

Report on the activities of the Supervisory Board and assessment of the Annual Report 2014 of AS LHV Group for submission to the annual general meeting of the shareholders

1 April 2015

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

1. Activities in the financial year 2014

2014 was another year of quick development for AS LHV Group (hereinafter the Group), with sights set on new horizons. To support the Group's growth and development, a total of 3.5 million new shares were issued in the summer of 2014. Together with the exchange of convertible debt securities into shares, the share capital of LHV increased by 16.2 million euros.

In 2014, the Group posted a net profit of 9.7 million euros. Owner's equity amounted to 58.0 million euros as at the end of the year (of which the equity attributable to shareholders of the parent company amounted to 55.9 million euros).

No major changes occurred in the organisational structure of the Group. The Audit Committee and the Remuneration Committee were set up, with the corresponding rules of procedure established. The core function of these committees is to advise the Supervisory Board within the limits of their competence in accordance with the rules of procedure and the law.

In 2014, the focus of LHV Bank was laid on the engagement of new customers and pursuit of growth in business volumes. LHV Bank's earnings before taxes amounted to 5.6 million euros in 2014 and net profit to 6.2 million euros. This constitutes a 173% growth from last year (2.3 million euros). Net interest income increased by 61% and net fee and commission income by 19%. The volume of the bank's loan portfolios totalled 313 million euros as at the end of December (December 2013: 205 million euros). The volume of portfolios grew by 53%, year over year. The volume of deposits grew by 38% year over year, totalling 462 million euros by the end of the year (356 million euros).

Major development projects launched by the bank included the Au-client status, the private customer gold card and the card payment acceptance service for merchants. On February 1, the bank made the transition to the Single Euro Payments Area (SEPA). We also launched the Russian-language website, along with the internet bank and mobile bank. The bank started to provide insurance for hire-purchase customers upon entry into the corresponding agreement.

At the beginning of 2015, the bank sold its business operations in Finland to the Swedish-based JSM Financial Group AB. In February 2015, the Latvian financial supervision authority issued the authorisation for the establishment of a branch in Latvia.

LHV Asset Management continued along the path of quick growth undertaken in the previous periods. The company's revenue grew by 46%. The NAV of the funds under the company's management increased by 35%, i.e. from 374 million euros to 504 million euros. The number of active customers of mandatory pension funds increased from 122 thousand to 129 thousand (a market share of 20.5%). The company is the third largest mandatory pension fund manager in Estonia in respect of customer numbers, but succeeded in ranking second in respect of NAV in 2014. Even though the number of customers leaving the funds due to the short-term yield curve has increased, LHV Asset Management has produced the best yields for its customers hitherto, and is planning to continue along this path in the future.

Mokilizingas posted a profit of 0.6 million euros and is now managing a financing portfolio of 30 million euros. After the company's acquisition in 2013 and the subsequent restructuring, business is great.

Mokilizingas is among the largest service providers on the Lithuanian consumer financing market and has gained a highly positive reputation.

The Supervisory Board of the Group held 13 meetings in 2014. 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 and activity plans for the upcoming year.

The Supervisory Board is quite pleased with the management and economic activities in 2014.

2. Annual Report 2014

The Supervisory Board has examined the Annual Report 2014 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 legal acts regulating accounting.

The Supervisory Board is pleased with the work of the auditor in 2014.

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 29 April 2015, with the following agenda:

1. Profit allocation for 2013
2. Approval of the Annual Report 2014
3. Profit allocation for 2014
4. Overview of the economic results for the first quarter of 2015
5. Appointment of the auditor for the financial year 2015-2017
6. Removal of a member of the Supervisory Board
7. Appointment of a member of the Supervisory Board
8. Share option programme
9. Overview of the share option programme for 2014