The table below shows the breakdown of the Bank's net fee and commission income in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|--|---------------------|-------------|-------------|
| | <i>(€ thousand)</i> | | |
| Fee and commission income | | | |
| Fees from cards and settlements..... | 12,485 | 8,766 | 5,875 |
| Security brokerage and commission fees | 3,658 | 3,687 | 3,072 |
| Asset management and related fees..... | 2,962 | 2,429 | 1,690 |
| Currency exchange fees | 1,867 | 1,639 | 977 |

| | | | |
|--|-----------------|----------------|----------------|
| Other fee and commission income | 3,185 | 2,381 | 1,482 |
| Total fee and commission income | 24,157 | 18,902 | 13,096 |
| Fee and commission expense | | | |
| Fees related to bank cards paid..... | (3,979) | (2,765) | (2,026) |
| Fees related to acquiring paid..... | (3,967) | (2,834) | (1,982) |
| Fees related to consumer loans and hire purchase paid..... | (674) | (518) | (485) |
| Security brokerage and commission fees paid..... | (546) | (544) | (55) |
| Other fee and commission expense | (2,183) | (1,138) | (853) |
| Total fee and commission expense | (11,349) | (7,799) | (5,401) |
| Net fee and commission income | 12,808 | 11,103 | 7,695 |

The Bank's net fee and commission income amounted to €12.8 million in 2019 compared to €11.1 million in 2018 and €7.7 million in 2017.

2019 and 2018 compared

The increase of €1.7 million, or 15.4 per cent., in net fee and commission income in 2019 compared to 2018 reflected an increase of €5.3 million, or 27.8 per cent., in fee and commission income and an increase of €3.5 million, or 44.5 per cent., in fee and commission expense.

The €5.3 million increase in fee and commission income in 2019 principally reflected:

- a €3.7 million, or 42.4 per cent., increase in fee and commission income from cards and settlements from €8.8 million in 2018 to €12.5 million in 2019, which was driven by an increase in volumes;
- a €0.5 million, or 21.9 per cent., increase in other asset management and related fee income from €2.4 million in 2018 to €3.0 million in 2019, which was driven by an increase in volumes; and
- a €0.8 million, or 33.8 per cent., increase in other fee and commission income from €2.4 million in 2018 to €3.2 million in 2019, which was driven by institutional banking transactions that closed in 2018 and 2019, respectively.

The €3.5 million increase in fee and commission expense in 2019 principally reflected:

- a €1.2 million, or 43.9 per cent., increase in fees related to bank cards paid from €2.8 million in 2018 to €4.0 million in 2019, which was driven by increase in the customer base and the volume of outstanding card transactions;
- a €1.1 million, or 40.0 per cent., increase in expenses related to acquiring from €2.8 million in 2018 to €4.0 million in 2019, which was driven by increase in the customer base and the volume of outstanding card transactions; and
- a €1.0 million, or 91.8 per cent., increase in other fee and commission expense from €1.1 million in 2018 to €2.2 million in 2019, which was driven by fees paid to third parties in relation to institutional banking transactions.

2018 and 2017 compared

The increase of €3.4 million, or 44.3 per cent., in net fee and commission income in 2018 compared to 2017 reflected an increase of €5.8 million, or 44.3 per cent., in fee and commission income and an increase of €2.4 million, or 44.4 per cent., in fee and commission expense.

The €5.8 million increase in fee and commission income in 2018 principally reflected:

- a €2.9 million, or 49.2 per cent., increase in fee and commission income from cards and settlements from €5.9 million in 2017 to €8.8 million in 2018, which was driven by an increase in volumes;
- a €0.9 million, or 60.7 per cent., increase in other fee and commission income from €1.5 million in 2017 to €2.4 million in 2018, which was driven by an increase in volumes;
- a €0.7 million, or 43.7 per cent., increase in fee and commission income from asset management and related fees from €1.7 million in 2017 to €2.4 million in 2018, which was driven by an increase in volumes;
- a €0.7 million, or 67.8 per cent., increase in interest currency exchange fees from €1.0 million in 2017 to €1.6 million in 2018, which was driven by an increase in volumes; and
- a €0.6 million, or 20.0 per cent., increase in security brokerage and commission fees from €3.1 million in 2017 to €3.7 million in 2018, which was driven by an increase in volumes.

The €2.4 million increase in fee and commission expense in 2018 principally reflected:

- a €0.9 million, or 43.0 per cent., increase in expense related to acquiring from €2.0 million in 2017 to €2.8 million in 2018, which was driven by an increase in volumes;
- a €0.7 million, or 36.5 per cent., increase in expenses related to cards from €2.0 million in 2017 to €2.8 million in 2018, which was driven by an increase in volumes; and
- a €0.5 million increase in security brokerage and commission fees paid from €0.1 million in 2017 to €0.5 million in 2018, which was driven by an increase in volumes.

Net gains from financial assets

The Bank's net gains from financial assets represent fair value changes on financial assets measured at fair value and foreign exchange rate gains and losses. The Bank's net gains from financial assets amounted to €0.2 million in 2019, €0.5 million in 2018 and €0.7 million in 2017, a decline of €0.3 million, or 56.2 per cent., in 2019 compared to 2018 and a decline of €0.2 million, or 31.7 per cent., in 2018 compared to 2017.

Other income and expense items

The table below shows the Bank's other income and expense items in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|---|-----------------|-----------------|---------------------|
| | | | <i>(€ thousand)</i> |
| Staff costs | (17,042) | (13,878) | (11,287) |
| Administrative and other operating expenses | (15,475) | (11,865) | (9,128) |
| Other income | 176 | 951 | 6 |
| Total | (32,341) | (24,792) | (20,409) |

The Bank's other income and expense items amounted to €32.3 million in 2019 compared to €24.8 million in 2018 and €20.4 million in 2017.

2019 and 2018 compared

The increase of €7.5 million, or 30.4 per cent., in other income and expense items in 2019 compared to 2018 principally reflected:

- an increase of €3.2 million, or 22.8 per cent., in staff costs from €13.9 million in 2018 to €17.0 million in 2019, principally as a result of an increase in the number of employees (the average number of the Bank's staff increased by 18.4 per cent. from 342 in 2018 to 405 in 2019) and an average 7 per cent. salary increase ; and
- an increase of €3.6 million, or 30.4 per cent., in administrative and other operating expenses from 11.9 million in 2018 to €15.5 million in 2019. This increase principally reflected (i) a €1.6 million, or 140.7 per cent., increase in depreciation expenses from €1.2 million in 2018 to €2.8 million in 2019 driven by the implementation of IFRS 16, (ii) a €1.5 million, or 87.8 per cent., increase in other administrative expenses from €1.7 million in 2018 to €3.2 million in 2019 driven by an increase in business volumes generally and higher supervisory fees and fees to deposit insurance schemes which are also related to higher business volumes and (iii) a €0.5 million, or 24.8 per cent., increase in IT expenses from €2.0 million in 2018 to €2.5 million in 2019 driven by an increase in business volumes coupled with smaller increases in almost all other items of administrative and other operating expenses. In 2019, the Bank's operating lease payments fell by €0.8 million, or 77.1 per cent., from €1.1 million in 2018 to €0.2 million, driven by the introduction of IFRS 16.

2018 and 2017 compared

The increase of €4.4 million, or 21.5 per cent., in other income and expense items in 2018 compared to 2017 principally reflected:

- an increase of €2.6 million, or 23.0 per cent., in staff costs from €11.3 million in 2017 to €13.9 million in 2018, principally as a result of an increase in the number of employees (the average number of the Bank's staff increased by 16.3 per cent. from 294 in 2017 to 342 in 2018) and an average 8 per cent. salary increase ; and
- an increase of €2.7 million, or 30.0 per cent., in administrative and other operating expenses from €9.1 million in 2017 to €11.9 million in 2018. This increase principally reflected (i) a €0.6 million, or 37.9 per cent., increase in IT expenses from €1.5 million in 2017 to €2.0 million in 2018 driven by an increase in business volumes and the introduction of new IT systems, (ii) a €0.5 million, or 34.2 per cent., increase in other outsourced services from €1.5 million in 2017 to €2.0 million in 2018 driven

by outsourcing IT services from external parties and (iii) a €0.5 million, or 37.1 per cent., increase in other administrative expenses from €1.3 million in 2017 to €1.7 million in 2018 driven by the increasing cost of the Estonian deposit insurance system (which reflected the Bank's higher deposit volumes) coupled with smaller increases in all other items of administrative and other operating expenses.

Profit before credit losses

Reflecting the above factors, the Bank's profit before credit losses was €28.6 million in 2019 compared to €25.8 million in 2018 and €19.1 million in 2017, an increase of €2.8 million, or 10.8 per cent., in 2019 and an increase of €6.7 million, or 35.0 per cent., in 2018.

Impairment losses on loans and advances

The Bank's impairment losses on loans and advances charged to its income statement amounted to €3.2 million in 2019 compared to €4.9 million in 2018 and €3.6 million in 2017, a decrease of €1.7 million, or 34.2 per cent., in 2019 and an increase of €1.3 million, or 36.1 per cent., in 2018. Reflecting the introduction of IFRS 9 with effect from 1 January 2018, the charge for 2017 was recorded on a basis that was different to that for 2018 and 2019.

The Bank's impairment allowances on loans and advances are principally recorded against its portfolio of corporate loans and advances (including overdraft), with total impairment allowances against that portfolio amounting to €3.7 million as at 31 December 2019 compared to €8.8 million as at 31 December 2018 and €4.6 million as at 1 January 2018, giving a total net decrease of provisions against the portfolio of corporate loans and advances of €5.1 million during 2019 and a total net increase of provisions against the portfolio of corporate loans and advances of €4.2 million during 2018. In 2018, the Bank recorded a significant write off against two separate loans, although a full recovery was made in 2019 against one of the loans which resulted in a write-back in 2019 of the provision taken against that loan in 2018.

Profit before income tax

Reflecting the above factors, the Bank's profit before income tax was €25.4 million in 2019 compared to €20.9 million in 2018 and €15.5 million in 2017, an increase of €4.5 million, or 21.3 per cent., in 2019 and an increase of €5.4 million, or 34.8 per cent., in 2018.

Income tax expenses

The Bank's income tax expenses amounted to €3.3 million in 2019 compared to €2.5 million in 2018, an increase of €0.8 million, or 30.4 per cent. The Bank did not record any income tax expense in 2017. In the second quarter of 2018, credit institutions in Estonia became subject to income tax calculated at a rate of 14 per cent. of their pre-tax profit.

In 2019, the increase in income tax expense principally reflected the fact that the whole year was included in the tax calculation coupled with the Bank's higher pre-tax profitability in that year.

Profit for the year

Reflecting the above factors, the Bank's profit for the year was €22.1 million in 2019 compared to €18.4 million in 2018 and €15.5 million in 2017, an increase of €3.7 million, or 20.1 per cent., in 2019 and an increase of €2.9 million, or 18.6 per cent., in 2018.

Other comprehensive income

The Bank's other comprehensive income in each of 2019 and 2018 comprised changes in the fair value of debt and equity instruments held at FVOCI. In 2017, the Bank's other comprehensive income comprised changes in the fair value of its available for sale financial assets.

The Bank's other comprehensive income was €134 thousand in 2019 compared to €42 thousand in 2018 and €76 thousand in 2017.

LIQUIDITY AND FUNDING

Overview

The Bank's liquidity needs arise primarily as a result of the need to fund loans and advances to customers, the payment of expenses and dividends and investments in securities. Additionally, the Bank maintains a liquidity buffer the size of which is determined based on regulatory requirements and the Bank's internal liquidity planning framework. To date, the Bank's liquidity needs have been funded principally through deposits and loans received, operating cash flow, including interest and fee and commission income received, and the sale of investments in securities. In addition to deposits received from the Bank's customers in Estonia and the UK, the Bank has also been acquiring term deposits from retail depositors through two deposit intermediation platforms: Deposit Solutions and Raisin.

Liquidity

The table below shows the Bank's cash flow from operating activities, investing activities and financing activities for each of 2019, 2018 and 2017.

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|---------------------|
| | | | <i>(€ thousand)</i> |
| Cash flows from operating activities before changes in operating assets and liabilities | 31,985 | 25,259 | 19,552 |
| Net cash from/(used in) operating activities | 509,890 | (299,634) | 630,694 |
| Net cash from investing activities | 4,426 | 9,970 | 13,922 |
| Net cash from financing activities | 62,066 | 16,650 | 3,000 |
| Effect of exchange rate changes on cash and cash equivalents | 79 | 64 | 265 |
| Net increase/(decrease) in cash and cash equivalents | 576,461 | (272,950) | 647,881 |
| Cash and cash equivalents at the beginning of the year | 667,566 | 940,516 | 292,635 |
| Cash and cash equivalents at the end of the year... | 1,244,027 | 667,566 | 940,516 |

Operating activities

The Bank's net cash inflow from operating activities before changes in operating assets and liabilities in 2019 was €32.0 million compared to €25.3 million in 2018 and €19.6 million in 2017. The Bank's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its net interest income and net fee and commission income less its administrative and other operating expenses (including staff costs) and income tax charge. The Bank's net cash inflow from operating activities in 2019 was €509.9 million compared to a net cash outflow of €299.6 million in 2018 and a net cash inflow of €630.7 million in 2017. The changes in the Bank's operating cash flows in each year principally reflect movements in operating assets (principally loans and advances to customers) and liabilities (principally customer deposits and loans received).

Investing activities

The Bank's net cash inflow from investing activities was €4.4 million in 2019 compared to €10.0 million in 2018 and €13.9 million in 2017.

In 2019, the Bank principally recorded a cash inflow of €6.5 million from net changes of FVTPL investment securities and a cash outflow of €2.1 million on the purchase of tangible and intangible assets.

In 2018, the Bank principally recorded a cash inflow of €10.8 million from net changes of FVTPL investment securities and a cash outflow of €1.4 million on the purchase of tangible and intangible assets.

In 2017, the Bank principally recorded a cash inflow of €15.1 million from net changes of FVTPL investment securities and a cash outflow of €1.3 million on the purchase of tangible and intangible assets.

Financing activities

The Bank's net cash inflow from financing activities was €62.1 million in 2019 compared to a net cash inflow of €16.7 million in 2018 and a net cash inflow of €3.0 million in 2017.

In 2019, the Bank's net cash inflow principally reflected €48.5 million from subordinated debt received and €26.0 million from additional capital paid in by its sole shareholder which was partially offset by €8.0 million spent redeeming subordinated debt and €3.4 million paid in dividends.

In 2018, the Bank's net cash inflow principally reflected €10.0 million from additional capital paid in by its sole shareholder and €10 million from subordinated debt received which was partially offset by €3.3 million paid in dividends.

In 2017, the Bank's net cash inflow reflected €3.0 million from additional capital paid in by its sole shareholder. The Bank did not pay any dividends in 2017, as all of its profit was used to support growth.

Funding

Sources of funding

The Bank's principal source of funding is its customer deposits and loans received. In addition, the Bank's funding comprises subordinated debt.

The Bank also has access to a pool of unencumbered and liquid debt securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Bank's customer deposits and loans received amounted to €2,738.6 million, or 96.7 per cent. of its total liabilities, as at 31 December 2019, €1,469.6 million, or 96.5 per cent. of its total liabilities, as at 31 December 2018 and €1,556.6 million, or 95.0 per cent. of its total liabilities, as at 31 December 2017.

Customer deposits and loans received

The table below shows the breakdown of the Bank's customer deposits and loans received by customer category and type as at 31 December in each of 2019, 2018 and 2017.

| | <u>Individuals</u> | <u>Financial intermediaries</u> | <u>Legal entities</u> | <u>Public sector</u> | <u>Total</u> |
|----------------------------------|---------------------|---------------------------------|-----------------------|----------------------|------------------|
| | <i>(€ thousand)</i> | | | | |
| 31 December 2019 | | | | | |
| Demand deposits . | 525,938 | 376,068 | 1,279,219 | 20,293 | 2,201,518 |
| Term deposits | 415,349 | — | 90,100 | 3,100 | 508,549 |
| Loans received | — | — | 25,643 | — | 25,643 |
| Accrued interest liability | 2,692 | — | 196 | 3 | 2,891 |
| Total | 943,979 | 376,068 | 1,395,158 | 23,396 | 2,738,601 |
| 31 December 2018 | | | | | |
| Demand deposits . | 374,491 | 193,893 | 753,582 | 7,935 | 1,329,901 |
| Term deposits | 57,605 | — | 54,456 | 5,734 | 117,795 |
| Loans received | — | — | 21,528 | — | 21,528 |
| Accrued interest liability | 197 | — | 131 | 9 | 337 |
| Total | 432,293 | 193,893 | 829,697 | 13,678 | 1,469,561 |
| 31 December 2017 | | | | | |
| Demand deposits . | 278,430 | 606,600 | 531,990 | 6,203 | 1,423,223 |
| Term deposits | 51,075 | — | 70,221 | 5,816 | 127,112 |
| Loans received | — | — | 6,000 | — | 6,000 |
| Accrued interest liability | 144 | — | 87 | 7 | 238 |
| Total | 329,649 | 606,600 | 608,298 | 12,026 | 1,556,573 |

Deposit and depositor types

The Bank's deposits principally comprise demand deposits which represented 80.4 per cent. of its total deposits and loans received as at 31 December 2019, 90.5 per cent. of its total deposits and loans received as at 31 December 2018 and 91.4 per cent. of its total deposits and loans received as at 31 December 2017. The Bank's only other class of deposit is term deposits which are available for terms of between one month and one year and generally pay higher rates of interest than its demand deposits.

As at 31 December 2019, legal entities accounted for 50.9 per cent. of the Bank's total deposits and loans received, individuals accounted for 34.5 per cent., financial intermediaries accounted for 13.7 per cent. and the public sector accounted for the balance.

As at 31 December 2018, legal entities accounted for 56.5 per cent. of the Bank's total deposits and loans received, individuals accounted for 29.4 per cent., financial intermediaries accounted for 13.2 per cent. and the public sector accounted for the balance.

As at 31 December 2017, legal entities accounted for 39.1 per cent. of the Bank's total deposits and loans received, individuals accounted for 21.2 per cent., financial intermediaries accounted for 39.0 per cent. and the public sector accounted for the balance.

The increase in the Bank's loans received as at 31 December 2018 compared to 31 December 2017 principally reflected a new 10-year loan agreement from the European Investment Fund for €12.5 million to be used for lending to small and medium-sized enterprises.

Depositor concentration

As at 31 December, 2019, the deposits of four customers had a high risk concentration which aggregated 213 per cent. of the Bank's net own funds. As at the same date, there were four clients holding deposits in excess of 10 per cent. of the Bank's net own funds whose aggregate deposits amounted to €487 million and the share of the top 20 depositors was 25.3 per cent.

As at 31 December 2018, the deposits of five customers had a high risk concentration which aggregated 132 per cent. of the Bank's net own funds. As at the same date, there were six clients holding deposits in excess of 10 per cent. of the Bank's net own funds whose aggregate deposits amounted to €189 million and the share of the top 20 depositors was 20.5 per cent.

As at 31 December 2017, the deposits of five customers had a high risk concentration which aggregated 551 per cent. of the Bank's net own funds. As at the same date, there were five clients holding deposits in excess of 10 per cent. of the Bank's net own funds whose aggregate deposits amounted to €615 million and the share of the top 20 depositors was 48 per cent. See "*Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations*".

Maturity profile

The table below shows the Bank's customer deposits and loans received by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2019, 2018 and 2017.

| | <u>On demand</u> | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Total⁽¹⁾</u> |
|------------------------|---------------------|-----------------------|--------------------|--------------------|---------------------|----------------------------|
| | <i>(€ thousand)</i> | | | | | |
| As at 31 December 2019 | 2,201,704 | 41,522 | 476,248 | 18,721 | 2,906 | 2,741,101 |
| As at 31 December 2018 | 1,330,018 | 24,949 | 94,113 | 16,780 | 4,390 | 1,470,250 |
| As at 31 December 2017 | 1,423,306 | 37,104 | 90,332 | 3,335 | 2,864 | 1,556,941 |

Note:

(1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's customer deposits principally comprise demand deposits. The Bank believes that its demand accounts are diversified by customer type and generally sticky in nature with an average duration of two years based on their behavioural nature, and therefore constitute a stable and secure source of low cost funding.

Interest repricing

The majority of the Bank's demand deposits pay interest, currently at 0.01 per cent., although some client segments have a higher rate and some demand deposits are subject to an account balance fee which is effectively a negative interest rate. The interest rate for demand deposits with a positive interest rate are only moderately sensitive to market rate fluctuations, particularly in the current situation where the general interest rate environment remains negative or very low. The Bank assumes in its calculations that the interest rate repricing term of its demand deposits is two years (except for deposits from certain financial customers where interest rate repricing is assumed to occur immediately). Amounts may be withdrawn from demand deposit accounts at any time without notice. The Bank's term deposits also pay interest, currently at 0.05 to 1.2 per cent., and amounts can be withdrawn from these accounts at their maturity.

See "Risk Factors—Risks relating to the Bank—The Bank is subject to the risk that liquidity may not always be readily available".

The table below shows the Bank's customer deposits and loans received Banked by the recalculation dates of interest rates for each of 2019, 2018 and 2017.

| | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Carrying amount ⁽¹⁾</u> |
|------------------------|-----------------------|--------------------|--------------------|---------------------|---------------------------------------|
| | <i>(€ thousand)</i> | | | | |
| As at 31 December 2019 | 375,862 | 491,080 | 1,868,767 | 1 | 2,738,601 |
| As at 31 December 2018 | 136,498 | 111,503 | 1,221,205 | 18 | 1,469,561 |
| As at 31 December 2017 | 567,004 | 96,246 | 893,085 | — | 1,556,573 |

Note:

(1) The carrying amount includes accrued interest which amounted to €2,891 thousand as at 31 December 2019, €337 thousand as at 31 December 2018 and €238 thousand as at 31 December 2017.

Currency mix

The Bank accepts deposits principally in euro. As at:

- 31 December 2019, 97.4 per cent. of its deposits from customers and loans received were denominated in euro, 1.0 per cent. were denominated in pounds sterling, 0.7 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies;
- 31 December 2018, 94.1 per cent. of its deposits from customers and loans received were denominated in euro, 2.8 per cent. were denominated in pounds sterling, 2.0 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies;
- 31 December 2017, 94.5 per cent. of its deposits from customers and loans received were denominated in euro, 2.1 per cent. were denominated in pounds sterling, 2.7 per cent. were denominated in U.S. dollars and the balance was denominated in other currencies;

Geographical distribution

In terms of the geographical distribution of deposits from customers and loans received:

- as at 31 December 2019, 68.7 per cent. were classified as Estonian, 29.2 per cent. were from other EU countries and 2.0 per cent. were from other countries;

- as at 31 December 2018, 80.3 per cent. were classified as Estonian, 16.9 per cent. were from other EU countries and 2.8 per cent. were from other countries; and
- as at 31 December 2017, 55.4 per cent. were classified as Estonian, 42.5 per cent. were from other EU countries and 2.1 per cent. were from other countries.

In 2019, the decrease in the proportion of Estonian deposits and the increase in other EU deposits principally reflected deposits raised through the two deposit engagement platforms in which the Bank has participated since July 2018 and June 2019, respectively.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

Subordinated debt

As at 31 December 2019 the Bank has six issues of subordinated bonds outstanding as shown in the table below.

| Month and year of issue | Amount | Interest rate | Maturity date |
|--------------------------------|---------------------|----------------------|----------------------|
| | <i>(€ thousand)</i> | <i>(per cent.)</i> | |
| June 2015 | 4,000 | 6.50 | 29 October 2025 |
| August 2015 | 3,000 | 6.50 | 29 October 2025 |
| May 2016 | 5,000 | 6.50 | 29 July 2026 |
| December 2018 | 10,000 | 6.50 | 28 December 2028 |
| June 2019 | 20,500 | 6.50 | 29 June 2029 |
| October 2019 | 5,000 | 6.50 | 29 October 2029 |

The bonds have been issued principally to increase the Bank's long-term capital. In the case of a winding up of the Bank, the bonds are repayable after all other debt has been repaid but before shareholders.

In addition, in 2019 the Bank entered into a €23 million Tier 1 subordinated loan carrying interest at 9.50 per cent.

LENDING

The Bank's loans and advances to customers amounted to €1,687.0 million as at 31 December 2019. The table below shows a breakdown of the Bank's loans and advances to customers by type of customer and type of loan as at 31 December in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|---|---------------------|-------------|-------------|
| | <i>(€ thousand)</i> | | |
| Loans to legal entities | | | |
| Corporate loans | 763,163 | 624,425 | 456,748 |
| Leasing | 66,078 | 44,277 | 33,732 |
| Overdraft | 42,801 | 23,846 | 39,192 |
| Retail loans | 40,967 | 16,200 | 13,656 |
| Trade finance | 32,761 | — | — |
| Leveraged loans | 3,148 | 1,997 | 4,547 |
| Credit card loans | 402 | 274 | 172 |
| Hire purchase | 277 | 249 | 269 |
| Loans to other subsidiaries of the parent company | — | — | 36,775 |
| Letters of credit | 5,389 | 3,067 | — |

| | | | |
|--|------------------|----------------|----------------|
| Total | 954,986 | 714,335 | 585,091 |
| Loans to individuals | | | |
| Mortgage loans..... | 587,855 | 101,009 | 77,640 |
| Consumer loans..... | 49,412 | 33,989 | 24,677 |
| Private loans..... | 44,776 | 37,884 | — |
| Hire purchase..... | 16,133 | 17,501 | 19,022 |
| Leasing..... | 23,410 | 15,888 | 11,320 |
| Credit card loans..... | 7,263 | 6,579 | 5,838 |
| Real estate leasing..... | 5,679 | — | — |
| Leveraged loans..... | 2,840 | 1,733 | 2,621 |
| Study loans..... | 750 | 76 | — |
| Overdraft..... | 34 | 43 | 81 |
| Total | 738,152 | 214,702 | 141,199 |
| Impairment provisions..... | (6,104) | (10,276) | (6,900) |
| Total loans and advances to customers | 1,687,034 | 918,761 | 719,390 |

As at 31 December 2019, corporate loans accounted for 45.1 per cent. of the Bank's total loans and advances to customers before impairment provisions compared to 67.2 per cent. as at 31 December 2018 and 62.9 per cent. as at 31 December 2017. The Bank's other significant categories of loan are mortgage loans (which accounted for 34.7 per cent. of the Bank's total loans and advances to customers before impairment provisions as at 31 December 2019 compared to 10.9 per cent. as at 31 December 2018 and 10.7 per cent. as at 31 December 2017) and leasing loans (which accounted for 4.9 per cent. of the Bank's total loans and advances to customers before impairment provisions as at 31 December 2019 compared to 6.5 per cent. as at 31 December 2018 and 6.2 per cent. as at 31 December 2017). The significant increase in mortgage loans in 2019 principally reflected the acquisition of a portfolio of mortgage loans from Danske Bank in November 2019.

The table below shows a breakdown of the Bank's loans and advances to customers by industry as at 31 December in each of 2019, 2018 and 2017.

| | 2019 | | 2018 | | 2017 | |
|--|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| | (€ thousand) | (per cent.) | (€ thousand) | (per cent.) | (€ thousand) | (per cent.) |
| Individuals..... | 738,152 | 43.6 | 214,702 | 23.1 | 141,199 | 19.4 |
| Real estate..... | 353,405 | 20.9 | 246,930 | 26.6 | 197,695 | 27.2 |
| Financial services | 71,690 | 4.2 | 95,697 | 10.3 | 114,888 | 15.8 |
| Wholesale and retail..... | 80,767 | 4.8 | 24,378 | 2.6 | 21,081 | 2.9 |
| Professional, scientific and technical activities | 47,368 | 2.8 | 18,779 | 2.0 | 13,948 | 1.9 |
| Other servicing activities..... | 7,290 | 0.4 | 25,669 | 2.8 | 15,480 | 2.1 |
| Transport and logistics..... | 15,337 | 0.9 | 11,076 | 1.2 | 5,869 | 0.8 |
| Education..... | 1,976 | 0.1 | 2,391 | 0.3 | 2,217 | 0.3 |
| Manufacturing..... | 114,104 | 6.7 | 98,073 | 10.6 | 68,251 | 9.4 |
| Administrative activities..... | 67,064 | 4.0 | 39,808 | 4.3 | 33,941 | 4.7 |
| Art and entertainment..... | 42,638 | 2.5 | 34,582 | 3.7 | 29,289 | 4.0 |
| Agriculture..... | 59,657 | 3.5 | 20,231 | 2.2 | 8,717 | 1.2 |
| Construction..... | 38,951 | 2.3 | 35,808 | 3.9 | 19,414 | 2.7 |

| | | | | | | |
|--|------------------|--------------|----------------|--------------|----------------|--------------|
| Information and communication.... | 7,017 | 0.4 | 4,115 | 0.4 | 8,430 | 1.2 |
| Other..... | 47,722 | 2.8 | 56,798 | 6.1 | 45,871 | 6.3 |
| Total (before impairment) | 1,693,138 | 100.0 | 929,037 | 100.0 | 726,290 | 100.0 |

The Bank's principal industry concentration is real estate. This category principally comprises commercial and residential real estate developments in cities but excludes construction which constitutes a separate category. The Bank also has a significant proportion of loans to individuals in its portfolio. Together loans to individuals and real estate loans accounted for 64.5 per cent. of the Bank's loans and advances to customers (before impairment) as at 31 December 2019, compared to 49.7 per cent. as at 31 December 2018 and 46.7 per cent. as at 31 December 2017. The increase in the proportion in 2019 principally reflected the acquisition of a portfolio of mortgage loans from Danske Bank in November 2019, which the Bank has categorised as loans to individuals in the table above.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

Risk concentration

As at 31 December 2019, loans made to 12 customers had a high risk concentration (that is, more than 10 per cent. of the Bank's net own funds) either individually or at a Bank level, with the aggregate concentration totalling 190 per cent. of the Bank's net own funds. As at 31 December 2018, loans made to 14 customers had a high risk concentration either individually or at a Bank level, with the aggregate concentration totalling 199 per cent. of the Bank's net own funds. As at 31 December 2017, loans made to 15 customers had a high risk concentration either individually or at a Bank level, with the aggregate concentration totalling 215 per cent. of the Bank's net own funds.

Maturity profile

The table below shows the Bank's loans and advances to customers by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2019, 2018 and 2017.

| | <u>On demand</u> | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Total⁽¹⁾</u> |
|----------------------------|------------------|-----------------------|--------------------|--------------------|---------------------|----------------------------|
| | (€ thousand) | | | | | |
| As at 31 December 2019 ... | — | 113,590 | 251,806 | 1,029,520 | 582,889 | 1,977,805 |
| As at 31 December 2018 ... | — | 63,584 | 198,293 | 634,077 | 154,853 | 1,050,807 |
| As at 31 December 2017 ... | — | 45,720 | 149,634 | 505,058 | 95,517 | 795,929 |

Note:

(1) This figure is different than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's loan and advances to customers are well diversified by maturity with 5.7 per cent. (by future contractual undiscounted cash flows) falling due within three months, 12.7 per cent. falling due between three and 12 months, 52.1 per cent. falling due between one and five years and the remaining 29.5 per cent. falling due after five years, in each case as at 31 December 2019.

Interest repricing

The Bank's loans and advances to customers bear interest at floating rate bases, mostly using a six month repricing period. There is less than 1 per cent. fixed rate loans in the statement of financial position.

The table below shows the Bank's loans and advances to customers Banked by the recalculation dates of interest rates for each of 2019, 2018 and 2017.

| | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Total⁽¹⁾</u> |
|-------------------------------|---------------------------|--------------------|--------------------|---------------------|----------------------------|
| | | | (€ thousand) | | |
| As at 31 December 2019 ... | 729,768 | 851,657 | 84,798 | 22,988 | 1,689,211 |
| As at 31 December 2018 ... | 382,251 | 465,063 | 62,286 | 16,770 | 926,370 |
| As at 31 December 2017 ... | 289,735 | 360,503 | 58,727 | 14,851 | 723,816 |

Note:

- (1) Excludes accrued interest and impairments which amounted to €3,927 thousand and €(6,104) thousand, respectively, as at 31 December 2019, €2,667 thousand and €(10,276) thousand, respectively, as at 31 December 2018 and €2,474 thousand and €(6,900) thousand, respectively, as at 31 December 2017.

As at 31 December 2019, 43.2 per cent. of the Bank's customer loans and advances repriced within three months, 50.4 per cent. repriced between three and 12 months, 5.0 per cent. repriced between one and five years and the remaining 1.4 per cent. repriced after five years.

Currency mix

The Bank makes customer loans and advances principally in euro. As at:

- 31 December 2019, 99.9 per cent. of its customer loans and advances were denominated in euro and the balance was denominated in other currencies;
- 31 December 2018, 98.3 per cent. of its deposits from customers and loans received were denominated in euro, 1.6 per cent. were denominated in pounds sterling and the balance was denominated in other currencies; and
- 31 December 2017, 99.7 per cent. of its deposits from customers and loans received were denominated in euro and the balance was denominated in other currencies.

Geographical distribution

In terms of the geographical distribution of customer loans and advances:

- as at 31 December 2019, 98.2 per cent. were classified as Estonian, 1.6 per cent. were from other EU countries and 0.2 per cent. were from other countries;
- as at 31 December 2018, 96.5 per cent. were classified as Estonian, 3.3 per cent. were from other EU countries and 0.2 per cent. were from other countries; and
- as at 31 December 2017, 90.5 per cent. were classified as Estonian, 9.0 per cent. were from other EU countries and 0.5 per cent. were from other countries.

See "Risk Factors—Risks relating to the Bank—The Bank has significant customer and sector concentrations".

FVTPL FINANCIAL ASSETS

The Bank's portfolio of FVTPL financial assets principally comprises debt securities and also includes shares and fund units and foreign exchange forward contracts. The securities are issued by both domestic and international issuers. The Bank invests in these securities both to generate returns (as interest, dividend and capital gains) and to provide an additional source of liquidity when needed.

Structure of the Bank's FVTPL financial assets

The table below summarises the Bank's FVTPL financial assets as at 31 December 2019 and 2018 and its equivalent securities categorised under IAS 39 as at 31 December 2017.

| | 2019 | 2018 | 2017 |
|---|---------------|---------------------|---------------|
| | | <i>(€ thousand)</i> | |
| Shares and fund units | 164 | 157 | 71 |
| Debt securities | 32,331 | 38,697 | 49,138 |
| Foreign exchange forwards | 4 | 59 | 30 |
| Total FVTPL financial assets | 32,499 | 38,913 | 49,239 |

All of the securities in the table above are measured at fair value. As at 31 December 2019 and 2018, all of the Bank's FVTPL shares and fund units as well as debt securities are fair valued at level 1, meaning they are quoted in an active market. Foreign exchange forwards are fair valued at level 2, meaning they are valued using market observable inputs using a valuation model.

The Bank's FVTPL debt securities are categorised internally in three portfolios: investment, liquidity and trading. The table below shows ratings distribution of the securities in these three categories as at 31 December in each of 2019, 2018 and 2017.

| | Investment portfolio | Liquidity portfolio | Trading portfolio | Total |
|-------------------------------|---------------------------------|--------------------------------|------------------------------|---------------|
| | <i>(€ thousand)</i> | | | |
| As at 31 December 2019 | | | | |
| AAA | 11,627 | — | — | 11,627 |
| A- to A+ | 2,890 | 17,814 | — | 20,704 |
| Total | 14,517 | 17,814 | — | 32,331 |
| As at 31 December 2018 | | | | |
| AAA | — | 18,439 | — | 18,439 |
| AA- to AA+ | — | 1,229 | — | 1,229 |
| A- to A+ | 18,006 | — | — | 18,006 |
| Unrated | — | — | 1,023 | 1,023 |
| Total | 18,006 | 19,668 | 1,023 | 38,697 |
| As at 31 December 2017 | | | | |
| AAA | — | 29,869 | — | 29,869 |
| A- to A+ | 18,223 | — | 1,046 | 19,269 |
| Total | 18,223 | 29,869 | 1,046 | 49,138 |

Interest repricing

The Bank's debt securities pay interest on either a semi-annual or annual basis.

The table below shows the Bank's debt securities by the recalculation dates of interest rates for each of 2019, 2018 and 2017.

| | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Total⁽¹⁾</u> |
|-------------------------------|---------------------------|--------------------|--------------------|---------------------|----------------------------|
| | <i>(€ thousand)</i> | | | | |
| As at 31 December 2019 ... | 10,682 | — | 12,950 | 7,925 | 31,557 |
| As at 31 December 2018 ... | 20,546 | — | 15,031 | 2,000 | 37,577 |
| As at 31 December 2017 ... | — | 29,715 | 15,834 | 2,000 | 47,549 |

Note:

- (1) Excludes accrued interest which amounted to €774 thousand as at 31 December 2019, €1,120 thousand as at 31 December 2018 and €2,465 thousand as at 31 December 2017.

As at 31 December 2019, 33.8 per cent. of the Bank's debt securities repriced within three months, none repriced between three and 12 months, 41.0 per cent. repriced between one and five years and the remaining 25.1 per cent. repriced after five years.

Maturity profile

The table below shows the Bank's debt securities by due dates and future contractual undiscounted cash flows split into the maturity buckets in which the cash flows occur (including interest cash flows) for each of 2019, 2018 and 2017.

| | <u>On demand</u> | <u>Up to 3 months</u> | <u>3-12 months</u> | <u>1 – 5 years</u> | <u>Over 5 years</u> | <u>Total⁽¹⁾</u> |
|-------------------------------|----------------------|---------------------------|------------------------|--------------------|-------------------------|----------------------------|
| | <i>(€ thousand)</i> | | | | | |
| As at 31 December 2019 ... | — | 10,883 | 13,018 | 8,429 | — | 32,330 |
| As at 31 December 2018 ... | — | 20,690 | — | 15,845 | 2,161 | 38,696 |
| As at 31 December 2017 ... | — | 180 | 30,952 | 17,005 | 2,084 | 50,221 |

Note:

- (1) This figure is higher than the statement of financial position balance reflecting the future undiscounted contractual cash flow calculation.

The Bank's debt securities are well diversified by maturity with 33.7 per cent. (by future contractual undiscounted cash flows) falling due within three months, 40.3 per cent. falling due between three and 12 months, 26.1 per cent. falling due between one and five years and none falling due after five years, in each case as at 31 December 2019.

Currency mix

The Bank's financial assets at fair value (which includes a small portfolio of equity securities held at FVTPL and at FVOCI or, prior to 1 January 2018, held as available for sale) are principally denominated in U.S. dollars and euro. As at:

- 31 December 2019, 49.3 per cent. of its financial assets at fair value were denominated in U.S. dollars, 50.7 per cent. was denominated in euro and the balance was denominated in other currencies;
- 31 December 2019, 59.2 per cent. of its financial assets at fair value were denominated in U.S. dollars, 37.8 per cent. was denominated in euro and the balance was denominated in other currencies; and
- 31 December 2017, 69.2 per cent. of its financial assets at fair value was denominated in U.S. dollars, 30.7 per cent. was denominated in euro and the balance was denominated in other currencies.

Geographical distribution

In terms of the geographical distribution of the Bank's financial assets at fair value (which includes a small portfolio of equity securities held at FVTPL and at FVOCI or, prior to 1 January 2018, held as available for sale):

- as at 31 December 2019, 60.6 per cent. were classified as Lithuanian, 29.9 per cent. were classified as German and the balance was from other countries;
- as at 31 December 2018, 44.0 per cent. were classified as Lithuanian, 52.8 per cent. were classified as German and the balance was from other countries; and
- as at 31 December 2017, 34.9 per cent. were classified as Lithuanian, 59.7 per cent. were classified as German and the balance was from other countries.

CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Bank's management and are also governed by EU capital adequacy regulations which are directly applicable in Estonia which are largely based on capital adequacy standards under the Basel III framework. The Basel III framework strengthened the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee. The Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks;
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process ("ICAAP") performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures.

The goal of the Bank's capital management is to:

- ensure continuity of its business and generate returns for its shareholders;
- maintain a strong capital base to support the development of its business; and
- comply with the capital requirements established by supervision authorities.

The Bank follows the following general principles in its capital management:

- it must be adequately capitalised at all times, having the necessary capital to ensure economic preservation and to enable financing for new profitable growth opportunities;
- the main focus on capital management is on tier 1 own funds because only these can absorb losses;
- the Bank's capital is divided into (i) regulatory minimum capital and (ii) the Bank's capital buffer and to reach its long-term economic goals the Bank seeks to proportionately lower its regulatory minimum capital (through minimising risks and high transparency) whilst maintaining a sufficient and conservative capital reserve which will ensure economic preservation even in a severe negative scenario; and
- the risk appetite set by the Bank is an important input to capital management planning and goal setting as a higher risk appetite requires a higher capital buffer.

All EU credit institutions are required to maintain 4.5 per cent. of common equity tier 1 ("CET1") capital, 6.0 per cent. of tier 1 capital and 8.0 per cent. of both tier 1 and tier 2 capital. In addition, in Estonia additional capital maintenance and systemic risk buffers of 2.5 per cent. (imposed by the Financial Supervisory Authority) and 1.0 per cent. (imposed by the Estonian Central Bank) apply. In 2018, the ranking of the capital requirements changed and the Supervisory Review and Evaluation Process ("SREP") buffers were moved to higher buffers meaning that banks will first breach non-SREP buffers. Breaching each buffer triggers different actions from regulators.

The table below shows an overview of the capital requirements applicable to the Bank following its SREP notification in January 2020.

| | CET1 | Tier 1 <i>(per cent.)</i> | Total |
|---|--------------|-------------------------------------|--------------|
| Base capital requirement | 4.50 | 6.00 | 8.00 |
| Pillar 2 capital charge | 0.42 | 0.56 | 1.73 |
| Non-resident financial intermediates deposits ⁽¹⁾ | 0.10 | 0.10 | 0.10 |
| Total SREP capital requirement | 5.02 | 6.66 | 9.83 |
| Capital conservation buffer | 2.50 | 2.50 | 2.50 |
| Systemically important buffer ⁽²⁾ | 1.00 | 1.00 | 1.00 |
| Systemic risk buffer | 1.00 | 1.00 | 1.00 |
| Countercyclical buffer | — | — | — |
| Total minimum regulatory requirement | 9.52 | 11.16 | 14.33 |
| Additional internally-determined buffers ⁽³⁾ | 1.11 | 1.30 | 1.67 |
| Total capital requirement | 10.63 | 12.46 | 16.00 |

Notes:

- (1) This charge is volatile and calculated at 0.2 per cent. on these deposits.
- (2) The Bank became a systemically important bank in Estonia in 2018.
- (3) These are buffers determined by the supervisory board of LHV Group.

Each year, the Bank undertakes an ICAAP which identifies potential internal capital needs in addition to regulatory capital requirements. Capital adequacy and the use of regulatory capital are monitored by the Finance department. Compliance reports are submitted to the supervisory authorities in accordance with the applicable requirements. The Bank uses the standard method for calculating its capital requirements for credit and market risk, and the basis indicator approach for calculating its operational risk requirement.

The table below shows the Bank's capital base, capital requirements and capital adequacy calculations prepared in accordance with the common reporting framework initiated by the Committee of European banking Supervisors as at 31 December in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|---|---|----------------|----------------|
| | <i>(€ thousand, except percentages)</i> | | |
| Capital base | | | |
| Paid-in share capital | 95,500 | 69,500 | 59,500 |
| Statutory reserves paid in from net profit | 3,237 | 2,269 | 1,528 |
| Accumulated profit | 45,619 | 31,442 | 19,891 |
| Intangible assets | (685) | (1,286) | (951) |
| Net profit for accounting period | 14,863 | 12,046 | 13,909 |
| Deductions | (33) | (193) | 0 |
| Total core tier 1 capital | 158,501 | 113,778 | 93,877 |
| Additional Tier 1 capital | 23,000 | 0 | 0 |
| Total Tier 1 capital | 181,501 | 113,778 | 93,877 |
| Subordinated debt | 47,500 | 30,000 | 20,000 |
| Total tier 2 capital | 47,500 | 30,000 | 20,000 |
| Net own funds for capital adequacy calculation | 229,001 | 143,778 | 113,877 |
| Capital requirements | | | |
| Credit risk and counterparty risk | 1,222,091 | 778,555 | 630,539 |
| Market risk | 1,458 | 1,082 | 1,421 |
| Operational risk | 76,766 | 59,434 | 47,754 |
| Total capital requirements | 1,300,315 | 839,071 | 679,714 |
| Total capital ratio | 17.61% | 17.14% | 16.75% |
| Tier 1 capital ratio | 13.96% | 13.56% | 13.81% |

The Bank is also subject to a Basel III leverage ratio requirement of 3.0 per cent. The Bank's leverage ratio was 5.70 per cent. as at 31 December 2019, 6.56 per cent. as at 31 December 2018 and 4.99 per cent. as at 31 December 2017. The Bank's leverage ratio for these periods has been calculated in accordance with the Basel III leverage ratio and disclosure requirements.

COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has contingent liabilities in respect of irrevocable commitments to extend credit that it has made, as well as in relation to letters of credit and guarantees issued by it.

The table below shows the Bank's commitments and contingent liabilities as at 31 December in each of 2019, 2018 and 2017.

| | 2019 | 2018 | 2017 |
|---|---------------------|----------------|----------------|
| | <i>(€ thousand)</i> | | |
| Unused loan commitments | 359,230 | 188,841 | 171,528 |
| Performance guarantees ⁽¹⁾ | 11,078 | 11,927 | 10,129 |
| Financial guarantees | 14,139 | 9,314 | 5,999 |
| Letters of credit | 10 | 55 | 51 |
| Total | 384,457 | 210,137 | 187,707 |

Note:

- (1) These are contracts that provide compensation if another party fails to perform a contractual obligation. For further information see note 21 to the 2019 Financial Statements and note 21 to the 2018 Financial Statements. The Bank did not record any losses on performance guarantees in 2019, 2018 and 2017.

The Bank has a contingent tax liability reflecting the fact that the tax authorities in Estonia have the right to review a company's records for up to five years after the tax declaration has been submitted and may impose additional taxes, interest and fines if they discover any errors. No VAT or income tax audits have been undertaken on the Bank for the tax years 2016/2017 to 2018/2019.

RELATED PARTY TRANSACTIONS

The Bank's principal related party transactions are with its shareholders that have a significant impact on the Bank and the entities related to them, members of its management board and legal entities controlled

by them, members of its supervisory board and close relatives of the persons mentioned above and entities related to them. These transactions include transactions with related parties that generate interest income and expense, fee and commission income and other income for the Bank. Further information on the Bank's related party transactions is set out in note 22 to the 2019 Financial Statements and note 22 to the 2018 Financial Statements.

MARKET ENVIRONMENT

The information presented in this section has been extracted from publicly available sources and documents. The source of external information is always given if such information is used in this section. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as the European Commission or government publications none of it has been independently verified by the Issuer, the Arranger or the Dealers or any of their affiliates or the Issuer's advisers in connection with the Programme.

The Issuer does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, unless such duties arise out of generally binding regulations.

Economies in which the Issuer operates

The Issuer is a credit institution established under the laws of Estonia and is authorised to provide its products and services in Estonia, in the United Kingdom (through its branch in the United Kingdom) and, on a cross-border basis, in Latvia, Finland, Belgium, Germany, Austria, the Netherlands, Spain, Sweden, Lithuania and Denmark.

The Issuer considers Estonia and the United Kingdom to be its home markets. In Estonia the Issuer acts as a full-service bank, accepting deposits and providing loans, payment services and other common banking services to private and corporate clients. In the United Kingdom, the Issuer mainly provides payment services to financial intermediation customers. In Germany, Austria the Netherlands and Spain, the Issuer collects deposits through deposit intermediation platforms. The Issuer also provides acquiring services on a cross-border basis in all of the above-mentioned markets.

Estonian macroeconomic environment

In 2019, the Estonian economy grew by 4.3 per cent⁸. Growth was mainly concentrated in the business-related services sector with ITC (information and communications technology) services being the main driving force. An unexpectedly strong contribution to the growth came from agricultural sector. Industry suffered both structural and cyclical setbacks in 2019 with oil shale energy losing competitiveness and overall foreign demand weakening as trading partners entered a decline phase of the business cycle and business confidence declined globally.

Following the Coronavirus being declared a pandemic in the first quarter of 2020 and countries across the world shutting down parts of their economies, previous projections regarding the economic growth for 2020 have quickly become outdated. As at the date of this Base Prospectus it is extremely difficult to project the path of the economy in the near future until there is further clarification as to when the restrictions in place in response to the pandemic will be loosened or become obsolete. Only after that will it be possible to assess the number of businesses severely affected by the crisis and what mark will it leave to the economy as a whole.

Eesti Pank has assessed⁹ that in the case of the restrictions remaining in place until 1 May 2020, the Estonian economy will contract by 6% in 2020 and rebound in 2021 by growing more than 8%. Confidence bands on this estimate are wider than in the case of a regular projection so the exact numbers should be interpreted with caution. Every added week of full restrictions in response to the crisis is estimated to increase the contraction by 0.5% of GDP in 2020. In the scenario where restrictions would remain in place until the start of August, the economy would contract by 14% in 2020.

As the economic shock can be defined as more of a supply side shock, economists remain hopeful that if the lockdowns do not remain in place for a long period of time the economic recovery will be fast. Governments are directing their stimulus measures towards supporting people and their income and through

⁸ Source: Eesti statistikaamet. http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=RAA0012&ti=SISEMAJANDUSE+KOGUPRODUKT+JA+KOGURAHVATULU+%28ESA+2010%29+%28KVARTALID%29&path=../Database/Majandus/15Rahvamajanduse_arvepidamine/06Sisemajanduse_koguprodukt_%28SKP%29/02Pehilised_rahvamajanduse_arvepidamise_naitajad/&lang=2

⁹ Source: Estonian Economy and Monetary Policy 1/2020, <https://www.eestipank.ee/en/publication/estonian-economy-and-monetary-policy/2020/estonian-economy-and-monetary-policy-12020>

that ensuring that demand can bounce back quickly once the business restrictions are removed. It is inevitable though that the longer the lockdowns remain in place the slower the recovery will be. After the recovery, the economy will most likely remain on a slower growth path than previous years reflecting the rise in global political and economic uncertainties as well as the slightly lower long-term potential growth rate of the Estonian economy.

Estonian banking market

As of 31 December 2019 there were in total 15 banks operating in Estonia. Out of these 6 were branches of foreign credit institutions. The largest banks in Estonia are owned by Nordic financial groups (SEB and Swedbank) who together accounted for around two thirds of the market (68 per cent of deposits and 67 per cent of lending as of 31 December 2019, according to adjusted Financial Supervision Authority ("FSA") data¹⁰). Accordingly, the Estonian banking sector is fairly concentrated.

LHV and Luminor are the third and fourth banks in terms of market share. LHV's market share has been growing over the years and amounted to 13% for deposits, 10% for corporate loans and 7% for household loans as of 31 December 2019, according to adjusted FSA data.

Client deposits play an important role in funding the Estonian banking sector. As at the end of 2019, deposits made up 96% of all liabilities of the banking sector¹¹. More than 71% of these are demand deposits as low interest rates have reduced the motivation for depositors to enter into term deposits. The loan-to-deposit ratio stood at 90% for the Estonian banking sector on average, as at the end of 2019. Accordingly, the Estonian banking sector as a whole was able to fund its whole loan portfolio entirely based on client deposits.

¹⁰ Source: Financial Supervision Authority. This information has been adjusted for the Latvian and Lithuanian branch of Luminor (based on Luminor Q4 2019 Interim report). The values of the Estonian total market have been adjusted by deducting the assets and deposits of the Latvian and Lithuanian branch of Luminor in order to reflect more accurately the size of the Estonian market.

¹¹ Source: Bank of Estonia.

THE ESTONIAN HOUSING MORTGAGE MARKET

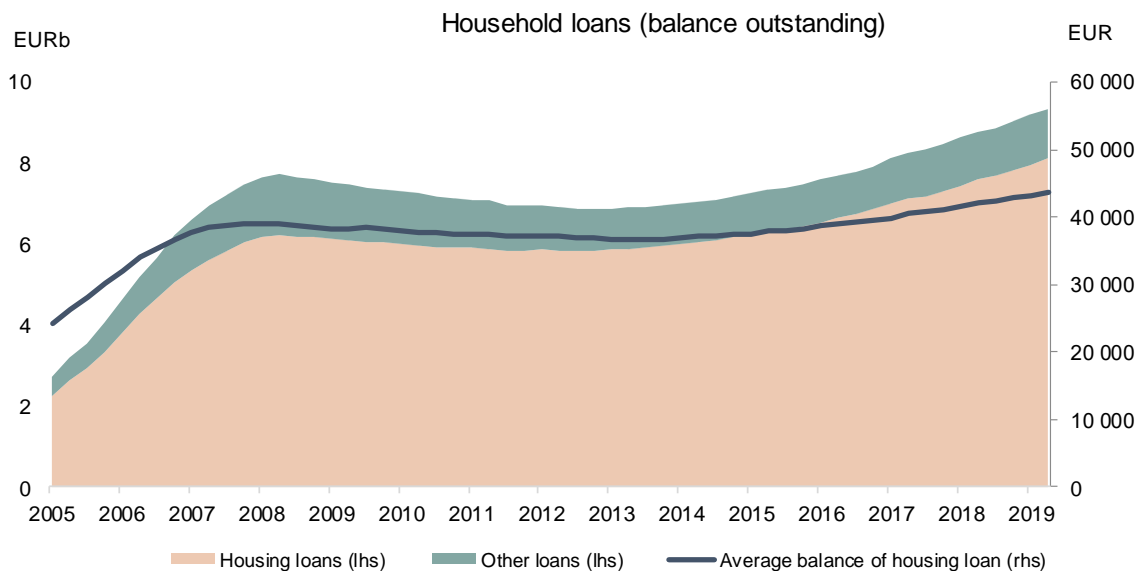
The information provided below has been derived from publicly available information on the Estonian housing mortgage market.

Introduction

Banks make up by far the largest share of the residential mortgage market and origination in Estonia. Other commercial lenders account for a minor share. Mortgage loans are available for all types of sole family homes such as flats, houses and terraced houses.

Borrowers typically have a mortgage loan from a single bank. Loan-to-value ratios can range up to 85% (or up to 90% with a guarantee from a state institution providing housing loan guarantees to qualifying private individuals).

Housing loans make up 87% of total loans made to private individuals and amounted to around EUR8.1 billion as at 31 December 2019. Consumer credit and various other loans make up the remainder of the total loans to private individuals. The balance of outstanding loans made to private individuals declined slightly after the past economic recession but has recovered and has been growing at a steady pace in recent years. The average balance of a housing loan amounted to EUR43,718 as at 31 December 2019.



Source: <http://statistika.eestipank.ee/#/et/p/650/r/1172/1021> and <https://statistika.eestipank.ee/#/et/p/650/r/1172/1021>

The majority of the mortgage loans in Estonia have a variable base rate (such as 6-month EURIBOR). Loans based on fixed rates are also available but are less common. There are no specific limitations on interest chargeable on mortgage loans (except for default interest) under Estonian law but the general principles of equity under Estonian law still apply. Average interest rates have declined together with the overall reduction in the level of market interest rates and EURIBOR in particular. Margins, which are generally fixed for the life of a loan in Estonia, have been increasing and are, as at the date of this Base Prospectus at some of the widest levels.

Mortgage Lenders in Estonia

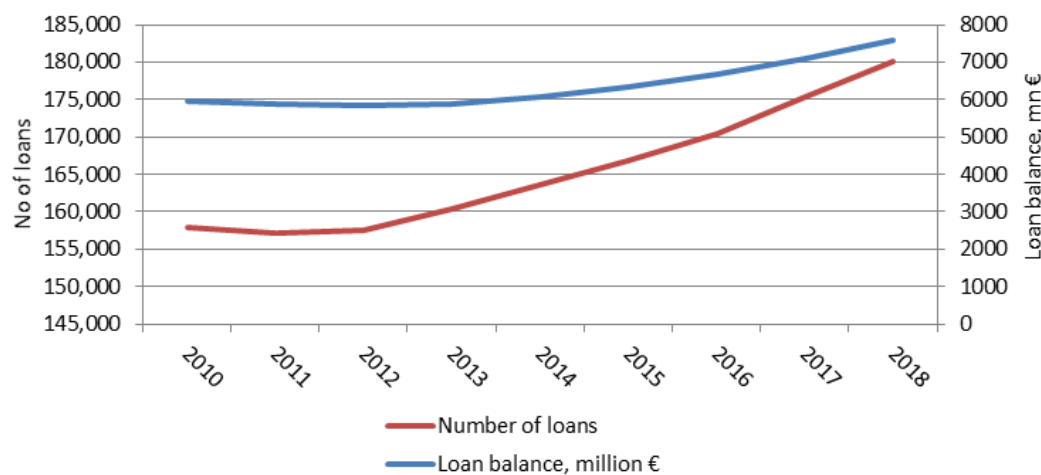
The market of Estonian mortgage lenders is fairly concentrated, in line with the banking sector in Estonia in general. As at 31 December 2019, the largest share of the household loan market was held by Swedbank (41%) and SEB (26%), followed by Luminor* (14%) and LHV (7%). Based on LHV's estimate¹², LHV's market share of new mortgage sales made up around 10% of the total market in 2019. Based on the outstanding loan balance to private individuals, the market share of loans to private individuals as of 31 December 2019 was as follows:

¹² Source: Bank of Estonia (<https://statistika.eestipank.ee/#/et/p/650/r/1054/903>), LHV internal data

| | Loans issued to households | Market share, |
|--------------------|-----------------------------------|----------------------|
| | <i>EUR thousands</i> | |
| SWEDBANK | 3,955,667 | 41.29% |
| SEB | 2,486,586 | 25.96% |
| LUMINOR* | 1,348,890 | 14.08% |
| LHV | 671,721 | 7.01% |
| BIG | 430,731 | 4.50% |
| INBANK | 295,902 | 3.09% |
| COOP | 167,905 | 1.75% |
| CITADELE | 103,901 | 1.08% |
| TF | 73,312 | 0.77% |
| HOLM | 38,436 | 0.40% |
| TBB | 6,096 | 0.06% |
| HANDELSBANK | 107 | 0.00% |
| TOTAL | 9,579,252 | 100% |

Source: https://www.fi.ee/koond/laen_kred.php, adjusted for Latvian and Lithuanian branches for Luminor (based on data from Luminor Q4 2019 Interim Report, p. 11, Lending to Individual Customers in Estonia as of December 31, 2019 https://www.luminor.ee/sites/default/files/documents/files/common/luminor_q4_2019_interim_report_en.pdf)

The number and balance of housing loans in Estonia (2010-2018)



Source: <http://statistika.eestipank.ee/#/et/p/650/r/1172/1021>

Material Legal Aspects of the Mortgage Loans

The below summary provides a brief overview of the material legal aspects of mortgage loans and does not purport to be a complete analysis of all legal considerations relating to mortgage loans. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Establishment of a Mortgage

Real estate property located in Estonia can be pledged by way of a mortgage, which must be established under a mortgage agreement attested by a notary and which is registered with the Estonian Land Register. The entering into a mortgage agreement and registration of the mortgage in the Estonian Land Register is sufficient evidence regarding the establishment of the mortgage and no further certificates (either physical or electronic) are issued with respect to the mortgage under Estonian law. The Estonian Land Register is a public register and, subject to the payment of a processing fee, information regarding real estate properties and mortgages encumbering such real estate properties can be accessed publicly. An entry concerning the mortgage in the Estonian Land Register sets out: (i) the mortgagee; (ii) the monetary amount of the mortgage (sum of mortgage); and (iii) the agreement according to which the owner of the real estate property has consented to be subject to immediate compulsory enforcement (if applicable). Real estate property that may be subject to a mortgage comprises: (i) immovable, i.e. delimited part of land and (ii) right of superficies, which is defined as a transferable and inheritable real right which encumbers an

immovable such that the person for whose benefit a right of superficies is constituted is entitled to own a construction permanently attached to the immovable for a specified term.

Under Estonian law, a mortgage usually encumbers a real estate property in its entirety. In the case of a real estate property co-owned by several owners, a legal share of a real estate property belonging to a co-owner may also be encumbered with a mortgage. A mortgage cannot be established only on a physical share of a real estate property or a part of the legal share of a co-owner.

A mortgage established under Estonian law on a residential real estate property extends to the parts and accessories of that property. A mortgage does not extend to the accessories of the real estate property which are not in the ownership of the owner of the real estate property. Furthermore, a mortgage does not extend to accessories and parts which before the seizure of the real estate property are transferred according to regular management or permanently severed from the real estate property. If real estate property encumbered with a mortgage is leased, the mortgage also extends to a claim under the lease which is created within the period between seizure of the real estate property or declaration of bankruptcy of the debtor and sale of the real estate property, or which is created within one year before seizure of the real estate property or declaration of bankruptcy of the debtor and is uncollected. If a real estate property encumbered with a mortgage is insured, the mortgage also extends to a claim for insurance proceeds.

A mortgage, to the extent of the amount of the mortgage, secures any claim and interest (including any fine for delay) for up to three years before sale of the real estate property in enforcement proceedings, expenses for the collection of the debt, including the costs of the enforcement proceeding and bailiff's fees, and the insurance premiums paid by the mortgagee on behalf of the owner of the immovable.

Enforcement Procedures

Introduction and general principles of Estonian law in respect of enforcement

If a borrower fails to fulfil its obligations under a mortgage loan, the creditor may generally (i) seek general enforcement of its claims against the borrower and collection of the debt arising from the mortgage loan and (ii) seek enforcement of a mortgage (and other security, if any) securing the mortgage loan to be able to satisfy the claims arising from the mortgage loans for the account of proceeds from the enforcement of such mortgage (or other security).

General enforcement by a creditor of claims against a defaulting borrower under a mortgage loan typically requires under Estonian law that the creditor first obtains a judgment or arbitral award ordering the relevant claims to be satisfied (for example, for a debt to be paid) after which the actual enforcement may be carried out by a bailiff in a formal enforcement procedure against the assets of the borrower regulated by Estonian law.

In parallel or alternatively, a creditor holding a mortgage over real estate or a borrower or a third party as security for the borrower's obligations under a mortgage loan may initiate enforcement of the mortgage, which is carried out (outside of bankruptcy proceedings of the mortgagor) by way of sale of the mortgaged real estate at a compulsory auction conducted by a bailiff or by way of compulsory administration by a bailiff.

Enforcement of a claim against the debtor

To enforce a claim against the debtor arising from a mortgage loan, the creditor must typically submit its claim to a court or arbitration tribunal having jurisdiction over the mortgage loan. In such court or arbitral proceedings, the creditor would need to prove its claim against the debtor in order to obtain a court ruling or arbitral award ordering the payment of the relevant claim. Upon such court ruling or arbitral award entering into force, the creditor may apply to a bailiff, who shall carry out enforcement proceedings with respect debtor and its assets. In enforcement proceedings, if the debtor fails to pay the debt voluntarily, the debtor's property is seized and sold to the extent necessary to satisfy the claim and the claim of the creditor shall be satisfied from the proceeds received from such sale.

The enforcement proceedings, including the seizure and sale of the debtor's property, are carried out by a bailiff in accordance with the Estonian Code of Enforcement Procedure. The Estonian Code of Enforcement Procedure provides, inter alia, a list of items of the debtor which cannot be seized and sold in enforcement proceedings, which mainly consist of property which is essential for the debtor to satisfy his or her needs

or the seizure and sale of which would be contrary to law or good morals. The Estonian Code of Enforcement Procedure further provides a number of forms of income of the debtor which cannot be used to satisfy claims in enforcement proceedings, which mainly consists of benefits payable in accordance with laws.

Enforcement of a mortgage

The process of enforcement of mortgages depends on whether or not the mortgagor and the mortgagee have agreed in the notarised agreement that the mortgagor agrees to submit to immediate compulsory execution proceedings in order to satisfy the claims secured with the mortgage. Such agreement may be (and generally is) included in the agreement for the establishment of the mortgage but may be made later as well, including after the claims secured by the mortgage have fallen due. If such agreement has been made, the mortgagee may enforce the mortgage without obtaining a court ruling for enforcement (although this does not restrict the debtor or the mortgagor from contesting the enforcement of the mortgage, in which case court proceedings may still need to be carried out and completed prior to the enforcement of the mortgage). If such agreement has not been made, the mortgagee would need to submit a claim to court to recognise its right to enforce the mortgage, on the basis of which the mortgagee could then turn to a bailiff to enforce the mortgage.

Where the mortgagor and the mortgagee have agreed in the notarised agreement on submission by the mortgagor to immediate compulsory execution proceedings in order to satisfy the claims secured by the mortgage or where the mortgagee has obtained a court ruling for the enforcement of the mortgage, the mortgagee may apply for initiation of formal enforcement proceedings pursuant to which a bailiff carries out the enforcement of the mortgage.

The enforcement of a mortgage is carried out by a bailiff either by selling the mortgaged property at an auction or by subjecting the mortgaged property to compulsory administration. In the case of a compulsory auction, the mortgaged property is sold at an auction and the proceeds of the sale are applied towards the satisfaction of the secured obligations. In the case of a compulsory administration, the mortgaged property is administered by a bailiff and the proceeds of the management of the real estate (e.g. rental income) are applied towards the satisfaction of the secured obligations. In case the enforcement of a mortgage is carried out by way of selling the mortgaged property, the bailiff will seize the mortgaged property, by recording the property and its accessories and other objects to which a mortgage extends, prohibiting disposal thereof and applying for a notation concerning prohibition of the disposal of the property to be entered in the Estonian Land Register. The bailiff will announce the auction process in the Estonian Official Gazette and on at least one commonly used website for the sale of real estate at least 20 days in advance of the auction. After at least 20 days have passed from the announcement, the auction will be carried out by the bailiff and the proceeds of the auction will be applied towards the satisfaction of the secured obligations.

As an exception to the above-described process, at the request of the mortgagor and with the consent of the mortgagee, the bailiff may permit the mortgagor to sell the mortgaged property under the supervision of the bailiff. The bailiff may permit the mortgagor to sell the property also regardless of the consent of the mortgagee: (i) if an auction for the sale of the property has failed or it can be presumed that the property cannot be sold at an auction or the revenue expected to be received from the property at an auction would be significantly lower than the revenue expected to be received from the sale of the property organised by the mortgagor or (ii) if an auction has failed due failure by the winning bidder to pay the purchase price and a repeated auction is also unsuccessful.

Cost of enforcement

If the enforcement process requires submitting a claim to court, a state fee would need to be paid to initiate the court proceedings. The amount of such state fee would depend on the amount of the claim. Furthermore, court proceedings often entail other legal costs such as lawyers' fees, which may not be compensated in full even if the court rules in favour of the party. If the court rules in favour of the other party, it is possible that the legal costs incurred by the other party may need to be compensated.

The enforcement procedure by a bailiff would entail the bailiff's fee and costs necessary for enforcement proceedings. In the case of a monetary claim, the bailiff's fee depends on the amount of the claim. The enforcement costs would be borne by the debtor and would be collected by the bailiff. The enforcement costs would be collected from the debtor by the bailiff on the basis of the decision on enforcement costs (such document is immediately enforceable).

Treatment of the mortgage and mortgagee in the mortgagor's bankruptcy proceedings

Should the mortgagor be declared bankrupt, the mortgage ensures a priority position of the mortgagee with respect to the proceeds from the sale of the mortgaged real estate property.

In the mortgagor's bankruptcy proceedings, claims secured by the mortgage are satisfied as first priority claims for the account (and to the extent) of the money received from the sale of the mortgaged real estate property, from which the payments relating to the bankruptcy proceedings (as listed below) in proportion to the ratio of the amount of money received from the sale of the pledged object to the total amount of money received from the sale of the bankruptcy estate are deducted. The maximum amount which can be deducted from the money received from the sale of the mortgaged real estate property is capped at 15 per cent. of the amount of money received from the sale of the mortgaged real estate property, meaning that at least 85 per cent. of the money received from the sale of the mortgaged real estate property will be applied for the satisfaction of the claims of the pledgee. If a claim secured by the mortgage is not satisfied in full out of the money received from the sale of the mortgaged real estate property, the rest of the claim shall be satisfied together with all other accepted claims which were filed within the term specified by law.

The following are regarded as payments relating to the bankruptcy proceedings and have priority over and are satisfied before the claims secured by specific assets of the debtor:

- claims arising from the consequences of exclusion or recovery of assets;
- maintenance support paid to the debtor and his or her dependents;
- consolidated obligations; and
- the costs of the bankruptcy proceedings.

Consolidated obligations are: (i) obligations arising from transactions and other acts performed by a trustee in the performance of his or her duties in the bankruptcy proceedings; (ii) obligations arising from contracts which the debtor has failed to perform, if the trustee has continued performance of the obligations or given notification that he or she intends to require performance of the contract; (iii) taxes relating to continuation of the business activities of the debtor; (iv) obligations to compensate for the damage caused during the bankruptcy proceedings by an unlawful action of a debtor who is a legal person; (v) other obligations deemed to be consolidated obligations pursuant to the Estonian Bankruptcy Act.

After the above listed claims have been satisfied, claims secured by the mortgage which have been accepted in the bankruptcy proceedings and were filed within the term specified by law, are satisfied before unsecured claims.

Treatment of the mortgage and mortgagee in enforcement proceedings carried out with respect to the mortgagor's assets

If the mortgaged real estate property is sold in enforcement proceedings conducted by other creditors through the bailiff on the basis of an execution document, the mortgagee may, before the distribution of proceeds, submit an application to the bailiff, in which the mortgagee applies for the preferred satisfaction of the mortgagee's claim from the proceeds of the sale of the mortgaged real estate property, regardless of whether or not the mortgagee's claim has fallen due. The bailiff must take the claim of the mortgagee into account upon distribution of the proceeds from the sale of the mortgaged real estate property and preparation of a distribution plan on the basis of the ranking of the mortgage as evident from the Estonian Land Register or a notarised mortgage agreement.

Contesting of claims and reversal

An insolvency administrator and all other creditors of the bankrupt grantor of a mortgage may in the course of the bankruptcy proceedings contest the claims submitted against the debtor. If contested, the dispute will be finally settled by the court who will determine whether such claim against the debtor exists and is sufficiently proven.

Furthermore, an insolvency administrator may submit a claim to the court for recovering a security interest granted by the debtor or security agreement concluded by the debtor. In recovery, the court will revoke

transactions, subject to the grounds specified below, which were concluded by the debtor before the declaration of bankruptcy and which damage the interests of other creditors and which meets other criteria for revocation set out in the Estonian Bankruptcy Act.

In addition to general grounds applicable to all transactions, the Estonian Bankruptcy Act sets out specific grounds for revoking the grant of security. Under such provisions, a court will revoke the grant of a mortgage if the mortgage damages the interests of the creditors of the mortgagor and was granted:

- during the period from the appointment of the interim trustee until declaration of bankruptcy;
- in order to secure an obligation which had arisen within six months before the appointment of the interim trustee if the debtor was not required to grant the mortgage at the time when the obligation arose or if the debtor was insolvent at the time of granting the mortgage and the person in whose favour the mortgage was granted was or should have been aware of the insolvency;
- within two years before the appointment of the interim trustee if the security was granted in favour of a person connected with the debtor unless the person or the debtor proves that the debtor was solvent at the time of granting the mortgage.

Granting of a mortgage cannot be recovered if the mortgage was granted in order to secure a loan or any other credit agreement and after granting the security the debtor came into possession of the amount of money corresponding to the value of the mortgage pursuant to the secured agreement (except in case the mortgage was granted within two years before the appointment of the interim trustee in favour of a person connected with the debtor unless the person or the debtor proves that the debtor was solvent at the time of granting the mortgage).

In addition to reversal (recovery) of the transactions in bankruptcy proceedings, Estonian law also enables creditors to apply for reversal of certain transactions in pre-bankruptcy situation. The grounds for and procedure for relevant reversal of transactions are stipulated in the Estonian Code of Enforcement Procedure.

Release of debtor who is a natural person from obligations

Under the Estonian Bankruptcy Act, a debtor who is a natural person may be released from his or her obligations which were not satisfied during the bankruptcy proceedings. To be released from his or her obligations not satisfied during the bankruptcy proceedings, the debtor must submit a relevant application in the course of his or her bankruptcy proceedings. A creditor may file an objection against the release of the debtor from his or her obligations on the grounds listed in the Estonian Bankruptcy Act which preclude the right to release the debtor from his or her obligations.

If the court commences proceedings to release the debtor from his or her obligations, the debtor shall be obliged to make payments to satisfy his or her debts to the creditors until the court releases the debtor from his or her obligations. The court shall generally decide on the release of the debtor from his or her obligations which were not performed during the bankruptcy proceedings by a ruling after passing of five years from the commencement of the relevant proceedings. In certain circumstances the court may pass the relevant decision earlier, after three years have passed from commencement of the proceedings, especially if the debtor has been performing his or her obligations duly during the proceedings and has satisfied the claims of the creditors to a considerable extent.

If the debtor is released from his or her obligations which were not performed during the bankruptcy proceedings, the outstanding claims of the creditors against the debtor, including those that were not submitted by creditors during the bankruptcy proceedings, terminate. Release of a debtor from his or her obligations which were not performed during the bankruptcy proceedings shall not terminate the obligations to compensate for damage intentionally caused by unlawful action or the obligations to pay support for a child or parent. Furthermore, release of a debtor from his or her obligations does not release a person jointly liable with the debtor from the obligations. If the person jointly liable with the debtor performs the joint obligation, that person shall not have the right of recourse against the debtor if the debtor has been released from his or her obligations.

If a debtor satisfies an outstanding claim of a creditor after the debtor has been released from his or her obligations, the assets transferred in performance of the obligation may not be reclaimed from the creditor.

Consumer protection

The Estonian Law of Obligations Act sets out a specific legal framework applicable to consumer credit contracts relating to residential immovable property, which includes consumer credit contracts secured by a mortgage or another comparable security, or the objective of which is the acquisition of a registered immovable, membership in a building association or an existing or planned building, or preservation of the specified rights. These provisions also apply to consumer credit contracts entered into with a consumer residing in Estonia or in a Member State of the European Union even if the contract is entered into as a result of a public tender, advertising or other similar economic activities in Estonia or if the contract is essentially linked to the territory of Estonia for any other reason, regardless of the governing law of the contract.

Prior to conclusion of the consumer credit contract, the creditor must provide to a consumer certain specific information using the Standard European Consumer Credit Information form, give certain explanations and assess the consumer's creditworthiness. In assessing the creditworthiness of a consumer, the creditor shall take into consideration all the circumstances known to the creditor which may have an impact on the consumer's ability to repay the credit under the terms and conditions agreed upon in the contract, including the consumer's financial situation, regular income, other financial obligations, performance of earlier payment obligations and the impact of potential increase of the financial obligations arising from the consumer credit contract, available consumer data and the amount of the financial commitment undertaken. The creditor may enter into a consumer credit contract with the consumer only where the creditor is convinced that the consumer is creditworthy as a result of analysing the data constituting the basis for the assessment of creditworthiness in aggregate. In the case of a breach of the aforementioned requirement, the interest rate applicable to the credit shall be deemed to be equal to the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year, unless such rate is higher than the interest rate agreed upon with the consumer, and the consumer may use other remedies, except for the claim for damages to the extent covered by interest rate reduction. In this case the consumer does not owe other fees to the creditor. The aforementioned will not apply if the consumer intentionally failed to provide required information or falsified the information and as a result thereof the creditor made an incorrect assessment of the creditworthiness of the consumer. Where the creditor and the consumer agree to change the amount of credit drawn down by the consumer or the upper credit limit, the creditor must update the information regarding the creditworthiness of the consumer and assess the creditworthiness each time before such change.

In the case of a consumer credit contract, an application submitted by a consumer to assume credit obligations must be in a format which can be reproduced in writing and the contract or a copy of the contract must be promptly given to the consumer on a durable medium. The consumer credit agreement must include, among others, the following information: (i) the type of credit, the amount of drawn down or the upper credit limit and the terms and conditions of the drawdown and the duration of the consumer credit contract; (ii) the amount of the principal sum, interest and any other charges, number and frequency of repayments; (iii) the total amount of all the payments made by the consumer for repayment of the credit and the payments made to cover the total cost of the credit; (iv) the annual interest rate and its conditions; (v) the annual percentage rate calculated in accordance with specific regulations and with illustrative examples (annual percentage rate is the total cost of the credit to the consumer expressed as an annual percentage of the credit amount drawn down or the upper credit limit provided that the consumer credit contract is valid for the agreed term and that the creditor and the consumer fulfil their obligations under the terms and conditions and by the dates agreed upon); (vi) a statement showing the periods and conditions for the payment of the interest and of any associated recurrent and non-recurrent charges if the charges and interest have to be paid without repaying the principal sum of the credit; (vii) a warning regarding the consequences of missing payments; (viii) the annual or daily rate of penalty applicable upon delay of payments and the arrangements for the adjustment thereof, and, where applicable, any costs payable upon a delay; (ix) information about the right of withdrawal, the period during which that right may be exercised and other conditions, including information concerning the obligation to repay the principal sum of the credit and the interest accrued thereon from the date the credit was drawn down until the date of repayment thereof to the creditor, and the amount of interest per day; (x) the procedure for cancellation of consumer credit contracts; (xi) the right and procedure of early repayment and creditor's right to compensation and the basis for its calculation; and (xii) the assumed value of the mortgaged property at the time of conclusion of the contract.

If any information required to be provided to the consumer is missing from the appropriate documentation or the form requirement is not followed, the contract is void, unless the consumer receives the loan or starts

utilising the credit. If information about the interest rate, annual percentage rate or initial annual percentage rate, or the gross amount of all the payments to be made by the consumer is missing from the appropriate documentation, the interest rate shall be deemed to be equal to the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year, unless this is higher than the interest rate earlier agreed upon. The consumer shall not be obliged to pay any costs and expenses which the consumer is not informed of.

Consumer credit contracts may set forth an unfix interest rate in which case the contract must include the periods, conditions and procedure for changing the rate of interest and where the rate of interest on the loan depends on the reference interest rate, the reference rate applicable to the initial interest rate. Changes of interest rates enter into force if the creditor has notified the consumer beforehand, on a durable medium, of the change in the interest rate, in the amount of payments due after the entry into force of the new interest rate and in the number or frequency of the payments, if any. Where the change in the interest rate is caused by a change in a reference rate, and the new reference rate is made publicly available by appropriate means, such information may be notified to the consumer periodically.

A consumer credit contract is void, if the annual percentage rate payable by the consumer exceeds at the time of granting the credit the past six months' average annual rate of consumer credits granted by credit institutions to private individuals and last published by the Bank of Estonia (*Eesti Pank*) more than three times. If a consumer credit contract is void, the consumer must repay the amount received on the basis of the void consumer credit contract by the date by which the consumer had to repay the whole credit according to the void consumer credit contract with the interest equal to the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year.

A consumer may withdraw from a consumer credit contract within 14 days from the date of entering into the contract or receiving from the creditor all statutorily required information, whichever is later, without giving a reason. In the case of contracts entered into by means of distance selling and consumer credit contracts relating to residential immovable property, the period for exercise of withdrawal rights is 7 days. Upon withdrawal, the consumer must repay the outstanding credit and accrued interest no later than 30 days after submitting a withdrawal application, and the creditor is not entitled to any compensation from the consumer other than the non-returnable state charges paid by the creditor. Contract terms which restrict the withdrawal right, in particular agreements pursuant to which withdrawal is subject to payment of retainer or a contractual penalty, are void. A consumer has the right to repay the credit in part or in full before maturity, without being obliged to pay any interest or other charges for the period when the credit is not utilised. If the early repayment of the credit falls within the period for which the interest rate is fixed, the creditor has the right to demand only a reasonable compensation for the damage directly linked to early repayment, as further detailed by law, except where the credit is repaid for the account of an insurance contract entered into to insure the repayment of the credit or in the case of overdraft facilities. If early repayment falls within the period for which the interest rate is not fixed, the creditor may claim from the consumer the amount of interest for the three following months. The maximum compensation payable by a consumer upon early repayment may not in any event exceed the amount which the consumer would have paid as interest during the period between the early repayment and the date of maturity. Upon assignment of the claim arising from a consumer credit contract, the creditor must inform the consumer thereof, unless the creditor continues to exercise rights of a creditor vis-à-vis the consumer under the agreement between the creditor and assignee. The assignment cannot validly preclude or restrict the right of a consumer to plead defences against the assignee arising from the consumer credit contract or the right of set-off of the consumer available to it. Pursuant to general provisions on assignment of claims, a debtor of an assigned claim may offset a debtor's claim towards the original creditor against the claim of the new creditor unless: (i) the debtor has acquired the claim from a third party and, at the time of acquiring the claim, the debtor knew or should have known that the claim against the debtor had been assigned; or (ii) the claim of the debtor falls due later than the assigned claim and after the debtor became or should have become aware of the assignment.

If a consumer is late with payments, any penalty for late payment may not exceed the last interest rate applicable to the main refinancing operations of the European Central Bank before 1 January or 1 July of each year plus eight per cent. per year. This does not preclude or restrict the right of the creditor to demand compensation for damages in an amount which exceeds the penalty for late payment. Agreements for the payment of a retainer or contractual penalty from the consumer in the case of late payments are void.

If, on the basis of a consumer credit contract, a consumer has made a payment which is insufficient for the performance of all obligations which have fallen due, the payment shall cover: (i) firstly, the expenses incurred for collection of the debt; (ii) secondly, the principal sum owed; (iii) thirdly, interest; (iv) fourthly, other obligations. A creditor may not refuse insufficient payments.

Where credit is repayable in tranches, the creditor may cancel the consumer credit contract due to late payment only if the consumer is wholly or partly late with payment for at least three consecutive repayments and if the creditor has, without success, granted an additional term of at least two weeks to the consumer for the payment of the remaining amount together with notification that the creditor will cancel the contract upon failure to pay the tranches within the term and will claim for payment of the whole debt. The creditor's declaration of cancellation must be in a format which can be reproduced in writing, and upon failure to comply with such requirement the cancellation is deemed void. A creditor must, not later than at the same time as giving a remedy period, offer a consumer the opportunity to negotiate in order to reach an agreement. In case of cancellation by the creditor, the total outstanding amount of all the payments made by the consumer for repayment of the credit and the payments made to cover the total cost of the credit will be respectively reduced by the interest and the costs calculated for the period when the credit is not used. The aforementioned remedy periods, deadlines and negotiation requirement with respect to cancellation will not apply if the consumer intentionally failed to provide or falsified information provided to the creditor with respect to its creditworthiness. The creditor may cancel the contract also in case of a fundamental breach by the consumer.

Agreements which derogate from the provisions of the Law of Obligations Act (*võlaõigusseadus*) to the detriment of the consumer are void.

The EFSA and Consumer Protection and Technical Regulatory Authority may, pursuant to the procedure provided by law, require a creditor who has breached the mandatory legal provisions to terminate such breach and refrain from future breach.

CHARACTERISTICS OF THE QUALIFYING COVER POOL

Introduction

The Issuer has been granted on 16 March 2020 an additional authorisation to issue covered bonds by the ECB, which has been notified to the Issuer by the EFSA. The additional authorisation has been issued with an unspecified term.

Assets in the Cover Pool function as collateral for the holders of the Covered Bonds. The ECBA sets out eligibility criteria applicable to assets that can be registered in the Cover Pool as well as sufficiency requirements in respect of Eligible Assets (i.e. overcollateralisation requirements). The ECBA requires the Issuer to continuously ensure that (a) the present value of all covered bonds of the same type and the surplus of net liabilities arising from derivative instruments entered in the cover register shall be covered by a cover pool at all times, (b) the present value of the cover pool shall exceed the liabilities covered thereby by at least two per cent, and (c) the nominal value (or repayment value, if higher than the nominal value) of all covered bonds of the same type shall be covered by a cover pool of at least equivalent nominal value. Certain substitute assets are allowed as Eligible Assets under the ECBA but Mortgage Loans must always contribute at least 80 per cent of the present value or nominal value of mortgage covered bonds. The Cover Pool must also include a liquidity buffer that must (a) cover the 180 day largest cumulative cash shortfall of the covered bonds portfolio and (b) amount to at least 2 per cent of the nominal value of the Cover Pool. For a more detailed overview of the requirements of the ECBA in relation to the cover pool, please see "*Overview of Estonian Regulation Regarding Covered Bonds*" below.

Composition of the Cover Pool

The Issuer may change the assets in the Cover Pool and the composition of the Cover Pool may vary over time. However, the Cover Pool must always conform with the eligibility and collateralisation requirements set out in the ECBA. Information about the current composition of the Cover Pool shall be made available at least on a quarterly basis on the Issuer's web site <https://investor.lhv.ee/en/>. The contents of the Issuer's website do not form part of this Base Prospectus and investors should not rely on this website.

The Issuer will maintain a level of over-collateralisation such that the nominal value of the Cover Pool exceeds the nominal value of all the covered bonds of the same type by at least 5 per cent.

The main eligibility criteria that the Issuer will apply to the Cover Pool shall include (but shall not be limited to):

- Loan to be included in the cover pool must be issued to a private person;
- Loan must be collateralised with mortgage on residential real estate. As at the date of this Base Prospectus the Issuer only issues residential mortgage loans in Estonia and so the Cover Pool shall be composed of loans collateralised with Estonian residential mortgages.
- The mortgage securing the loan must amount to at least 110 per cent of the outstanding balance of the loan.
- The mortgage securing the loan must be a first ranking mortgage. A lower ranking mortgage is acceptable where the Issuer also owns all higher ranking mortgages on the same property (effective first rank).
- Payments under the loan are not overdue at the time of adding the loan to the Cover Pool.
- The currency of the loan must be euro. As at the date of this Base Prospectus, the Issuer does not issue residential mortgage loans in any other currency than euro.
- The eligible portion of the claims of the Issuer arising from a loan that may be used in collateralisation calculations in respect of the Covered Bonds shall be up to 70 per cent of the value of the property securing the loan (i.e. up to 70 per cent LTV). Nevertheless, the entire loan will be included in the Cover Pool. As at the date of this Base Prospectus, the Issuer sets the maximum LTV for including residential mortgage loans in the Cover Pool at 100 per cent.

The Issuer estimates that the current balance of residential mortgage loans eligible for inclusion in the Cover Pool amounted to €566 million as of 31 March 2020. The weighted average current indexed LTV of these loans equalled 48.3 per cent.

The LTV ratio is calculated taking into account the residential real estate collateralising the loan (i.e. only collateral which is relevant and eligible for the purpose of the Covered Bonds is taken into account). Where a loan is collateralised by additional security that is not eligible for the purpose of the Covered Bonds (such as a guarantee from Estonian governmental institution Kredex which provides mortgage loan guarantees for qualifying borrowers), such additional collateral is not taken into account in the calculation of the LTV ratio. In effect, if all collateral available for the Issuer were taken into account, the LTV ratios would be somewhat lower.

The Cover Pool does not contain asset-backed securities that do not comply with paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast). These asset-backed securities have never been included in the Bank's Cover Pool and the Bank does not intend to include such asset-backed securities in its Cover Pool in the future.

As outlined in section “*Description of the Bank – Corporate banking*”, the bank is granting grace periods to its customers in connection with the Coronavirus pandemic, including for principal payments of mortgage loans. Loans for which grace period has been granted would be considered eligible for the Cover Pool, provided that they are not overdue (based on the amended repayment schedule granted to the customer) and comply with all other eligibility criteria.

Risk Management of the Cover Pool

Based on the ECBA, the Issuer is required to conduct stress tests on the Cover Pool on at least a quarterly basis. The Cover Pool should be sufficient to cover the regulatory overcollateralisation requirements also under stress scenarios (i.e. under stressed conditions the Cover Pool should still amount to at least 100% of the nominal value (or repayment value, if higher) of Covered Bonds and at least 102% of the net present value of the Covered Bonds). The Issuer may perform stress tests to evaluate the following types of risk inherent in the Cover Pool: credit risk, interest rate risk and real estate price risk.

Periodic Information about the Cover Pool

The Issuer has an obligation under the ECBA to publish in respect of the Covered Bonds certain information set out in the ECBA every quarter on its website relating to, *inter alia*, (i) the nominal value and present value of outstanding covered bonds and of the Cover Pool; (ii) the maturity structure of the covered bonds and the Cover Pool; (iii) the percentage of fixed-interest rate assets in the Cover Pool and the percentage of fixed-interest rate covered bonds in the liabilities of the covered bond portfolio; (iv) the graduated breakdown of the interest rates on fixed-interest and non-fixed-interest assets; (v) the percentage of assets denominated in a foreign currency in the Cover Pool and the percentage of covered bonds denominated in a foreign currency in the liabilities of the covered bond portfolio; (vi) the geographical split of the assets; (vii) the distribution of substitute collateral, in terms of its value, between the types specified in subsection 20 (1) of the ECBA; (viii) the size of the liquidity buffer; and (ix) the percentage of the amount of Mortgage Loans and substitute collateral, which has been in default for over 90 days or which the issuer estimates to be doubtful, in the Cover Pool; (ix) the graduated breakdown of the Mortgage Loans in the Cover Pool.

Investors should note that periodically updated general information in relation to the Cover Pool can be found on the Group's website at the following address: <https://investor.lhv.ee/en/>. Information for the first three quarters of a year shall be disclosed within one month from the end of each quarter. Information for the fourth quarter shall be disclosed within two months from the end of the quarter. The disclosed information shall be available on the Issuer's website for at least the last five years.

OVERVIEW OF ESTONIAN REGULATION REGARDING COVERED BONDS

The following is a brief summary of certain features of the ECBA as of the date of this Base Prospectus. The summary does not purport to be, and is not, a complete description of the Estonian legislative and regulatory framework for covered bonds. Please also refer to the subsection "Risks related to the covered bonds" in the section "*Risk Factors*". This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

General

The framework for the issuing of covered bonds under the laws of Estonia is provided in the ECBA, which was adopted by the Estonian Parliament on 13 February 2019 and which came into force on 1 March 2019. The ECBA has been amended by the Estonian Parliament on 13 November 2019, and such amendments took effect on 4 December 2019.

Among others, the ECBA regulates the grant of additional authorisations to credit institutions for the issuing of covered bonds, the terms and conditions of issuance and collateralisation of covered bonds, and the separation of a covered bond portfolio from the other assets of the issuer.

Under the ECBA, issuers are allowed to issue two types of covered bonds – mortgage-covered bonds and mixed pool-covered bonds. The Covered Bonds that the Issuer may issue under this Base Prospectus would be mortgage-covered bonds and the Issuer does not plan to issue mixed pool-covered bonds. Therefore, the summary below does not describe the requirements of the ECBA in relation to mixed pool-covered bonds.

The ECBA is based on the "on-balance sheet" model of covered bonds, meaning that the covered bond portfolio (including the cover pool, consisting of the cover assets and possibly certain derivative instruments, as described in more detail below) remains under the ownership of the issuer and on its balance sheet until the satisfaction of all of the claims under the covered bonds (including in case of a default of the issuer). In the event that the issuer is declared bankrupt or upon occurrence of certain other events (which have been listed under "*Separation of the covered bond portfolio*" below), the covered bond portfolio will be separated from the issuer. The separated covered bond portfolio will remain in the ownership of the issuer (except where the covered bond portfolio is transferred as a whole) and will form an independent pool of designated assets by operation of the ECBA. Following the separation of the covered bond portfolio, the cover pool and the proceeds received from it may be used only to satisfy the claims of the holders of the respective type of covered bonds and of the counterparties to the derivative instruments entered in the corresponding cover register and to cover the expenses related to the management of the covered bond portfolio. The separated covered bond portfolio will not be part of the issuer's bankruptcy estate and a moratorium shall not extend to the covered bond portfolio. The separation of the covered bond portfolio will not release the issuer from its obligations under the covered bonds and the owners of the covered bonds will, following such separation have dual recourse in relation to the claims arising from the covered bonds, against the issuer and against the separated cover pool.

Authorisation

The ECBA provides that to issue covered bonds, an issuer needs to have a credit institution's authorisation (issued in accordance with the Estonian Credit Institutions Act) and an additional authorisation to issue covered bonds (issued in accordance with the ECBA).

The Issuer has been granted on 16 March 2020 an additional authorisation to issue covered bonds by the ECB, which has been notified to the Issuer by the EFSA.

The additional authorisation is issued for an unspecified term and shall expire:

- in the event of expiry of the main credit institution's authorisation – when the main authorisation expires;
- in the event of voluntary discontinuation of the issuance of covered bonds – when the authorisation for the voluntary discontinuation is received from the EFSA; or
- in the event of revocation of the additional authorisation – when the additional authorisation is revoked.

In order to apply for the additional authorisation, members of the management board of the issuer must submit to the EFSA a written application and supplementary documents listed in the ECBA. The EFSA make a decision to grant or refuse to grant the additional authorisation within three months after receipt of all the necessary documents and information that meet requirements, but not later than within six months after receipt of the application for the additional authorisation.

The EFSA shall refuse to grant the additional authorisation to an applicant if:

- the applicant does not meet the requirements for credit institutions or requirements for the public offering or trading of securities provided for in the Credit Institutions Act or in other legislation or has repeatedly or materially breached these requirements during the last 5 years;
- the applicant does not have the capacity to ensure the existence of sufficient internal capital for the purposes of the of the Credit Institutions Act to cover all risks arising from the activities described in the additions to the business plan that are not subject to the requirements for self-funding;
- the applicant does not meet the requirements for issuers provided for in ECBA or legislation issued on the basis thereof;
- the applicant does not have the necessary resources and experience for issuance of covered bonds and administration of a covered bond portfolio;
- the internal rules of the applicant are not sufficiently precise or unambiguous to regulate the activities of an issuer of covered bonds; or
- the applicant's monitor does not meet the requirements provided for in the ECBA or legislation issued on the basis thereof.

Upon deciding whether to grant or refuse to grant the additional authorisation, the EFSA shall consider the following:

- the level of the organisational and technical administration of the applicant's activities;
- the professional preparation and experience of persons involved in the management of the covered bond portfolio, and the clarity of their rights, obligations and responsibilities; and
- the activities, financial position and reputation of the applicant, its shareholder and persons belonging to the same consolidation group as the applicant.

The EFSA may revoke the additional authorisation if:

- it has become evident that, when applying for the additional authorisation, the applicant submitted misleading or false information or documents to the EFSA;
- the issuer does not meet the requirements in force with regard to the grant of additional authorisations;
- the issuer has repeatedly or materially breached the provisions of the ECBA;
- the issuer has, by its activities, prevented the EFSA from exercising supervision under the ECBA;
- the issuer is unable to meet the liabilities it has assumed in connection with covered bonds or, for any other reason, its activities significantly impair the interests of investors or other clients or adversely affect the regular functioning of the securities market;
- the issuer has failed to comply with a precept of the EFSA within the term or in the manner prescribed; or
- the issuer has not issued any new covered bonds within five years after the receipt of the additional authorisation or after the redemption of all previously issued covered bonds.

Cover register

Under the ECBA, the issuer is obliged to maintain a cover register, that contains information on the cover assets securing the covered bonds. The cover assets entered in the cover register for the same type of covered bonds constitute a cover pool. One and the same type of covered bonds, their cover pool, and the derivative instruments entered in the cover register constitute a covered bond portfolio. The cover register consists of the main register and sub-registers. In addition to the cases provided by the ECBA, a sub-register must be created in order to ensure that the cover pool and derivative instruments related to a specific covered bond portfolio will be properly recorded. When creating sub-registers, the issuer must take into account the size of the covered bond portfolio, the complexity of its structure and other relevant indicators.

The entry of a claim serving as coverage for covered bonds in the cover register or its deletion from the cover register does not require the consent of the debtor or the third party concerned and the issuer generally does not have an obligation to inform the debtor or the third party concerned of the entry of the claim in the cover register. As an exception, the debtor of a claim and the counterparty to a derivative instrument entered in the cover register may at any time, and an interested party may in a justified case, request information as to whether the claim or derivative instrument that is related thereto has been entered in the cover register. The obligation to provide the information lies with the issuer, the cover pool administrator and the bankruptcy trustee for the covered bond portfolio.

Disclosure of information relating to covered bonds

The ECBA requires an issuer of covered bonds to disclose information about covered bond portfolios once a quarter. Information for the first three quarters of a year must be disclosed within one month from the end of each quarter. Information for the fourth quarter must be disclosed within two months from the end of the quarter. The disclosed information must be available on the issuer's website for at least the last five years.

The following information must be disclosed:

- (i) the nominal value and present value of outstanding covered bonds and of the cover pool;
- (ii) the maturity structure of the covered bonds and the cover pool;
- (iii) the percentage of fixed-interest cover assets in the cover pool and the percentage of fixed-interest covered bonds in the liabilities of the covered bond portfolio;
- (iv) the graduated breakdown of the interest rates on fixed and non-fixed-interest cover assets;
- (v) the percentage of cover assets denominated in a foreign currency in the cover pool and the percentage of covered bonds denominated in a foreign currency in the liabilities of the covered bond portfolio;
- (vi) the geographical distribution of the value of cover assets, at least to the accuracy of the country, based on the location of the property standing as security for a mortgage-backed credit or commercial mortgage-backed credit, and the location of the debtor or issuer in the case of other cover assets;
- (vii) the distribution of substitute cover assets, in terms of their value, between the different types of eligible substitute cover assets;
- (viii) the level of the liquidity buffer; and
- (ix) the percentage of the amount of substitute cover assets, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool.

In addition, the following information shall be disclosed regarding the primary cover assets for mortgage-covered bonds:

- (i) the graduated breakdown of the amounts of mortgage-backed credits; and
- (ii) the percentage of the amount of mortgage-backed credits, which have been in default for over 90 days or which the issuer estimates to be doubtful, in the cover pool.

Eligible cover pool assets

Under the ECBA, Eligible Assets consist of primary cover assets and substitute cover assets. Primary cover assets must constitute at least 80 per cent. of the principal cover pool of a covered bond portfolio. Regarding the requirements of the ECBA for substitute cover assets, please see "*Substitute cover assets*" below.

In accordance with the ECBA, primary cover assets of mortgage-covered bonds may only consist of the issuer's claims that arise from a credit issued to a natural person against a mortgage established on a residential property located in the territory of a Contracting State of the EEA Agreement which comply with the conditions provided for in the ECBA.

For the purposes of the ECBA, a residential property is property referred to in Article 4 (1) (75) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

Claims arising from a mortgage-backed credit issued to a natural person against a residential property located in the territory of a Contracting State of the EEA Agreement other than Estonia may be used as coverage for mortgage-covered bonds only if the mortgage securing the mortgage-backed credit or other right of security provide the creditor with protection that is equivalent to the protection provided by a mortgage established under Estonian legislation. It is assumed that cover assets meeting the conditions laid down in Article 208 (2) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council provide the creditor with protection that is equivalent to the protection provided by a mortgage established under Estonian legislation.

The following may not be entered into the cover register:

- a mortgage-backed credit which is in default at the time that the credit is entered in the cover register.
- a mortgage-backed credit in the case of which the issuer's claim arising from the credit or the mortgage securing the claim is encumbered, or in the case of which the issuer's claim arising from the credit, the mortgage securing the claim or the property on which the mortgage has been established is subject to a restraint on disposition.

The valuation of the property standing as security for a mortgage-backed credit entered in the cover register which is located in Estonia must be done by a valuator meeting the requirements provided for in the Estonian Creditors and Credit Intermediaries Act in compliance with the requirements provided for in the Estonian Creditors and Credit Intermediaries Act. The valuation of the property standing as security for a mortgage-backed credit entered in the cover register which is located in the territory of a Contracting State of the EEA Agreement other than Estonia must be done by a valuator who holds a relevant professional qualification in the relevant Contracting State of the EEA Agreement, in accordance with the legislation, relevant standards and good practices in force in the relevant Contracting State of the EEA Agreement and the following conditions are met:

- the methodology and rules of procedure applied ensured an objective and impartial valuation; and
- the valuation or the result thereof was documented in a format that can be reproduced in writing and in such a way as to enable the identification of, *inter alia*, the identity of the valuator or the issuer's structural unit conducting the valuation, the methodology and rules of procedure applied in the valuation, and the source data used for making the valuation.

Where the mortgage established on an immovable property secures claims arising from different credit agreements, the claims arising from these credits may serve as coverage for mortgage-covered bonds only if the credit has been issued to one and the same person under the credit agreements and all the credits have been issued in the same currency. In this case, when calculating the ratio of credit to value of the property securing the mortgage-backed credit, the claims arising from all credit agreements shall be deemed to be claims arising from one credit agreement and the claims shall be added together.

The claims of the issuer arising from a mortgage-backed credit may be used as coverage for mortgage-covered bonds in an amount of up to 70% of the value of the property securing the mortgage-backed credit. Nevertheless, all the issuer's claims arising from the mortgage-backed credit entered in the cover register are included in the cover pool.

To include a claim of the issuer arising from a mortgage-backed credit as coverage for mortgage-covered bonds, the mortgage securing the claim must account to (i.e. the sum of the mortgage must be) at least 110 per cent. of the issued credit. The sum of mortgage may exceed the value of the property securing the credit.

Under the ECBA, a property standing as security for a mortgage-backed credit and entered in the cover register must, until the recipient of the credit has met all the obligations owed to the issuer, be insured under the terms and conditions normally used to insure similar properties in the Contracting State of the EEA Agreement in such a way as to ensure that all relevant risks are insured. As an exception, an undeveloped residential property does not need to be insured. If the property is a residential building, apartment building or apartment under construction, the insurance obligation arises at the moment when the building being constructed becomes a construction with an interior space that is separated from the external environment by a roof and other parts of the building envelope. In the absence of an insurance agreement meeting the conditions described above, the issuer must remove the claims arising from the mortgage-backed credit from the cover register unless an insurance agreement meeting the described requirements is entered within 30 business days from the moment the issuer became aware of the absence of the insurance agreement. A mortgage-backed credit may be included in the cover register only if the market value of the property standing as security for the credit has been appraised by an appraiser meeting the requirements provided for in section the Creditors and Credit Intermediaries Act, in accordance with the requirements laid down and the regulation adopted under the said act.

The value of a property standing as security for a mortgage-backed credit entered in the cover register must be reviewed at least once a year and reappraised, if necessary. Furthermore, the value of a property standing as security for a mortgage-backed credit entered in the cover register shall be additionally reviewed and reappraised, if necessary:

- in the event of a significant change in market conditions; or
- if the information available to the issuer indicates that a significant decline has occurred or is occurring in the national or local real estate market, including if it concerns only one specific property type, residential building type or other narrower category of properties.

In the cases listed above, the value of a property standing as security for a mortgage-backed credit entered in the cover register may be reappraised by indexed appraisal. When entering a mortgage-backed credit in the cover register, the value of a property standing as security is determined on the basis of the latest appraisal or reappraisal, which may not be older than 12 months.

Requirements relating to liquidity

In order to ensure the liquidity of the covered bond portfolio where there is a separation of the covered bond portfolio from the issuer, the issuer must maintain a liquidity buffer. The liquidity buffer is a part of the cover pool and is considered in the calculation of the principal cover pool and the mandatory complementary cover pool. The liquidity buffer must be entered in a separate sub-register of the cover register.

The liquidity buffer may comprise only the following cover assets:

- level 1 and level 2A assets specified in Articles 10 and 11 of Commission Delegated Regulation (EU) No. 2015/61 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions, except the issuer's own covered bonds; or
- deposits meeting the characteristics specified in Article 129(1)(c) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, provided that they do not constitute more than 15 per cent. of the sum of the principal cover pool and the mandatory complementary cover pool.

A cover asset included in the liquidity buffer must meet the following conditions:

- it shall not be in default or, in the estimation of the credit institution, doubtful;

- in the case of a deposit, it shall be ensured that the funds deposited will be fully available without delay upon the separation of the covered bond portfolio; and
- securities shall be kept in a separate securities account of the issuer or in a manner allowing the securities included in the liquidity buffer to be kept unblocked in case of bankruptcy of the issuer.

To calculate the minimum level of the liquidity buffer, the difference between the payments to be made in order to meet all the liabilities arising from the covered bonds and derivative instruments entered in the cover register, on the one hand, and the cash flow to be received from the cover pool, on the other hand, shall be calculated on a daily basis for each of the following 180 days (hereinafter referred to as the daily difference). Thereafter the sum of the accumulated daily differences shall be calculated for each of the following 180 days, and the highest negative result shall be covered at all times by cover assets eligible to be included in the liquidity buffer.

Substitute cover assets

In addition to the primary cover assets, the following cover assets may be included in a cover pool as substitute cover assets:

- (i) claims on, or guaranteed by, central banks within the European System of Central Banks, or central governments, public sector entities, regional governments or local authorities of the Member States of the European Union;
- (ii) claims on, or guaranteed by, central governments of third countries, central banks of third countries, multilateral development banks and international organisations, which qualify for the credit quality step 1 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council;
- (iii) claims on, or guaranteed by, public sector entities of third countries, regional governments of third countries or local authorities of third countries, for which a risk weight has been assigned the same way as for claims on credit institutions and investment firms or central governments and central banks in accordance with Article 115 (1) or (2) and Article 116 (1), (2) or (4) of Regulation (EC) No. 575/2013 (EU) of the European Parliament and of the Council and which qualify for the credit quality step 1 according to the risk weight so assigned;
- (iv) claims specified in items (ii) and (iii) above, which qualify for at least the credit quality step 2 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that such claims do not exceed 20 per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover;
- (v) claims on credit institutions and investment firms, which qualify for the credit quality step 1 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that such claims do not exceed 15 per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover;
- (vi) claims on credit institutions and investment firms established in the European Union with a maturity of no more than 100 days, which qualify at least for the credit quality step 2 in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, provided that such claims do not exceed 15 per cent. of the nominal value of the outstanding covered bonds in the covered bond portfolio that they cover; or
- (vii) the surplus of net claims arising from the derivative instruments included in a covered bond portfolio that meet the requirements provided for in the ECBA.

Derivatives

In order to hedge risks arising from covered bonds, an issuer has the right to use derivative instruments and to enter them in the cover register, provided that all of the following conditions are met:

- (i) the derivative instrument transaction has been made on the basis of a framework agreement that allows netting;

- (ii) the counterparty to the transaction is one of the following:
 - (a) a credit institution, investment firm, management company, investment fund, insurance undertaking and another financial institution subject to financial supervision;
 - (b) the Republic of Estonia, a foreign state, a regional government or the central bank of Estonia or a foreign state;
 - (c) an international institution or organisation, including the International Monetary Fund, the European Central Bank, and the European Investment Bank;
 - (d) a financial institution whose only business activity is investment in securities, a market trader in commodities and commodity derivatives;
 - (e) a large enterprise (i.e. a company which meets at least two of the following conditions: 1) the balance sheet total thereof is equal to or exceeds 20 million euros; 2) the net turnover thereof is equal to or exceeds 40 million euros; 3) the equity thereof is equal to or exceeds 2 million euros);
 - (f) another professional client or an eligible counterparty pursuant to the Securities Market Act or a person who is considered a professional client or an eligible counterparty pursuant to the current legislation of another Contracting State, excluding the case when the client has applied for being treated as a retail client.
- (iii) the terms and conditions of the framework agreement or transaction ensure that, in the event of the issuer's insolvency, if it does not lead to the insolvency of the covered bond portfolio related to the particular derivative instrument, the counterparty to the transaction is not entitled to prematurely terminate the transaction or framework agreement;
- (iv) the sole purpose of the transaction is to hedge the issuer's risks arising from the specific type of covered bonds; and
- (v) the counterparty to the transaction has given consent to the inclusion of the derivative instrument in the cover register (whereas such consent is presumed if a framework agreement between the parties provides or if the issuer has otherwise informed the counterparty to the derivative instrument that the framework agreement is concluded for the purpose of hedging the risks arising from the specific covered bond portfolio).

In the event that the issuer has the right to require the counterparty to a derivative instrument to provide security on the basis of a claim arising from the derivative instrument, the security shall be comprised of claims that qualify as substitute cover assets (please see "*Substitute Cover Assets*" above) and shall be entered in a separate sub-register of the cover register.

In the event that the cash flow to be received by the issuer from a derivative instrument entered in the cover register exceeds the payments to be made to meet the liabilities arising from the derivative instrument and if an extraordinary termination of the transaction results in a positive cash flow for the issuer, the lower of the following amounts shall be treated as the net claim:

- the positive cash flow resulting for the issuer from the extraordinary termination of the transaction; or
- the cash flow to be received by the issuer from the derivative instrument, less the payments to be made to meet the liabilities arising from the derivative instrument.

In event that the payments to be made to meet the issuer's liabilities arising from a derivative instrument entered in the cover register exceed the cash flow to be received from the derivative instrument or an extraordinary termination of the transaction results in a negative cash flow for the issuer, the lower of the following amounts shall be treated as the net liability:

- the negative cash flow resulting for the issuer from the extraordinary termination of the transaction; or

- the payments to be made to meet the liabilities arising from the derivative instrument, less the cash flow to be received by the issuer from the derivative instrument.

The issuer shall subtract the net liabilities from the net claims arising from the derivative instruments included in a covered bond portfolio and, depending on the result, shall treat the negative result as the surplus of net liabilities and the positive result as the surplus of net claims.

Separation of the covered bond portfolio

The ECBA prescribes that upon the occurrence of the following events, the covered bond portfolio shall be considered separated from the issuer:

- (i) the issuer is declared bankrupt;
- (ii) a moratorium is established in respect of the issuer;
- (iii) a crisis resolution procedure is initiated in respect of the issuer;
- (iv) the additional authorisation or main authorisation of the issuer expires;
- (v) a court ruling providing for compulsory dissolution of the issuer takes effect;
- (vi) the authorisation for voluntary dissolution of the credit institution or discontinuation of the issuance of covered bonds is received from the EFSA; or
- (vii) the entry into force of a court ruling satisfying the petition of the EFSA for the separation of the covered bond portfolio takes effect.

The EFSA may determine the separation of a covered bond portfolio prior to the occurrence of an event specified above, if:

- the issuer is breaching or is likely to materially breach the requirements of the ECBA or other legislation regarding the activities of a credit institution in the near future; or
- the issuer is likely to become insolvent in the near future.

After the separation of the covered bond portfolio, an independent pool of designated assets is formed, in which the cover pool and the proceeds received from it can be used only to satisfy the claims of the holders of the respective type of covered bonds and of the counterparties to the derivative instrument entered in the corresponding cover register and to cover the expenses related to the management of the covered bond portfolio. Upon the separation of the covered bond portfolio (except when separation takes place due to the initiation of crisis resolution proceedings in respect of the issuer):

- the right to manage the covered bond portfolios and the right to participate, instead of the issuer, in court proceedings concerning a covered bond portfolio shall transfer to the cover pool administrator; and
- the issuer shall lose the right to undertake any transactions with the assets included in a covered bond portfolio.

The separation of a covered bond portfolio does not affect the rights and obligations arising from covered bonds or from the derivative instruments and the cover pool entered in the cover register, except as provided above. The claims of the holders of covered bonds and of the counterparties to the derivative instruments entered in the cover register shall be satisfied at the expense of the cover pool and proceeds received from it, in accordance with the terms and conditions of the covered bonds and derivative instruments.

Appointment of cover pool administrator

In the event that: (i) the issuer is declared bankrupt; (ii) the covered bond portfolio is separated; (iii) the compulsory dissolution of an issuer is decided by a court; (iv) the EFSA revokes the issuer's credit institution's authorisation or the additional authorisation for issuing covered bonds; (v) the EFSA authorises the voluntary dissolution of the issuer as a credit institution or voluntary discontinuation of the issuance of

covered bonds by the issuer; or (vi) the EFSA establishes a moratorium over the issuer, the court shall, on the proposal of the EFSA, appoint a cover pool administrator in respect of the covered bond portfolios in the ruling on bankruptcy, the ruling on the separation of the covered bond portfolio or the ruling on the compulsory dissolution. The court shall appoint a cover pool administrator without delay, but not later than within three days after receipt of the petition from the EFSA (other than where the issuer is declared bankrupt or the compulsory dissolution of an issuer is decided by a court, in which case the cover pool administrator is appointed immediately upon the making of the court ruling to declare the issuer bankrupt or decide on its compulsory dissolution).

Where urgent transactions need to be made to manage the covered bond portfolio, until the cover pool administrator is appointed, the administrator's rights and obligations are carried out by the cover pool monitor (other than in case the issuer is declared bankrupt or the compulsory dissolution of an issuer is decided by a court, in which case the cover pool administrator is appointed immediately upon the making of the court ruling to declare the issuer bankrupt or decide on its compulsory dissolution).

In the event of the appointment of a cover pool administrator, the right to manage and dispose of a covered bond portfolio shall transfer to such cover pool administrator. The cover pool administrator shall represent the issuer in the management and disposal of covered bond portfolios, including meeting the liabilities arising from covered bonds and from the derivative instruments entered in the cover register, in the acceptance of satisfaction of claims included in the cover pool, in the enforcement of mortgages and other rights of security, and in legal disputes.

The cover pool administrator must manage the covered bond portfolio with the necessary diligence, considering its nature, and in a manner ensuring that the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met in the best possible way. To this end, the cover pool administrator has the right to transfer and encumber the cover pool, enter into derivative instruments at the expense of the cover pool, and perform other necessary operations. The cover pool administrator has the right to use the cover pool and the proceeds received from it to cover the expenses necessary for the management of covered bond portfolios.

Upon his or her appointment, the cover pool administrator shall promptly, but not later than within two weeks, ascertain whether the cover pool and proceeds received from it are sufficient to meet the issuer's liabilities arising from covered bonds and from the derivative instruments entered in the cover register and to pay the expenses of management of the covered bond portfolio. In the event that the covered bond portfolio appears to be insolvent, the cover pool administrator shall promptly notify the EFSA thereof.

In order to perform his or her duties, the cover pool administrator may use the assistance of the issuer's employees and the issuer's tools, compensating the issuer for the expenses entailed by their use. The issuer shall deliver the contracts and other documents related to covered bonds and the cover pool to the cover pool administrator and shall provide the cover pool administrator with access to the information systems used for the management of covered bond portfolios.

In the management of covered bond portfolios, the cover pool administrator must observe the mandatory requirements concerning the management of covered bond portfolios and the satisfaction of claims, as established for issuers by the Credit Institutions Act and the ECBA, including the requirements for banking secrecy and for processing of personal data imposed on credit institutions.

Enforcement proceedings concerning cover pools

A cover pool can be made subject to a claim for payment, seized or be made subject to a restraint on disposition only for the purpose of performance of the obligations that arise from covered bonds and from derivative instruments related to covered bonds. A claim for payment, seizure or restraint on disposition can be imposed only on the cover pool as a whole and only for the amount of the claim raised by a creditor of the covered bond portfolio. The issuer or the cover pool administrator shall keep accounts and records of claims for payment, seizures and restraints on disposition.

The imposition of a claim for payment, seizure or other restraint on disposition on a cover asset or cover pool for reasons not related to covered bonds does not result in the revocation of the additional authorisation or the appointment of a cover pool administrator if the issuer meets all the other requirements arising from the ECBA and there are no other grounds for revoking the additional authorisation or for appointing a cover pool administrator. If, in the aforementioned case, the value of the cover pool would fall below the statutory

level, the issuer shall immediately replace the cover asset that is subject to a claim for payment, seizure or restraint on disposition with another cover asset of the same value.

Covered bond portfolio in resolution proceedings

In the event that crisis resolutions proceedings under the FCPRA (which incorporates into Estonian law 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) have been initiated, the covered bond portfolio will separate from the issuer but no cover pool administrator shall be appointed in crisis resolution proceedings. In such case, the cover pool will be administered by the temporary administrator of the issuer, appointed in relation to the crisis resolution proceedings.

In the event that the bail-in and loss absorption mechanism is used in the crisis resolution proceedings of the issuer, then such mechanism may in accordance with the FCPRA not affect the cover pool of covered bonds. The FCPRA prescribes that the cover pool of covered bonds must remain segregated and with enough funding. Please also see the risk factor "*The Estonian legislation implementing the BRRD Directive*" above.

Transfer of a covered bond portfolio in its entirety

In the event that the covered bond portfolio is separated from the issuer, the cover pool administrator may, upon the permission of the EFSA, transfer the separated covered bond portfolio in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds or to a credit institution of a Contracting State of the EEA Agreement which is permitted to issue, in the country where it is established, securities meeting the conditions laid down in the first subparagraph of Article 52 (4) of Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. Upon such transfer, all rights and obligations related to the covered bond portfolio being transferred, including responsibility for the obligations arising before the transfer of the rights and obligations, shall be transferred to the acquirer. The proceeds received from the transfer of the covered bond portfolio in its entirety shall be used to cover the expenses of management of the covered bond portfolio. The funds remaining after all expenses are covered shall be included by the cover pool administrator in the issuer's bankruptcy estate or other assets. If any payment is made in respect of the claims included in the cover pool to the issuer after the transfer of the covered bond portfolio, such payment is deemed to be made in favour of the covered bond portfolio and accordingly the issuer shall immediately transfer the relevant amount to the acquirer.

In the event that a covered bond portfolio is transferred in its entirety, the transfer of the rights and obligations included in the covered bond portfolio shall not require the consent of the holders of covered bonds, other parties to contracts, creditors or other interested parties. The acquirer is obliged to, within a reasonable time after the acquisition of the covered bond portfolio, inform the holders of the covered bonds, debtors of the claims constituting the cover pool, the counterparties to derivative instruments related to the cover pool and the third parties concerned of all the circumstances necessary for the exercise and performance of the respective rights and obligations.

A covered bond portfolio may be transferred in its entirety to another Estonian credit institution that has obtained the additional authorisation to issue covered bonds if both the following conditions are met:

- the acquirer meets all the requirements established for issuers by the Credit Institutions Act, this Act and other legislation and has not breached these requirements repeatedly or materially during the last 5 years; and
- the acquirer has the capacity to ensure the existence of sufficient internal capital within the meaning of the Estonian Credit Institutions Act to cover all risks arising from the acquisition of the covered bond portfolio that are not subject to own funds requirements.

A covered bond portfolio may be transferred in its entirety to an acquirer being a credit institution established in another Contracting State of the EEA Agreement if all of the following conditions are met:

- the acquirer meets all the requirements imposed on credit institutions and issuers of covered bonds by the law of the country where the acquirer is established, and the acquirer has not breached these requirements repeatedly or materially during the last 5 years;
- the law of the country where the acquirer is established guarantees the coverage of the covered bonds included in the covered bond portfolio to be transferred and of the related derivative instruments entered in the cover register, as well as the rights of the holders of the covered bonds and of the counterparties to the derivative instruments entered in the cover register at a level that is at least equivalent to that guaranteed by Estonian law;
- the law of the country where the acquirer is established guarantees the rights of the debtors of the claims standing as security for the covered bonds at a level that is at least equivalent to that guaranteed by Estonian law, and the transfer will not render the performance of the obligations more expensive or difficult for the debtor of any such claim;
- the law of the country where the acquirer is established allows the acquirer to acquire the covered bond portfolio; and
- the acquirer has all the necessary authorisations and approvals for the acquisition of the covered bond portfolio that are required for the transaction according to the law of the country where the acquirer is established.

In order to obtain permission for the transfer of a covered bond portfolio, the acquirer shall, not later than on the 20th day after the conclusion of the contract for the transfer of the covered bond portfolio in its entirety, submit to the EFSA a written application and the supplementary documents and information required under the ECBA.

The EFSA may refuse to grant permission for the transfer of a covered bond portfolio if:

- the above described requirements for the acquirer of a covered bond portfolio are not met; or
- there are other circumstances damaging to the legitimate interests of the holders of covered bonds and of the counterparties to the derivative instruments entered in the cover register.

Insolvency of a separated covered bond portfolio

A separated covered bond portfolio is insolvent if one of the following circumstances occurs:

- it is not possible to satisfy the legitimate claim of at least one holder of covered bonds or counterparty to a derivative instrument entered in the cover register at the expense of the cover pool or the proceeds received from it, and this impossibility is not temporary due to the economic situation of the covered bond portfolio; or
- the present value of the cover pool does not cover the present value of the liabilities arising from covered bonds and from the derivative instruments entered in the cover register and the expenses of management of the covered bond portfolio.

Upon the insolvency of a covered bond portfolio, the insolvency proceedings of the covered bond portfolio would be carried out in accordance with the procedure laid out in the Estonian Bankruptcy Act, subject to the specification provided in the ECBA.

Only the EFSA has the right to file a bankruptcy petition in respect of a separated covered bond portfolio. Upon the submission of a bankruptcy petition by the EFSA, the court will review the bankruptcy petition promptly but not later than on the following business day and decide on the declaration of bankruptcy on the basis of evidence annexed to the bankruptcy petition. On the basis of the bankruptcy ruling, the covered bond portfolio concerned shall become a separate bankruptcy estate of the issuer.

In the bankruptcy proceedings of a separated covered bond portfolio only the holders of covered bonds, the counterparties to the derivative instruments entered in the cover register who have a claim arising from failure to perform an obligation in accordance section 48 of the Estonian Bankruptcy Act, and other persons whose claims may be satisfied at the expense of the cover pool or proceeds received from it according to

law, can be creditors in bankruptcy proceedings concerning a covered bond portfolio. Claims arising from derivative instruments and covered bonds shall have the same ranking and shall be satisfied before the claims of other creditors.

Upon the bankruptcy of a covered bond portfolio, the court shall appoint the bankruptcy trustee for the covered bond portfolio on the basis of the proposal of the EFSA. In addition to the general duties, rights and obligations the bankruptcy trustee has under the Estonian Bankruptcy Act, the bankruptcy trustee shall:

- submit to the EFSA, without delay, the information requested by the latter and allow the EFSA to examine the documentation related to the bankruptcy proceedings concerning the covered bond portfolio; and
- if necessary, or if so prescribed by the legislation of the other Contracting State of the EEA Agreement, notify the registrar of the commercial register, land register or other relevant register of the Contracting State of the EEA Agreement where a cover asset is located about the bankruptcy ruling concerning the covered bond portfolio.

In addition to the appointment of a bankruptcy trustee, a bankruptcy committee shall be formed for the insolvent covered bond portfolio. The bankruptcy committee shall have five members, three of which shall be appointed by the EFSA.

In the event that a claim included in the cover pool of the bankrupt covered bond portfolio is satisfied with respect to the issuer, such satisfaction shall be deemed to be satisfaction in favour of the bankruptcy estate of the covered bond portfolio in bankruptcy proceedings. The issuer or its bankruptcy trustee shall transfer the proceeds of the satisfaction immediately to the bankruptcy trustee of the covered bond portfolio.

Bankruptcy proceedings concerning a covered bond portfolio may not be terminated by a compromise, (which is a special court-supervised proceeding generally available under the Estonian Bankruptcy Act, allowing termination of bankruptcy proceedings upon reaching a settlement agreement approved by a majority of the creditors whose claims form at least two-thirds of the total amount of all defended claims in the bankruptcy proceedings). To the extent that it is not possible to satisfy claims arising from covered bonds and from the derivative instruments entered in the cover register in the bankruptcy proceedings concerning the covered bond portfolio, a creditor shall have the right to file claims against the issuer in the general procedure, including in bankruptcy proceedings.

Liquidation of a separated covered bond portfolio

A separated covered bond portfolio shall be liquidated once all the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met. Within 20 business days from the date of meeting all the liabilities arising from covered bonds and from the derivative instruments entered in the cover register, the cover pool administrator is obliged to submit to the EFSA the last reports required by the ECBA, disclose all information required under the ECBA and publish a notice regarding the liquidation of the covered bond portfolio in the Estonian Official Gazette (in Estonian: *Ametlikud Teadaanded*). After the fulfilment of the above listed obligations by the cover pool administrator, the EFSA shall within 10 business days file a petition for release of the administrator from office with a court.

From the date of entry into force of the court ruling on the release of the cover pool administrator from office, the provisions of the ECBA shall no longer apply to the portion of the cover pool that remains after the liabilities arising from covered bonds and from the derivative instruments entered in the cover register are met and the expenses of management of the covered bond portfolio are paid. The person whose term of office as the cover pool administrator has ended shall, insofar as possible, assist in the inclusion of the assets referred to in the first sentence of this subsection in the issuer's bankruptcy estate or other assets.

State supervision

Supervision over the issuance of covered bonds under the ECBA consists of state supervision by the EFSA and supervision by an independent cover pool monitor, which is appointed by the issuer.

The EFSA's role in relation to the ECBA consists of supervision over the activities of issuers of covered bonds and cover pool administrators. Such supervision includes the issuing of additional authorisations to credit institutions for the issuing of covered bonds (which is a prerequisite for a credit institution to issue

covered bonds under the ECBA) and the revocation of such authorisations, applying to court for the appointment of a new cover pool monitor, deciding the separation of the covered bond portfolio from the issuer, applying to court for the appointment of a cover pool administrator and for the release of a cover pool administrator from its office, approving and refusing transfers of covered bond portfolios in their entirety, filing bankruptcy petitions in respect of separated covered bond portfolios and appointing members to the bankruptcy committee for covered bond portfolios.

For the purpose of performing its supervision activities, the EFSA has the right to request reports, information, documents and oral or written explanations concerning facts relevant to the exercise of supervision. Furthermore, the EFSA has the right to require, for the purpose of performing supervision activities, issuers, cover pool monitors and cover pool administrators to submit all information and documents necessary for verification of the compliance of covered bond portfolios with requirements. In addition to the above and the rights the EFSA has for carrying out supervision under other laws of Estonia, the EFSA has the right to issue precepts to issuers requiring:

- (i) the inclusion of cover assets in a cover register;
- (ii) the entry of cover assets meeting the conditions provided for in the ECBA in the liquidity buffer sub-register;
- (iii) the removal of non-compliant cover assets or derivative instruments from the cover register;
- (iv) the correction of incorrect entries in the cover register;
- (v) the reappraisal of a property standing as security for a mortgage-backed credit or a commercial mortgage-backed credit in accordance with the methodology specified by the EFSA;
- (vi) the conduct of a stress test of the covered bond portfolio in accordance with the methodology specified by the EFSA;
- (vii) the replacement of a cover pool monitor;
- (viii) the provision of information to the cover pool monitor and allowing it to access documents and information systems; and
- (ix) the calculation of the present value of the covered bonds or the cover assets in accordance with the methodology specified by the EFSA.

In the event of failure to comply with an administrative act issued in accordance with the ECBA, the EFSA has the right to impose penalty payments until the failure to comply is cured. Furthermore, in case of certain breaches of the requirements of the ECBA, the EFSA has the right to impose fines in the amount of up to EUR 1,200 in case of a breach by a natural person and fines in the amount of up to EUR 400,000 in case of breach by a legal person.

In addition to the above, in the case of certain breaches of the ECBA or a failure by the issuer to duly and timely fulfil a precept issued by the EFSA, the EFSA may revoke the issuer's additional authorisation for the issuing of covered bonds, which would also result in the separation of the covered bond portfolio.

Cover pool monitor

For the performance of the duties provided for in the ECBA, the issuer must appoint an independent cover pool monitor. The cover pool monitor must be an auditing company which ensures that the tasks of the cover pool monitor are only fulfilled by a sworn auditor with who is trustworthy and has an impeccable business reputation, adequate knowledge and experience. The cover pool monitor may not be an auditing company who audits the annual reports of the issuer.

Pursuant to the ECBA, the statutory duties of a monitor are to verify:

- (i) the compliance of stress testing of a covered bond portfolio and the changes introduced to the covered bond portfolio as a result of stress testing to requirements;
- (ii) the existence of a sufficient cover pool and its compliance with requirements;

- (iii) the compliance of the maintenance of the cover register with requirements;
- (iv) the compliance of the appraisal of immovable properties encumbered with a mortgage securing credit and included in the cover pool with requirements;
- (v) the compliance of the issuer's risk management and reporting with requirements; and
- (vi) the compliance of the terms and conditions of covered bonds with requirements.

The monitor has the right to determine the scope and duration of the verification on each occasion. The monitor may carry out an on-the-spot verification at the place of establishment or place of business of the issuer, notifying the issuer at least two business days in advance. The issuer must allow the monitor to examine documents and information systems and shall provide the monitor with the information to the extent necessary for the performance of the monitor's duties.

The monitor must inform the issuer of any deficiencies found during verification in a format that can be reproduced in writing and shall set a reasonable deadline for elimination of the deficiencies. The monitor must notify the EFSA of the deficiencies that are not fully eliminated by the deadline set. The monitor must further notify the EFSA, promptly and in a format that can be reproduced in writing, of any circumstances or decisions that have come to the knowledge to the monitor and that result or may result in:

- a material breach of the legislation regulating the activities of the issuer;
- a material breach of the conditions under which the additional authorisation was granted; or
- a situation, or the risk of a situation arising, in which the issuer is unable to perform its liabilities arising from covered bonds and from the derivative instruments entered in the cover register.

The monitor must draw up a summary of verification activities that gives an overview of performance of its duties, the deficiencies found and the measures taken to eliminate them. The period covered by the summary of verification activities must correspond to the issuer's financial year. The summary of verification activities is to be submitted to the issuer and the EFSA within three months after the end of the issuer's financial year.

The appointment of the cover pool monitor is decided by issuer's general meeting. A monitor shall be appointed for a term of at least one year. The term of office of a monitor shall terminate:

- when a cover pool administrator is appointed;
- when a crisis resolution procedure is initiated;
- when the covered bond portfolio is declared bankrupt;
- when the monitor is removed by the general meeting;
- when the monitor resigns of his or her own accord; or
- when the monitor's term of appointment ends.

In the event of the voluntary resignation of the monitor, the monitor must notify the issuer and the EFSA thereof at least 30 days in advance. In the event of removal of the monitor by the general meeting, the issuer must notify the EFSA about the planned removal 10 days before the relevant resolution is adopted, unless prior notification is not possible for good reason.

A court shall, in the proceedings initiated on the basis of a petition of the EFSA, appoint a new monitor if:

- the general meeting of the issuer has not appointed a new monitor or there is reason to believe that a new monitor cannot be appointed before the termination of the term of office of the then current monitor; or
- the then current monitor does not meet the requirements established by law or there are deficiencies in the performance of his or her duties.

The term of office of a monitor appointed by a court shall continue until the general meeting appoints a new monitor.

As at the date of this Base Prospectus, the Issuer has appointed PWC pursuant to the Asset Monitor Agreement as a cover pool monitor in respect of the Programme to perform tests in respect of the Covered Bond Portfolio in compliance with the requirements of the ECBA.

BENCHMARKS REGULATION

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain benchmarks.

Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmarks Regulation (the "**ESMA Benchmarks Register**") are set out below.

| <u>Benchmark</u> | <u>Administrator</u> | <u>Administrator appears on ESMA Benchmarks Register?</u> |
|------------------|---|---|
| NIBOR | Norske Finansielle Referanser | No |
| STIBOR | Swedish Financial Benchmark Facility | No |
| | | As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that Norske Finansielle Referanser and Swedish Financial Benchmark Facility are not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence). |
| LIBOR | ICE Benchmark Administration Limited | Yes |
| EURIBOR | European Money Markets Institute | Yes |
| CIBOR | Danish Financial Benchmark Facility ApS | Yes |

TAXATION

The following is a general description of certain tax considerations relating to the Covered Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds, whether in those countries or elsewhere. Prospective purchasers of Covered Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Covered Bonds and receiving payments of interest, principal and/or other amounts under the Covered Bonds and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Taxation of interest in Estonia

Estonian Resident Covered Bondholders

In accordance with Article 17(1) of the Income Tax Act of Estonia (*tulumaksuseadus*), as amended (the "ITA"), income tax at the rate of 20 per cent. is charged on interest received by individuals who are resident in Estonia. Furthermore, income tax payable in respect of interest payments to be made to Estonian residents is to be withheld by the Issuer. The Issuer will not withhold income tax if the Estonian resident Covered Bondholder, who is an individual, has notified the Issuer that the interest was received on financial assets acquired for money held in an investment account as specified in Article 17² of the ITA.

Resident legal entities are not subject to income tax upon receiving interest income. Under the Estonian corporate income tax system such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Covered Bondholders

The Issuer is not subject to withholding any income tax on interest payments to non-residents (including whether the non-resident is a legal entity or an individual, or if the legal entity has a permanent establishment in Estonia).

Provided that: (a) the tax residency of the Covered Bondholders is not known by the Issuer at the time that the Issuer makes an interest payment to a Paying Agent; and (b) the Paying Agent is a non-resident person, no withholdings will be made in Estonia.

The income earned by non-resident Covered Bondholders is not subject to taxation in Estonia but may be subject to taxation in their country of residence.

Definitive Covered Bonds

Covered Bondholders should be aware that, if Definitive Covered Bonds are issued, holders of any Definitive Covered Bonds that are not held through Euroclear or Clearstream, Luxembourg, who are individuals (i.e. not legal entities), will be required to present evidence of non-Estonian tax residency or other evidence as required by the Issuer, to the relevant Paying Agent if the Paying Agent is a tax resident in Estonia, in order to receive payments of interest free of Estonian withholding tax (which, as at the date of this Base Prospectus, is charged at a rate of 20 per cent.).

Taxation of capital gains in Estonia

Estonian Resident Covered Bondholders

The income earned by resident individuals from the sale or exchange of Covered Bonds is taxed as gain from the transfer of property which is subject to income tax at the rate of 20 per cent. A Covered Bondholder has to declare the gain received and pay the income tax on its annual income tax return. A resident individual has the right to deduct any loss suffered upon the transfer of securities during a period of taxation from the gains derived from the transfer of securities during the same period of taxation.

Under Article 37(1) of the ITA, a resident individual has the right to deduct certified expenses directly related to the sale of Covered Bonds from the resident's gain or to add such expenses to the resident's loss. The gain or loss derived from the transfer of Covered Bonds is the difference between the acquisition cost and the sale price of the Covered Bonds.

Upon using an investment account specified in Article 17² of the ITA for the purposes of making transactions with the Covered Bonds and depositing the proceeds from the transfer of Covered Bonds in the investment account, individual Covered Bondholders may postpone the taxation of their income derived from the sale or exchange of the Covered Bonds. 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 investment account which exceeds the amount that had been previously paid in the said account).

Resident legal entities are not subject to income tax upon receiving interest income. Under the Estonian corporate income tax system such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Covered Bondholders

Income earned from the sale or exchange of Covered Bonds is not subject to income tax in Estonia by non-resident Covered Bondholders (i.e. non-resident legal persons who do not have a registered permanent establishment in Estonia, and/or individuals).

The income earned by non-resident Covered Bondholders may be subject to taxation in their country of residence.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia, a "**participating Member State**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Covered Bonds (including secondary' market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "**established**" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions including the Republic of Estonia have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on

instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date of publication of final regulations defining the term "foreign passthru payment".¹³ Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds.

¹³ On December 14, 2018 the Treasury and the IRS issued Proposed Regulations that substantially reduce the burden under FACTA and chapter 3 by eliminating withholding on the payments of gross proceeds and certain Insurance premiums, deferring withholding on foreign Pass-thru payments, and introducing other relief measures.

SUBSCRIPTION AND SALE

Covered Bonds may be sold from time to time by the Issuer to any one or more of Barclays Bank Ireland PLC, Barclays Bank PLC, Citigroup Global Markets Europe AG Citigroup Global Markets Limited, Landesbank Baden-Württemberg, Nordea Bank Abp, Swedbank AB (publ) and UniCredit Bank AG (the "**Dealers**"). The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 19 May 2020 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as "**Non-Syndicated**" and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as "**Syndicated**", the obligations of those Dealers to subscribe the relevant Covered Bonds will be joint and several and the names and addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilisation Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds.

United States of America

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Covered Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Covered Bonds comprising the relevant Tranche within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Covered Bonds during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Covered Bonds comprising any Tranche, any offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Regulation

Prohibition of Sales to EEA and UK Retail Investors

Unless the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds specifies the "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer,

sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or are the subject of the offering contemplated by a Drawdown Prospectus) in relation thereto to any retail investor in the EEA (including Estonia) or in the UK. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below); and
- (b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Covered Bonds specifies "**Prohibition of Sales to EEA and UK Retail Investors**" as "**Not Applicable**", in relation to each Member State of the EEA (including Estonia) and the UK (each, a "**Relevant State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant State except that it may make an offer of such Covered Bonds to the public in that Relevant State:

- (a) Qualified investors: at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) Fewer than 150 offerees: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) Other exempt offers: at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/ 1129.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) No deposit-taking: in relation to any Covered Bonds having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:

- (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act (the "**FSMA**") by the Issuer;

- (b) Financial promotion: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and
- (c) General compliance: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Covered Bonds in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Republic of Italy

The offering of Covered Bonds has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, the Dealers have represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that, it has not offered, sold or delivered, and will not offer, sell or deliver, any Covered Bonds nor distribute any copies of the Base Prospectus, any Final Terms or any other document relating to Covered Bonds, in the Republic of Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100, paragraph 1, letter (a) of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any such offer, sale or delivery of Covered Bonds or distribution of copies of this Base Prospectus, any Final Terms or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (the "**Consolidated Banking Act**") (in each case, as amended from time to time) and any other applicable laws and regulations; and

- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Consolidated Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) or any other competent authority.

Belgium

Other than in respect of Covered Bonds for which “*Prohibition of Sales to Belgian Consumers*” is specified as “Not Applicable” in the relevant Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a “**Belgian Consumer**”) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

General

Each Dealer has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Covered Bonds or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “**General**” above.

Neither the Issuer or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Covered Bonds) or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

1. The update of the Programme was authorised by the Supervisory Council of the Issuer given on 15 April 2020. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds relating to them.

Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries since 31 December 2019 nor has there been any significant change in the financial position or performance of the Issuer or the Issuer and its subsidiaries since 31 March 2020 except for, in each case, the impact of the Coronavirus outbreak referred to in the Risk Factor headed "*The Bank may be materially adversely affected by the Coronavirus pandemic*" on page 8 of this Base Prospectus.

Auditors

4. AS PricewaterhouseCoopers has audited the consolidated financial statements of AS LHV Pank for the year ended 31 December 2018 and 31 December 2019 (incorporated into this Base Prospectus by reference) and issued an unqualified auditor's report from the audit thereof.

AS PricewaterhouseCoopers has audited the consolidated financial statements of the LHV Group for the year ended 31 December 2018 and 31 December 2019 (incorporated into this Base Prospectus by reference) and issued unqualified auditor's report from the audit thereof.

AS PricewaterhouseCoopers is a member of the Estonian Auditors Association.

From 1 January 2020, KPMG Baltics OÜ has been appointed as the statutory auditors of the Issuer. KPMG Baltics OÜ is a member of the Estonian Auditors Association.

Listing Agent

5. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Covered Bonds and is not itself seeking admission of the Covered Bonds to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Regulation.

Documents on Display

6. Electronic copies of the following documents (together with English translations thereof) may be obtained from during normal business hours at the offices of AS LHV Pank or at <https://investor.lhv.ee/en/>, for 12 months from the date of this Base Prospectus:
 - (a) the articles of association and trade register extract of the Issuer (as the same may be updated from time to time);
 - (b) the audited consolidated financial statements of AS LHV Pank and the LHV Group for the years ended 31 December 2019 and 2018;
 - (c) the condensed consolidated interim financial statements of AS LHV Pank and the LHV Group for the three month period ended 31 March 2020;
 - (d) the Agency Agreement;
 - (e) the Deed of Covenant;

- (f) the Programme Manual (which contains the forms of the Covered Bonds in global and definitive form); and
- (g) the Issuer-ICSDs Agreement.

For the avoidance of doubt, unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus.

Clearing of the Covered Bonds

- 7. The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code, International Securities Identification Number (ISIN), Financial Instrument Short Name (FISN) and Classification of Financial Instruments (CFI) code (as applicable) in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information.

Issue Price and Yield

- 8. Covered Bonds may be issued at any price. The issue price of each Tranche of Covered Bonds to be issued under the Programme will be determined by the Issuer in consultation with the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Covered Bonds or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Covered Bonds, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.
- 9. The yield of each Tranche of Covered Bonds set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

Dealers transacting with the Issuer

- 10. Certain of the Dealers and/or their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates may have a lending relationship with the Issuer and may, in such cases, routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds and Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Legal Entity Identifier

- 11. The Legal Entity Identifier (LEI) code of the Issuer is 529900GJOSVHI055QR67.

Issuer website

- 12. The Issuer's website is <https://www.lhv.ee/en/>. Unless specifically incorporated by reference into this Base Prospectus, information contained on the website or any website directly or indirectly linked to this website has not been verified and does not form part of this Base Prospectus.

Validity of Base Prospectus and Base Prospectus supplements

13. For the avoidance of doubt, the Issuer shall have no obligation to supplement this Base Prospectus after the end of its 12-month validity period.

REGISTERED OFFICE OF THE ISSUER

AS LHV Pank

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DEALERS

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United Kingdom

REGISTRAR

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LEGAL ADVISERS

To the Issuer

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E1 6AD
United Kingdom

as to Estonian law:
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10141 Tallinn
Estonia

To the Dealers as to English law:

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United Kingdom

AUDITORS TO THE ISSUER

For the period to 31 December 2019:

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Pärnu mnt 15
10141 Tallinn
Estonia

From 1 January 2020:

KPMG Baltics OÜ
Narva maantee 5
10117 Tallinn
Estonia

LISTING AGENT

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Ireland