

# Report on the activities of the Supervisory Board and assessment of the Annual Report 2013 of AS LHV Group for submission to the annual general meeting of the shareholders

30 April 2013

The Supervisory Board of AS LHV Group, consisting of Chairman of the Supervisory Board Andres Viisemann and members of the Supervisory Board Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Tauno Tats, have discussed the following issues:

## **1. Activities in the financial year 2013**

2013 was a year of quick development for AS LHV Group (hereinafter the Group), with sights set on new horizons. The relentless efforts made in previous periods have established a strong foundation for the key business areas, with a stable rhythm achieved for daily operations.

In 2013, the Group posted a net profit of 4.3 million euros. Owner's equity amounted to 31.9 million euros as at the end of the year (of which the equity attributable to the parent company amounts to 30.3 million euros).

LHV Asset Management continued along the path of quick growth undertaken in the previous periods. In second-pillar pension fund management, the number of active customers reached 124 thousand, with the net asset value of the funds managed amounting to 341 million euros. Within five years, the market share of LHV Asset Management has grown from 5% to 20%. As regards the service fees collected, LHV Asset Management is the second biggest pension fund manager on the Estonian market.

The year also saw a successful development of other asset management services. The LHV Persian Gulf Fund garnered recognition by being declared the best GCC equity fund by Zawya Thomson Reuters, while maintaining the highest (5 star) rating of Morningstar. The net asset value of the fund reached 26 million euros by the end of the year, with an annual yield of 49.5%. 76% of the fund investors come from outside Estonia.

The focus of LHV Bank lay on the development of corporate financing activities. The number of loan customers grew by approximately 100, reaching 261, against a financial portfolio of 133 million euros. There has been very good feedback on the LHV corporate banking team, with its transparent and efficient management of customer relations.

The volume of deposits and loans grew significantly in 2013. Deposits grew by 26% to 356 million euros and loans by 93% to 205 million euros. The Group posted a net profit of 2.3 million euros. The bank's own funds and capitalisation grew during the year – the share capital was raised by 9.8 million euros and subordinated bonds increased by 6 million euros.

Several new products and services were launched during the year – hire-purchase, multi-account card, Partner Bank Card, mobile bank, e-invoice standing order, overdraft, Baltic analysis and market making.

In May, a partnership agreement was concluded with the investment company Razfin for joint operations on the Lithuanian market. The first manifestation of the partnership was the purchase of the Lithuanian consumer finance provider Snoro Lizingas. The company was renamed Mokilizingas, with its waning economic activities reversed within six months after the purchase. Mokilizingas had over 70 thousand active customers as at the end of the year and is currently, once again, among the biggest hire-purchase providers on the Lithuanian market.

No major changes occurred in the organisational structure of the Group. In September, Erkki Raasuke was appointed member of the Management Board of the Group. Erkki also became the Chairman of the Supervisory Board of AS LHV Pank and AS LHV Varahaldus.

The Supervisory Board held 10 meetings in 2013. At these meetings, the Supervisory Board was provided with regular overviews of the results of operations and financial results, as well as the various new initiatives. The Supervisory Board adopted resolutions regarding amendment of policies,

engagement of capital and subordinated loans, and the financial plans and activity plans for the upcoming year.

The Supervisory Board is quite pleased with the management and economic activities in 2013.

## **2. Annual Report 2013**

The Supervisory Board has examined the Annual Report 2013 prepared by the Management Board, and the auditor's report. In the opinion of the Supervisory Board, the Annual Report has been prepared in accordance with the generally accepted accounting principles, international standards and other acts regulating accounting.

The Supervisory Board is pleased with the work of the auditor in 2013.

## **3. Calling of the annual general meeting and submission of proposals regarding items on the agenda of the general meeting**

The Supervisory Board proposes to call the annual general meeting on 21 May 2014, with the following agenda:

1. Approval of the Annual Report 2013
2. Profit allocation for 2013
3. Overview of the economic results for the first quarter of 2014
4. Overview of the developments in corporate governance in 2014
5. Amendment of the Articles of Association
6. Removal of members of the Supervisory Board
7. Appointment of members of the Supervisory Board
8. Remuneration of members of the Supervisory Board
9. Share option programme
10. Raising of the share capital