

# LHV Covered Bonds

Investor presentation  
25 May 2020

# Disclaimer

By attending this meeting where this presentation is made, or by reading the presentation slides or by accepting delivery of this document, you agree to be bound by the following limitations.

This presentation has been drawn up by AS LHV Pank ('The Company') purely for informational purposes and may not, without the prior consent of the Company, be used for any other purpose.

This presentation is directed solely at entities that qualify under the MiFID II Directive (2014/65/EU) as eligible counterparties or professional clients and is presented on a strictly private basis.

This presentation shall not be construed as a prospectus or an offer to sell, or a solicitation of an offer to buy, any security or any business or assets, nor to enter into any agreement or contract with the Company (or any of its respective affiliates) or any other person.

This presentation or any piece of information may not be construed as a representation or warranty of the Company or any other person. The information made available in this presentation has been chosen and provided by the Company at its sole discretion and it is not aiming to be exhaustive or complete. Although every effort is made to ensure that the information contained in this presentation is correct and not misleading, the Company assumes no liability of whatever nature for the correctness, comprehensiveness or completeness of the information contained herein.

The distribution of this presentation in certain jurisdictions may be restricted by law and persons into whose possession this presentation comes should inform themselves about, and observe, any such restrictions. In particular, the securities referred to herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the Securities Act), or under the securities laws of any state or other jurisdiction of the United States and may not be offered, delivered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

This document contains forward-looking statements that are based on expectations, estimates, projections and assumptions. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those contemplated by such statements. Forward-looking statements are made and based on information available on the date of this document. The Company does not assume any obligation to update this information, nor does the Company take any responsibility to guarantee any result predicted in this document.

This presentation is confidential and may not be disclosed, in whole or in part, or summarized or otherwise reproduced, distributed or referred to, in whole or in part, without the prior written consent of the Company.

# Overview

- Executive summary
- LHV Group overview
- Business environment
- LHV Bank
- Covered bond
- Appendix

# LHV Bank

## Speakers today



Erki Kilu, Chief Executive Officer of LHV Bank



Meelis Paakspuu, Chief Financial Officer of LHV Bank



Kadri Haldre, Head of Treasury of LHV Bank



Madis Toomsalu, Chairman of Supervisory Board of LHV Bank

# Executive Summary

- LHV Group was established in 1999 and has demonstrated 20 years of profitable growth
  - Full range of banking services offered in Estonia. Balanced loan portfolio split between corporates and private individuals
  - Focus on digital channels for customer service
- LHV Bank is mainly funded by deposits but intends to widen its funding mix
  - Baa1 deposit credit rating and A3 long term counterparty risk rating by Moody's
  - Aa1 provisional rating assigned to covered bonds by Moody's
  - Local market subordinated bonds outstanding
- Long term macro backdrop supportive
  - Estonian economic growth has exceeded EU average in the past decade
  - Mortgage penetration lower than EU average
- Estonian Covered Bonds Act took effect on 1 March 2019, already mostly aligned with EU Directive
- LHV has set up Covered Bond Programme in preparation of our debut offering.
  - Cover pool based on Estonian residential mortgages

# LHV Group Overview

1999 – LHV Group is established (investment management)

2009 – Banking license (deposits and business loans)

2013 – LHV Finance (consumer loans) is established

2011-2015 – Bank cards, ATM network, card payments

2015 – LHV Group's first listed bond issuance

2016 – Nasdaq Tallinn Stock Exchange IPO

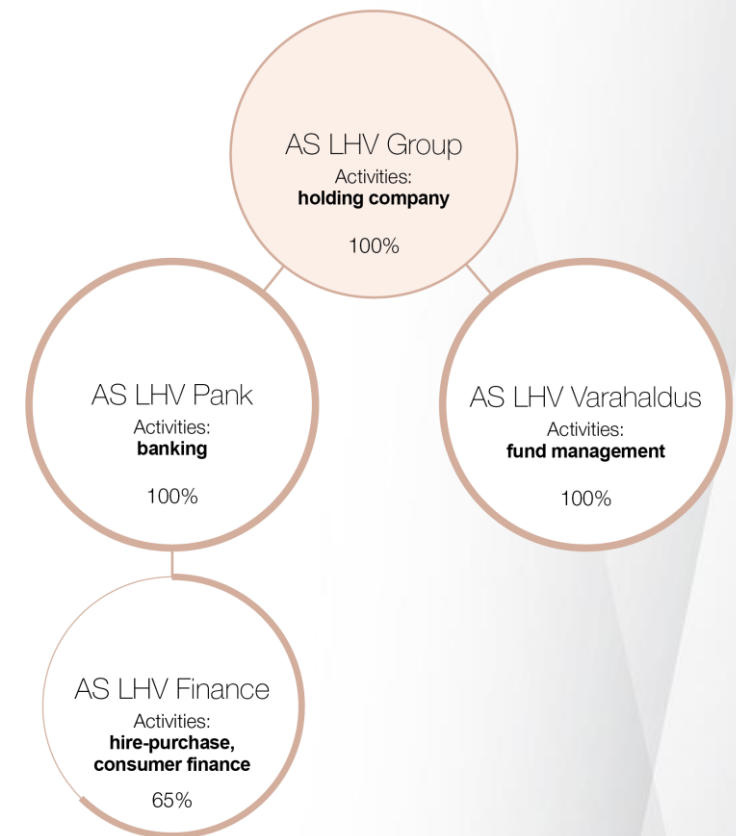
2018 – UK Branch opens

2019 – Acquisition of loans portfolio in amount 393 EURm from Danske Bank A/S Estonia Branch

2020 – Authorisation for covered bond issuance obtained

LHV Bank – third-largest bank in terms of deposits in Estonia

As of 31 March 2020, AS LHV Group had 8,873 shareholders. 48.76% of shares were owned by supervisory and management board members and related parties



# LHV Group Overview



- LHV Group is the largest bank and capital provider in Estonia, which is not affiliated with any foreign banking group
- As of March 31, 2020 LHV Group has 459 employees and 243,000 clients using its banking services. LHV pension funds have around 198,000 active investors
- LHV's digital channels enable servicing international financial intermediary customers
- As of March 31, 2020:
  - 3 EURbn – customer deposits
  - 1.3 EURbn – assets under management
  - 1.4 EURbn – customer securities

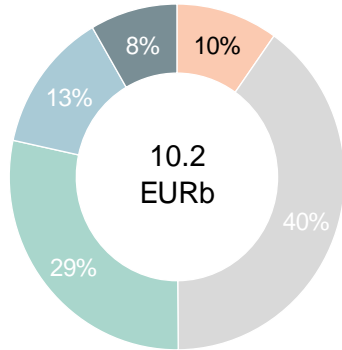
Mission – our mission is to give a new boost to human and financial capital growth in Estonia

Vision – our vision is an Estonia where people and businesses dare to think big, engage in enterprise and invest in the future

# LHV Group

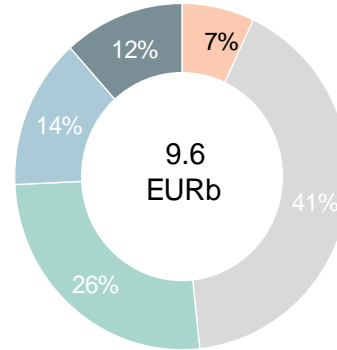
## Market shares in Estonia as of December 31, 2019

Corporate loans



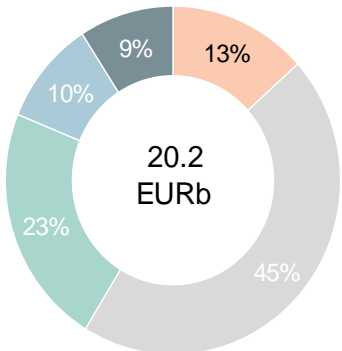
■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Other

Household loans



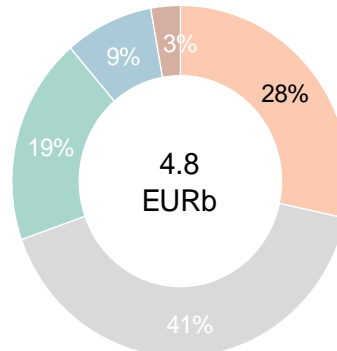
■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Other

Deposits



■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Other

II pillar pension funds



■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Tuleva

- LHV's market share of deposits has increased rapidly and the Bank now ranks third in Estonia
- LHV's growth in loans has also been higher than market average. Our ambition is to keep growing while ensuring high quality of the credit portfolio
- Market share of mortgages was boosted by the acquisition of the private individuals loan portfolio of Danske Bank A/S Estonian Branch in the amount of 393m EUR (97% of which were mortgages) in 2019
- LHV is second largest manager of Pillar II pension funds (compulsory pension funds). Investment management was the first business area of LHV Group



# LHV Bank

## Key Financials Q1 2020

Total assets  
3,260 EURm

Leverage ratio  
5.4%

Tier 1 capital  
14.1%

Net loans  
1,739 EURm

Liquidity Coverage Ratio  
152%

CAD  
17.6%

Deposits  
2,958 EURm

Net Stable Funding Ratio  
161%

ROE  
18%

Own funds  
235 EURm

Cost to Income  
45.7%

Customers  
243,000

# Business environment

# Business environment

## Estonian economy in figures

- Estonia is a member of the European Union and NATO since 2004. It is a small open economy with a high export-to-GDP
- GDP growth has exceeded the EU average since 2004
- Unemployment has been low and households have benefitted from solid salary growth
- Conservative approach to public finances has resulted in a low level of public debt and high credit ratings
- Ample room for government to support the economy in the ongoing crisis: COVID-19 pandemic stimulus measures reach 2.6 EURb or approximately 9% of GDP

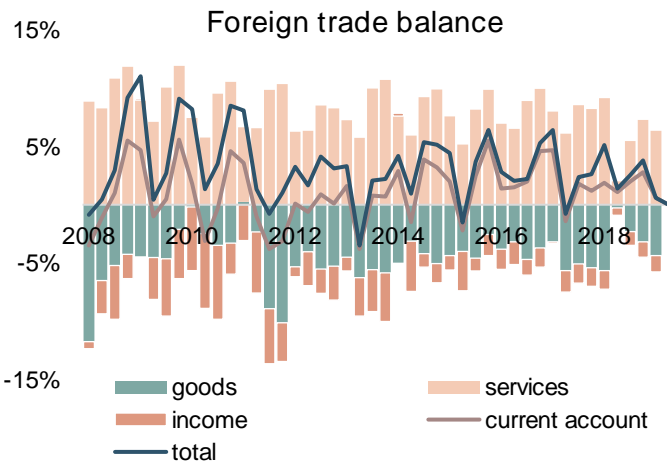
Year 2019	Estonia	Latvia	Lithuania	Finland	EU
GDP growth	4.3	2.2	3.9	1.0	1.5
Export-to-GDP ratio	72.6	59.9	78.1	40	46.5
Unemployment rate	4.4	6.3	6.3	6.7	6.3
Inflation, HICP	2.3	2.7	2.2	1.1	1.5
Salary growth	7.1	7.1	38.2*	1.5	2.9
Public debt to GDP	8.4	36.9	36.3	59.4	79.3
Budget balance to GDP	-0.3	-0.2	0.3	-1.1	-0.8
Credit rating (S&P/Moody's/Fitch)	AA-/A1/AA-	A+/A3/A-	A+/A3/A	AA+/Aa1/AA+	

Source: Eurostat, S&P, Moody's, Fitch. Data in per cent, unless specified otherwise.

\* Change in calculation methodology

# Business environment

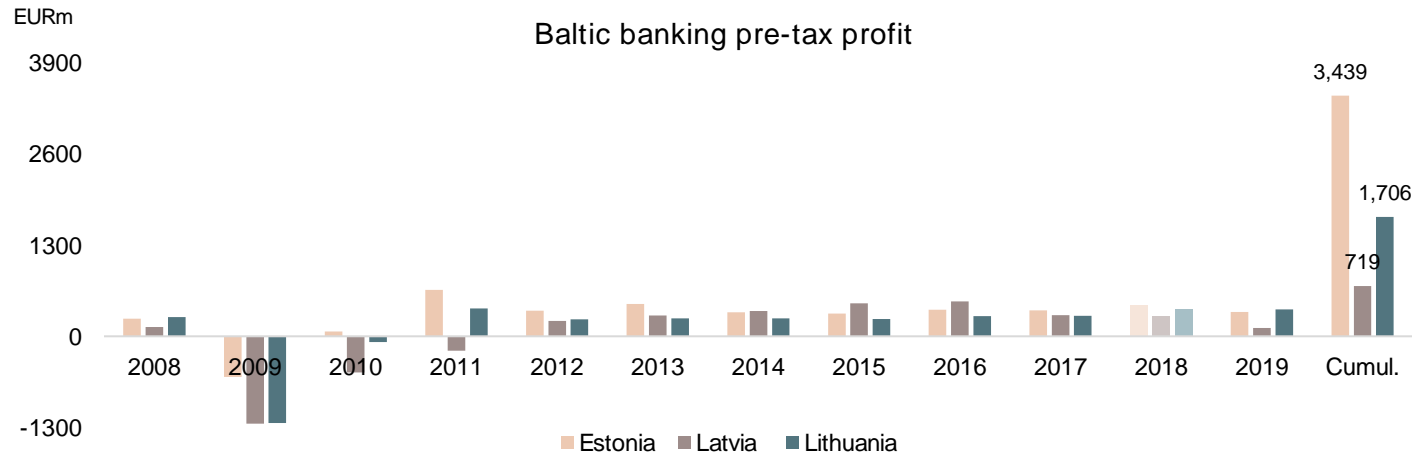
## Economy is strong, COVID-19 effects are still largely unpredictable



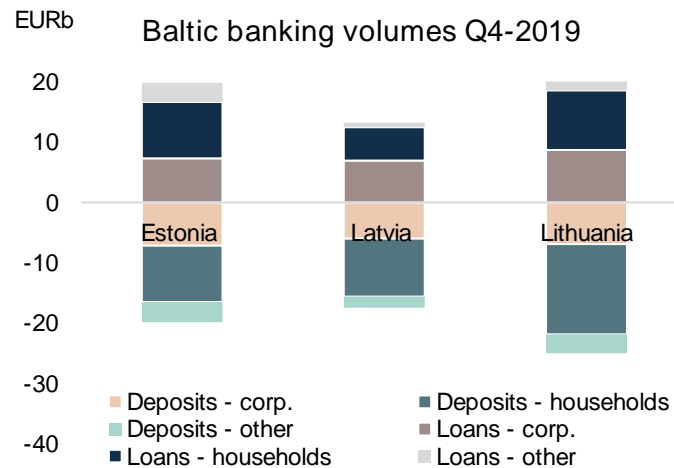
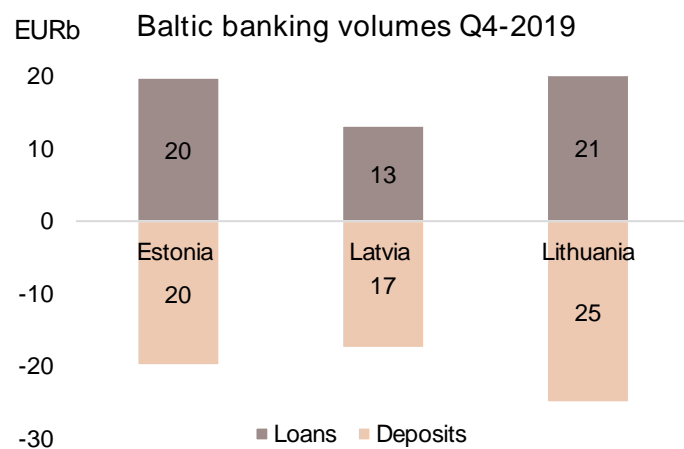
- Estonian economy has shown stable growth following the financial crisis around a decade ago
- Economy has been characterised by a balanced budget, mild trade surplus and low level of public sector debt
- Consumer confidence was high and labour market tightening before the COVID-19 pandemic
- Estonia is a very open economy and exposed to growth outlook of its trading partners
- COVID-19 pandemic is expected to have a negative effect on the economy

# Business environment

## Baltic Banking: Estonia is well positioned

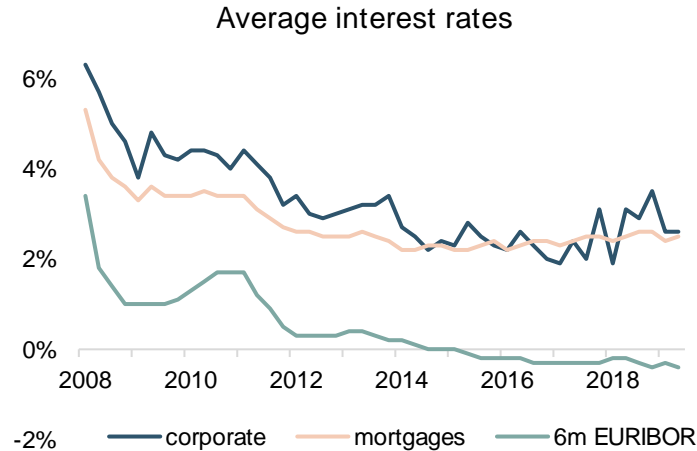
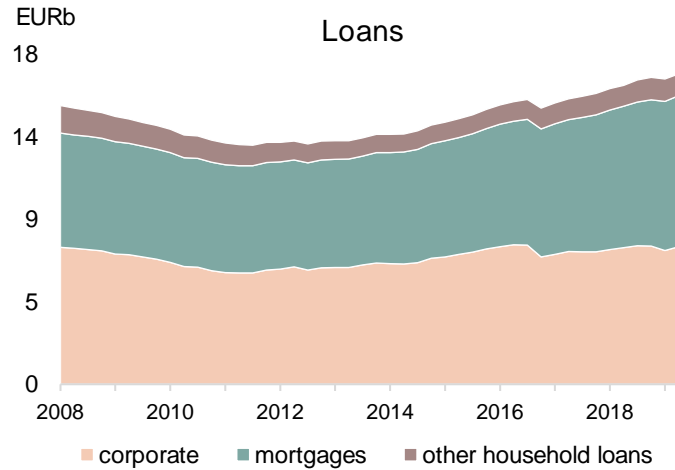


- Largest market players are pan-Baltic banking groups Swedbank, SEB and Luminor with Scandinavian background. These are followed by LHV in Estonia, Citadele in Latvia and Šiaulių in Lithuania
- The number of universal banks present in Estonia has declined over the past few years
- Estonian banks turned out to be more resilient during the economic downturn of 2009-2010 than their Latvian and Lithuanian peers
- Deposits are an important source of funding in all three countries

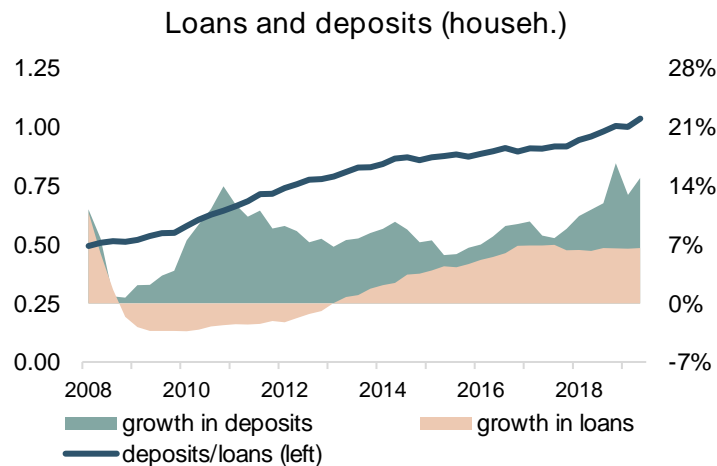
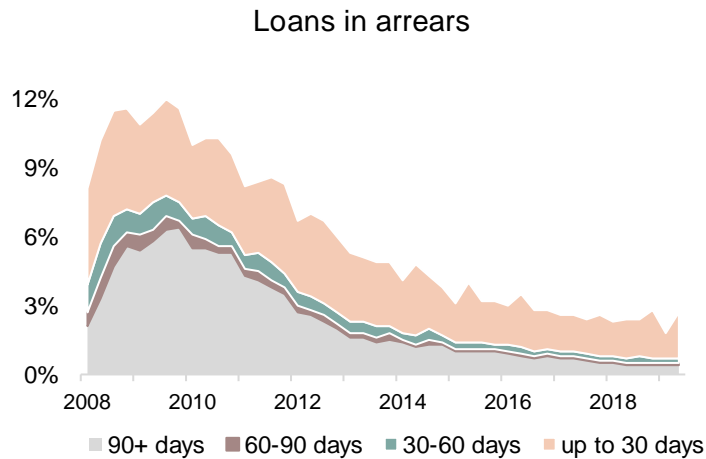


# Business environment

## Estonia's financial sector indicators are strong

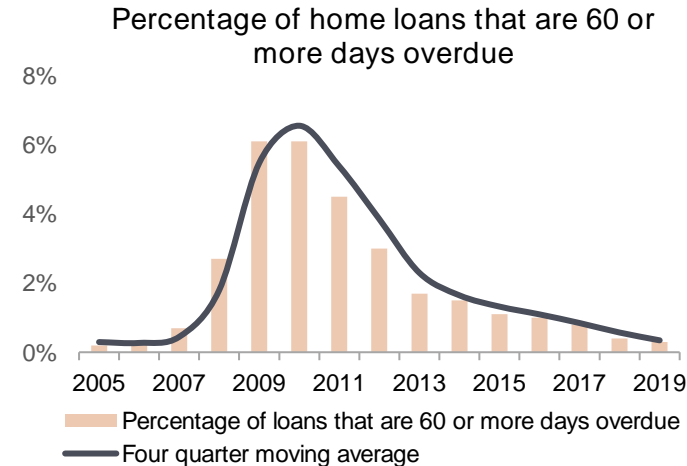
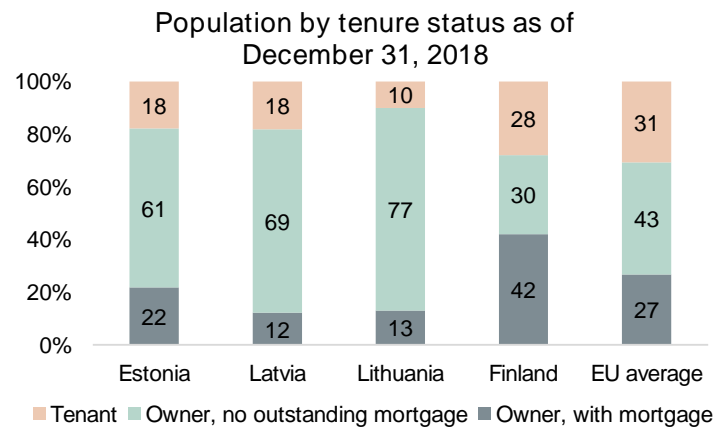
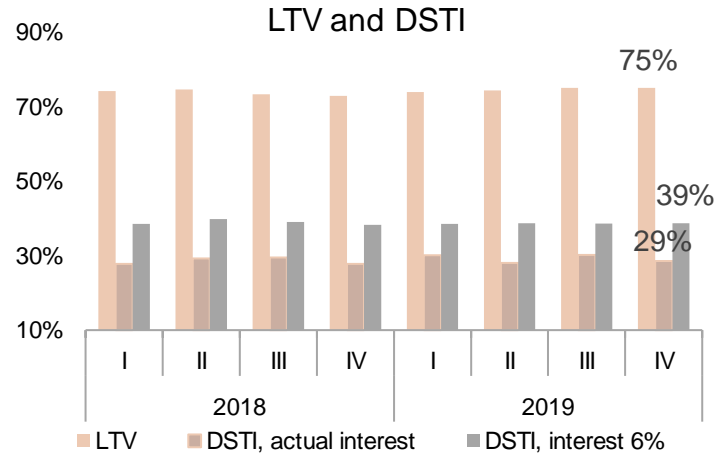
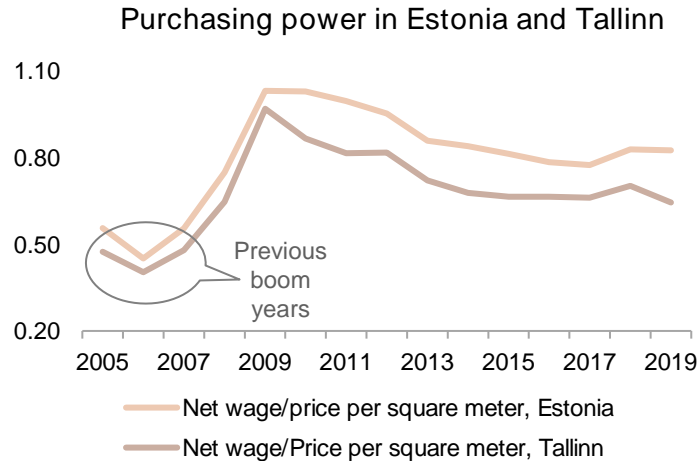


- The stock of loans has recovered and now exceeds the previous peaks. All major loan types have been increasing
- Financial health of households is strong. Deposits have consistently increased more than loans; deposit/loan ratio has improved and more than doubled during last 10 years
- Euribor remains at low levels. Margins for mortgages as well as corporate loans have been increasing over the past years
- Quality of loan portfolios has been improving and share of overdue loans has reached very low levels in recent years. Estonia has the best capitalised banks in the Eurozone and one of the lowest NPL levels



# Real Estate market

## Housing loan market is sustainable and stable



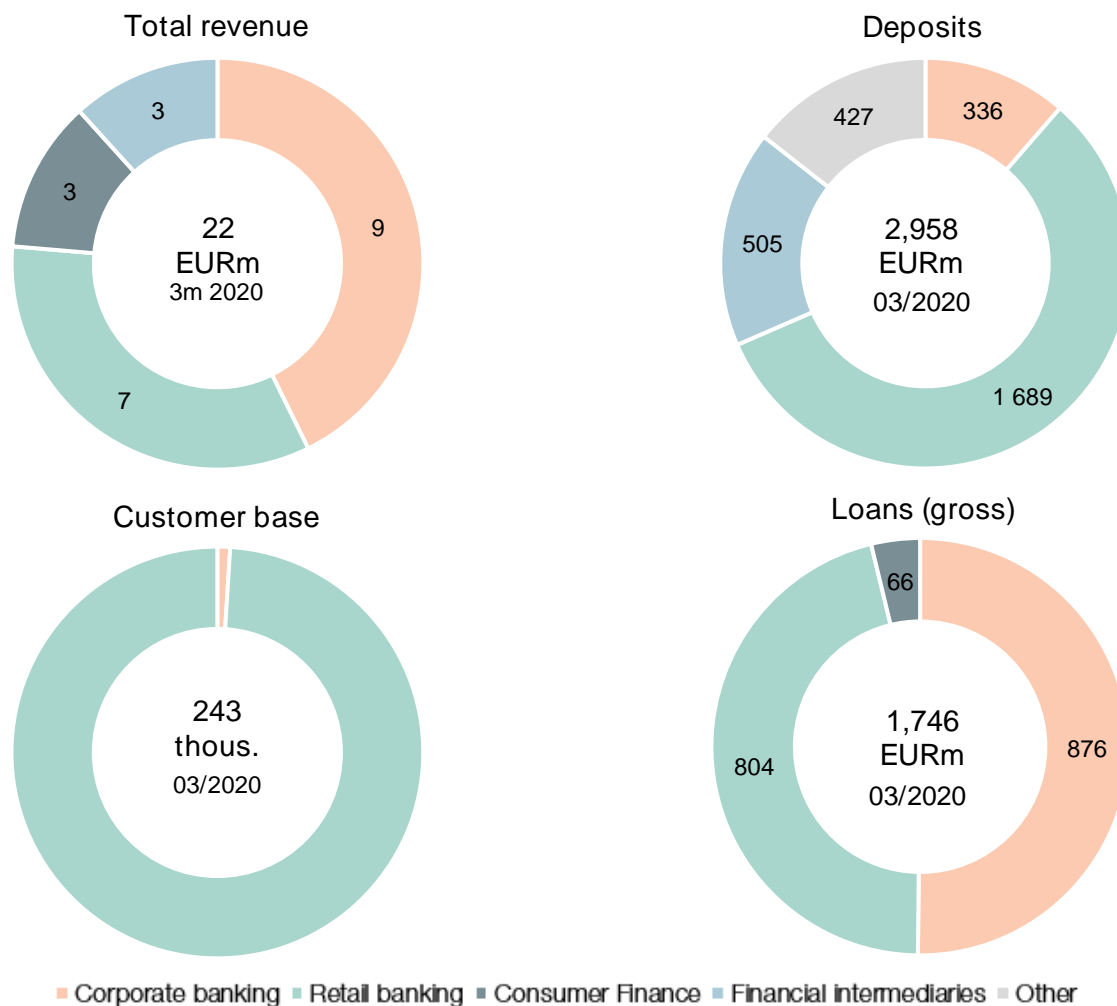
- Purchasing power for residential properties has been stable in Estonia and Tallinn over the past few years and is approximately twice as high when compared to the peak of the previous boom
- LTV of new loans has been stable at a level of around 75% and actual DSTI is around 30%
- Ownership rate of dwellings is high, but proportion of mortgages is lower compared to the EU average
- Quality of mortgages has been strong with very low level of loans in arrears. Effects of COVID-19 are difficult to predict but the real estate market and households are better prepared for a downturn in the economy compared to the previous crisis

LHV Bank



# LHV Bank

## Business volumes as at 31 March 2020



- The bank is mainly deposit funded through current account deposits from the retail bank and to a smaller extent through term deposits from deposit platforms. The deposits of payment intermediaries are not used for financing the loan portfolio
- Mortgage lending was started around three years ago. Loan portfolio of 393 EURm was acquired in November 2019 from Danske Bank A/S Estonian branch (ca 97% of the amount included mortgages)
- Corporate banking has been mainly based on lending
- Revenues have a solid distribution between different business lines

# LHV Bank

## Recent developments and Key Financials

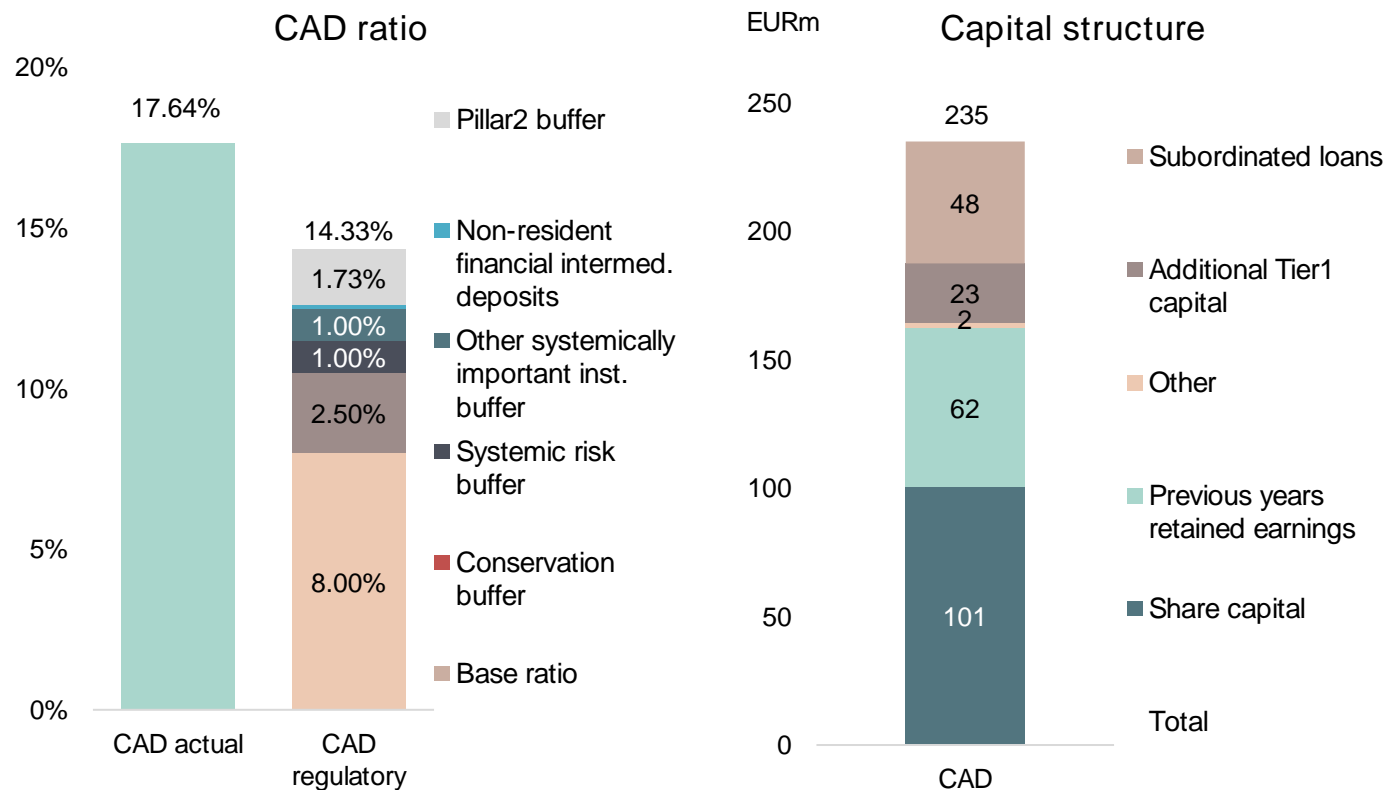
	Q1 2020	2019	2018
Total assets, EURm	3,260	3,005	1,649
Net loans, EURm	1,739	1,687	919
Mortgage loans (gross), EURm	657	633	139
Deposits, EURm	2,958	2,713	1,448
Net profit, EURm	8.1	22.1	18.4
Loans to Deposit Ratio	59%	62%	63%
Cost to Income Ratio	45.7%	53.2%	49.9%
ROE	18.0%	13.8%	15.3%
LCR	152%	143%	144%
NSFR	161%	157%	153%
NPL, EURm	4.4	4.4	15.5

Note: NPL is calculated in accordance with the definition of default in Article 178 of Regulation (EU) No 575/2013.  
Mortgage loans include all loans to private individuals based on residential mortgage collateral (i.e mortgage loans with purpose for purchase of residential assets, renovation, second homes, refinancing, etc)

- The bank has been on a strong growth path, driven by both organic growth as well as an acquisition in 2019
- The fastest growing loan product has been mortgages. Acquisition of loans portfolio from Danske Bank A/S Estonian Branch was completed in November 2019 (total portfolio 393 EURm, out of which 97% mortgages)
- Deposit growth has matched loan growth. Accordingly, liquidity metrics remain strong as reflected by the Loans to Deposit Ratio, LCR and NSFR
- Profitability has remained high. Cost to income ratio and ROE were affected by pre-funding of the acquisition in 2019. Both indicators improved in Q1 2020 now that the income from the acquired portfolio is also reflected in the financials

# LHV Bank

## Capital structure as of March 31, 2020

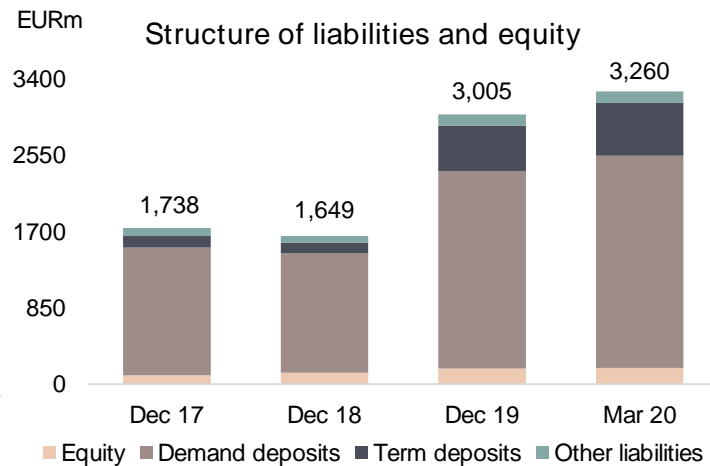
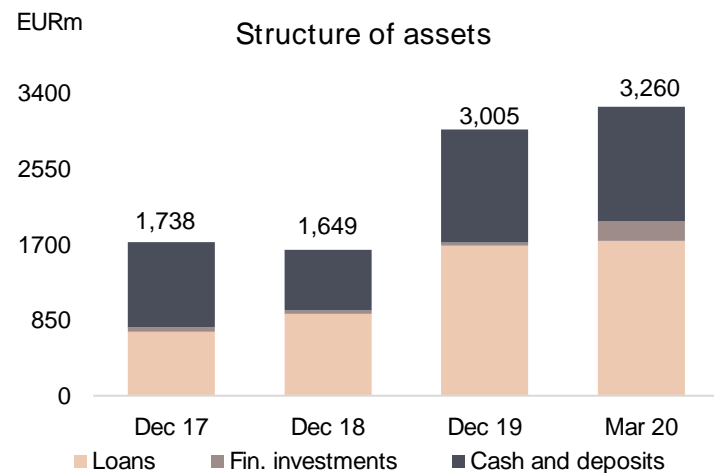


- The capital structure of LHV Bank consists of paid-in share capital, retained earnings and subordinated loans. Both AT1 and T2 loans have been issued
- Internal capital targets have been set with buffer to regulatory minimum
- The Bank of Estonia decreased the systematic risk buffer from 1% to 0%, effective from May 2020. The presented numbers do not yet reflect this decrease

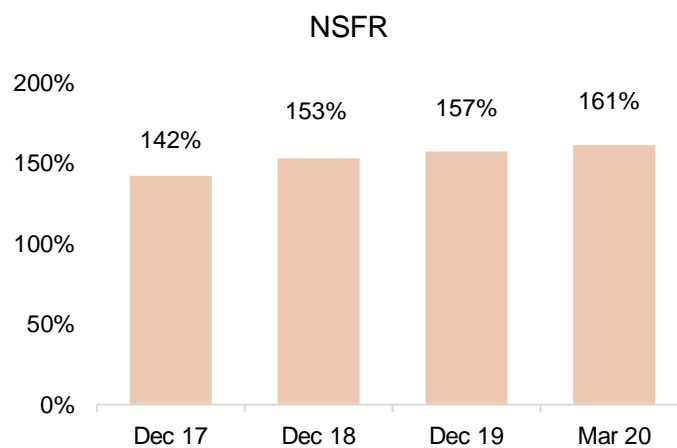
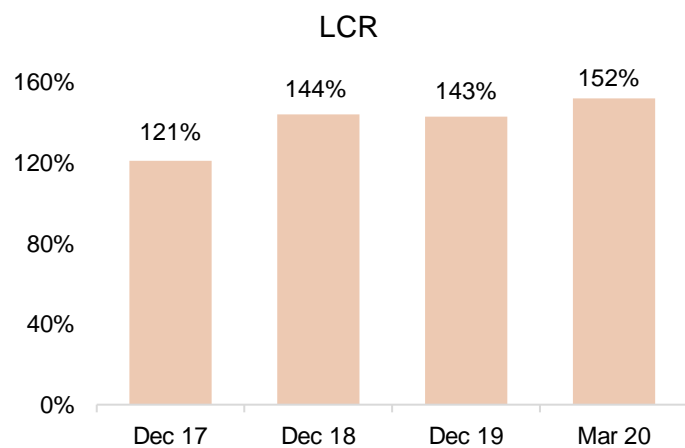
	Actual	Internal minimum	Regulatory minimum
CET1	12.35%	10.63%	9.52%
Tier 1	14.07%	12.46%	11.16%
CAD	17.64%	16.00%	14.33%

# LHV Bank

## Balance sheet structure

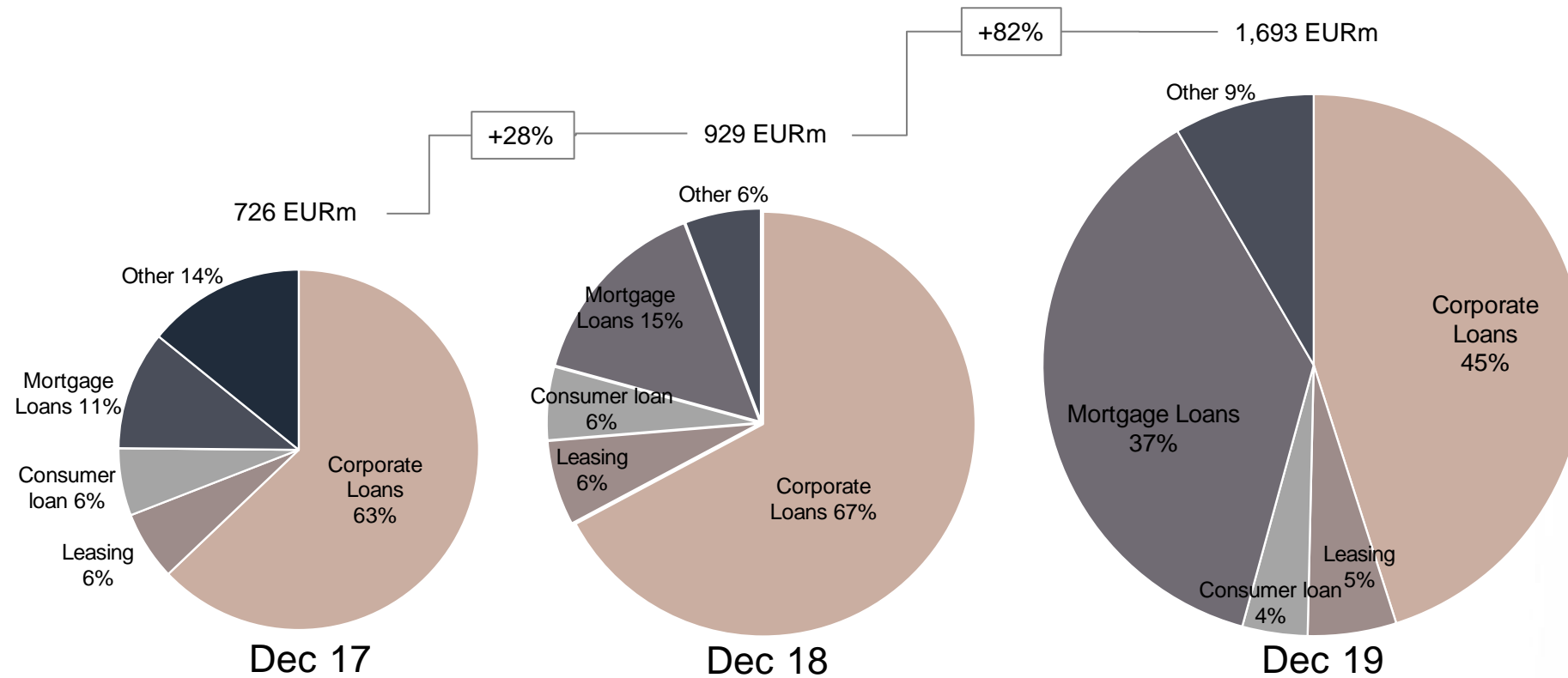


- LHV has a simple balance sheet – liabilities consist predominantly of customer deposits. The majority of the deposits is demand deposits
- Assets include loans and liquidity
- 98% of the balance sheet is euro based
- Liquidity buffer consists mainly of deposits with the ECB and a smaller amount of short term high quality bonds
- LCR and NSFR are well above regulatory requirements



# LHV Bank

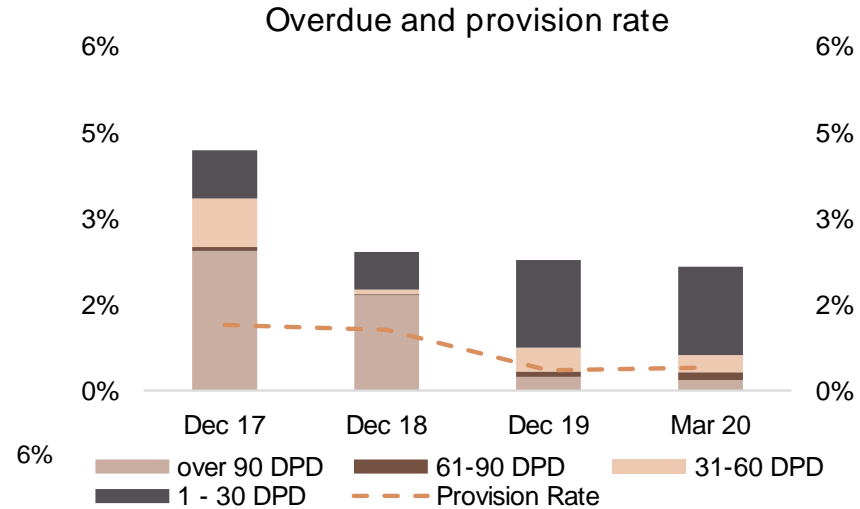
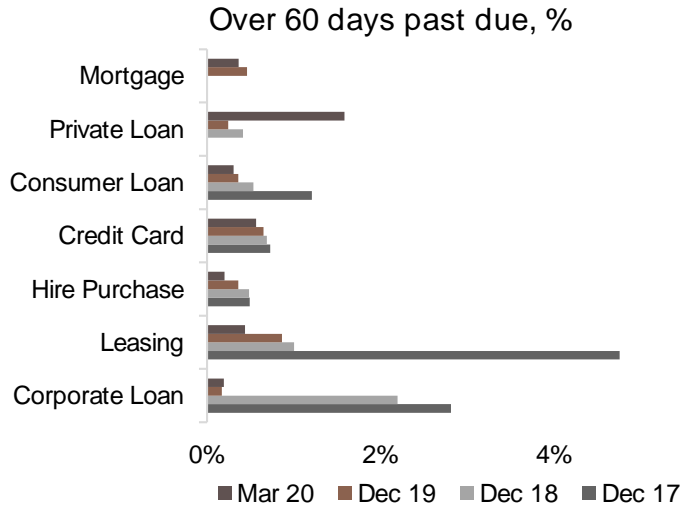
## Overview of credit portfolio



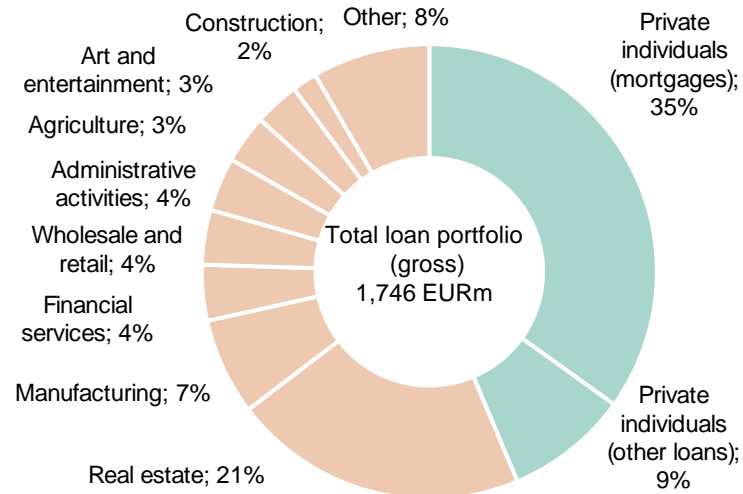
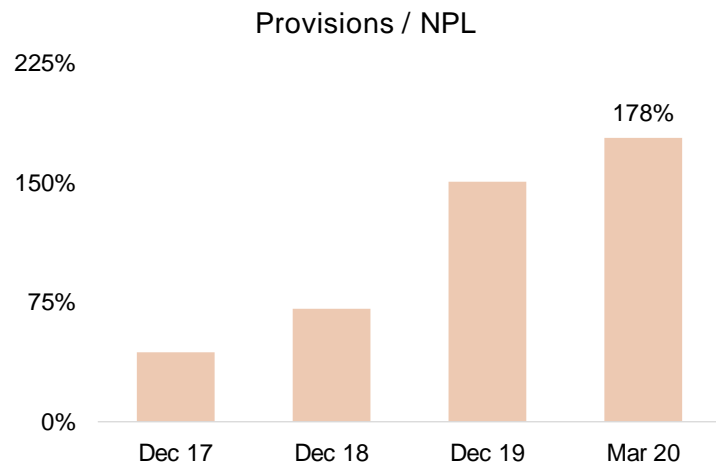
- Credit portfolio has demonstrated fast growth, especially in mortgages. The share of mortgages has increased from 11% (Dec 2017) to 37% (Dec 2019)
- Corporate loans continue to make up the largest share of LHV's credit portfolio. However, both sectoral and product diversification has increased significantly

# LHV Bank

## Good quality of credit portfolio



- Quality of loan portfolio is strong
- Provisions / NPL ratio has improved significantly after solving one larger case in 2019
- EBA definition of non-performing exposures is applied
- Quality of loan portfolio will be monitored closely over the next months as the impact of COVID-19 becomes apparent
- Sectoral and product diversification has increased over the past years



# LHV Bank

## COVID-19 effect

The Estonian government has adopted extensive measures for supporting the economy in the light of the COVID-19 pandemic

- Emergency loan guarantees for new and existing bank loans
- Extraordinary proportional guarantee for enterprises in the accommodation and catering sector, travel agencies and tour operators
- Extraordinary guarantee for projects of national importance
- Separate loans and guarantees for agricultural sector
- Salary payment aid for covering up to 70% of salary costs for two months

The total amount of various packages is around 2.6 EURbn or approximately 9% of the Estonian GDP

LHV applies Estonian Banking Association's uniform policy for granting repayment moratoria which grants automatic grace periods on principal payments to clients who have demonstrated good payment behaviour previously. Based on customer's application, grace periods are granted as follows:

- Mortgages up to 12 months
- Consumer credit up to 6 months
- Legal entities with exposure below EUR 5 million, up to 6 months

Loan conditions are not changed

Borrowers can apply for the grace period until 30 June 2020.

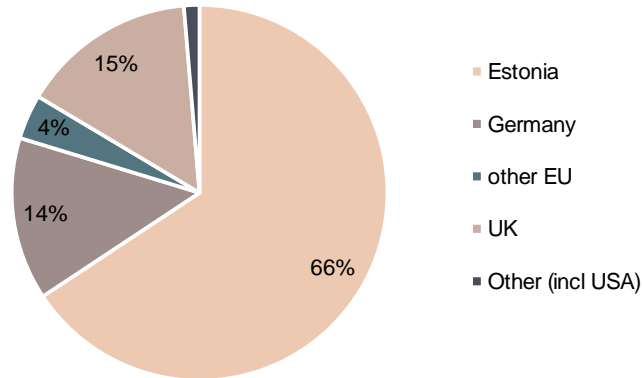
Grace periods that have been granted by LHV Bank as of April 30, 2020:

- Mortgage contracts in amount of 38 EURm
- Other private individuals loan product contracts in amount of 4 EURm
- Loan contracts of legal entities in amount of 136 EURm
- 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.

# LHV Group

## Anti Money Laundering (AML)

Deposits from customers by country  
as of March 31, 2020



### Financial intermediaries

- 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 always applied to such customers
- Establishing customer relationship is approved at the Board level
- All financial intermediaries are assessed and evaluated based on similar principles as correspondent relations, including in-depth on-site visits

- LHV has zero tolerance regarding money laundering and is invested heavily in ALM processes and software
- LHV limits deposit volumes of non-resident customers. The limit was temporarily increased for funding the acquisition of Danske Bank A/S Estonian Branch portfolio from deposit platforms (mainly from German customers). UK customers mainly represent financial intermediaries.
- In KYC process we visit and control riskier customers' internal processes, which are followed by similar controls on regular bases
- All customers' suspicious activities need to be clarified and unbecoming behaviour is grounds for an immediate termination of a customer relationship



Covered bond

# LHV Bank

## Estonian Covered Bond Legislation

### Main characteristics of the Covered Bonds Act

- Issuer must be a credit institution with a separate authorisation by the Estonian Financial Supervision and Resolution Authority (FSRA)
- Cover assets on balance sheet but are ring-fenced and outside bankruptcy estate
- Covered bonds register required where cover assets are recorded
- Issuer supervised by FSRA and independent monitor appointed by Issuer
- Soft bullet structure is possible
- Owners of covered bonds have claims: (1) against the cover pool, if not sufficient (2) against the issuer
- Cover pool is not part of the bankruptcy estate, covered bonds not accelerated upon bankruptcy, moratorium shall not extend to the covered bond portfolio

### Bankruptcy

- Upon the declaration of the Issuer's bankruptcy and in certain other events, the covered bond portfolio will separate from the Issuer's assets and a cover pool administrator will be appointed
- Cover pool will not be part of the issuer's bankruptcy estate and moratorium shall not extend to the covered bond portfolio
- Proceeds received from the claims included in the cover pool after the separation of the covered bond portfolio may only be used to pay the bondholders and the counterparties of the derivative instruments in the cover register
- Cover pool administrator may upon the consent of the FSRA dispose of the separated covered bonds portfolio, whereas proceeds received from transfer 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

Overcollateralisation – on present value basis at least 2% overcollateralisation must be maintained at all times

Stress-testing – must be carried out at least quarterly

## Estonian Covered Bond Legislation (cont)

### Primary assets

- No less than 80% of the total value of the cover pool
- Primary cover assets of mortgage covered bonds have to be issuer's claims arising from credit granted to a natural person against a mortgage established on residential property situated in the territory of the EEA.
- LTV up to 70% (for coverage purposes)
- Mortgage sum registered has to be at least 110% of the credit
- Mandatory insurance of property, value appraised by a qualified valuator and annually reviewed

### Substitute collateral

- No more than 20% of the total value of the cover pool
- Claims against (or guaranteed by) central banks, public sector entities, central (or regional) government, credit institutions, investment firms, subject to credit quality requirements

### Liquid assets

- Level 1 and 2A assets and exposures to credit institutions are included
- Liquidity buffer of at least 2% of the nominal value of the cover pool has to be maintained
- Any cumulative cash shortfall during next consecutive 180 days has to be covered at all times

### Derivatives (hedging)

- Derivative instruments that comply with the Covered Bonds Act may be used for hedging purposes

## Comparison of Covered Bond Frameworks

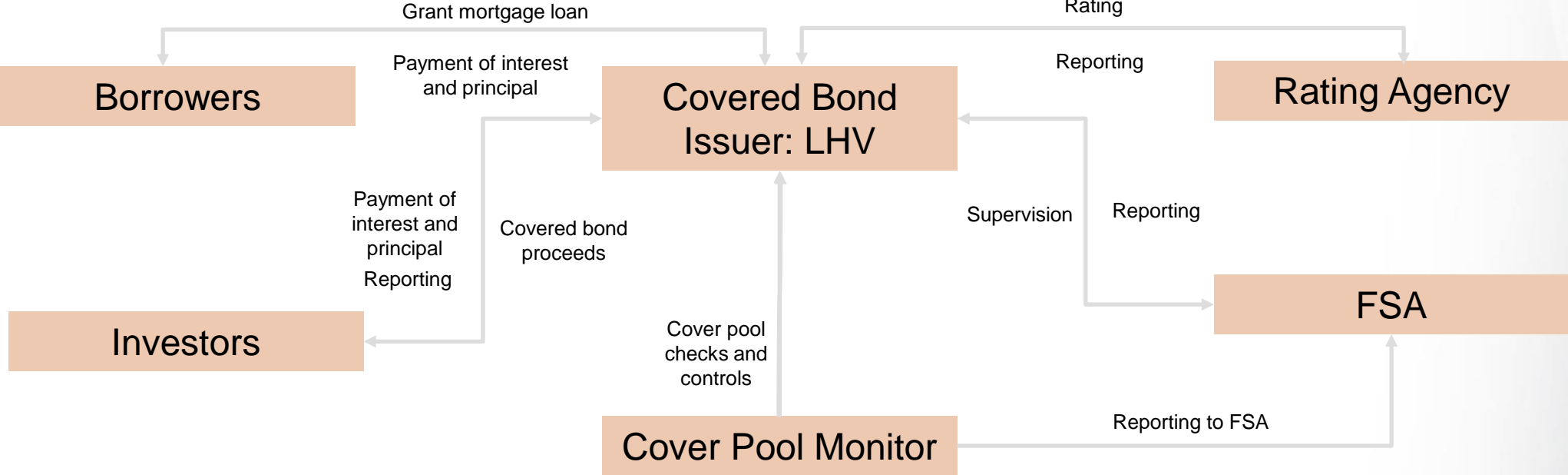
	Estonia	Germany	Finland	Slovakia
Issuer	Credit institution with a special licence	Credit institution with a special licence	Credit institution with a special licence and specialised mortgage credit provider	Credit institution with a special licence
Covered Asset Structure	Cover assets held on balance sheet of the issuer, but maintained in the separate cover register	Cover assets held on balance sheet of the issuer, but maintained in the separate cover register	Cover assets held on balance sheet of the issuer, but maintained in the separate cover register	Cover assets held on balance sheet of the issuer, but maintained in the separate cover register
Types of Assets in Cover Pool	<ul style="list-style-type: none"> <li>- Exposures to public sector entities</li> <li>- Mortgages (Mortgages for the purpose of this question are taken to include guaranteed real-estate loans.)</li> <li>- Exposures to credit institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Exposures to public sector entities</li> <li>- Mortgages (Mortgages for the purpose of this question are taken to include guaranteed real-estate loans.)</li> <li>- Ship &amp; aircraft loans</li> <li>- Exposures to credit institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Exposures to public sector entities</li> <li>- Mortgages (Mortgages for the purpose of this question are taken to include guaranteed real-estate loans.)</li> <li>- Exposures to credit institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Exposures to public sector entities</li> <li>- Mortgages (Mortgages for the purpose of this question are taken to include guaranteed real-estate loans.)</li> </ul>
Geographical Scope of Mortgage	EEA	EEA, USA, Canada, Switzerland, Japan, Australia, New Zealand and Singapore	EEA	Slovakia
Max Loan to Value	70%	60%	Residential 70%, Commercial 60%	70%

## Comparison of Covered Bond Frameworks

	Estonia	Germany	Finland	Slovakia
Frequency of Stress Test Calculations	Quarterly	Weekly	Monthly	Monthly and quarterly
Minimum OC Required	2% (NPV OC)	2% (NPV OC)	2% (NPV OC)	5% (Nominal OC)
Liquidity buffer	Coverage of the maximum cumulative net liquidity outflow (including derivatives) for 180 calendar days; at least 2% of nominal value of covered pool	Coverage of the maximum cumulative net liquidity outflow (including derivatives) for 180 calendar days	"Natural matching" (remaining average term to maturity of the covered bonds < remaining average term to maturity term to maturity of the cover pool), 12-month interest coverage test	Coverage of the maximum cumulative net liquidity outflow (including derivatives) for 180 calendar days
Soft Bullet allowance / Market Practice	Yes	Yes, but market practice is not to use Soft Bullet structure	Yes, market practice is to use Soft Bullet structure	Yes, market practice is to use Soft Bullet structure
Special Supervision Authority	Estonian Financial Supervision and Resolution Authority (FSRA)	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Financial Supervision Authority (FSA)	National Bank of Slovakia (NBS)
Bankruptcy	The cover pool is segregated from the bankruptcy estate; covered bonds are not accelerated upon bankruptcy; FSRA appoints a special administrator	The cover pool is exempt from bankruptcy proceedings; a cover pool administrator (Sachwalter) carries out the administration of the cover assets	The cover pool is segregated from the insolvency estate; FSA appoints a special administrator who is also entitled to accelerate the covered bonds if cover tests are not fulfilled	The cover pool is segregated from the insolvency estate; insolvency trustee observes special procedures aimed to extend covered bonds' maturity up to 24 months and postpone acceleration
Independent Monitor	Yes	Yes	No	Yes
Art. 129 CRR Compliant	Yes	Yes	Yes	Yes

# LHV Bank

## Legal structure of LHV's covered bond programme



# LHV Bank

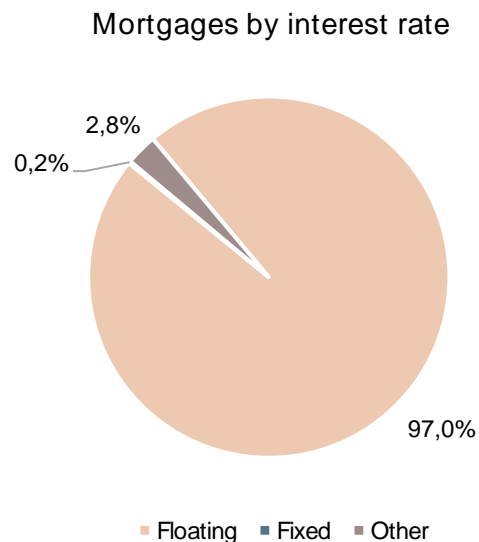
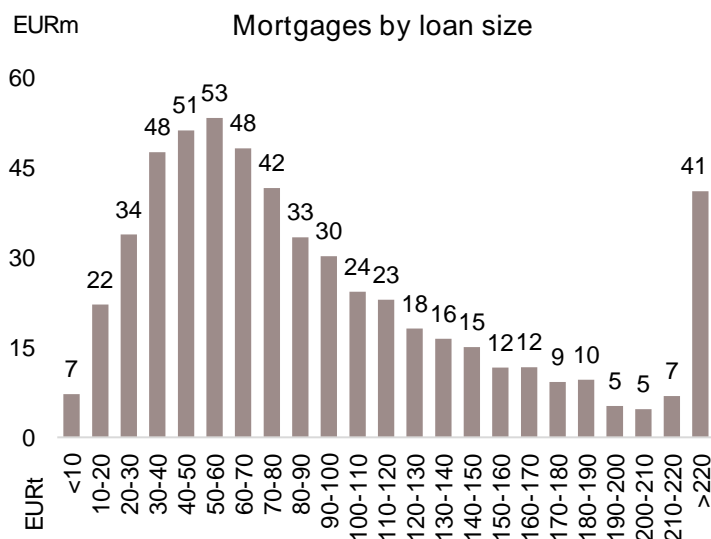
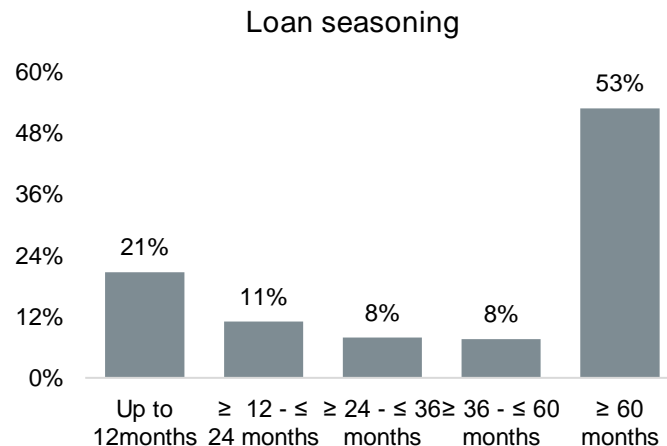
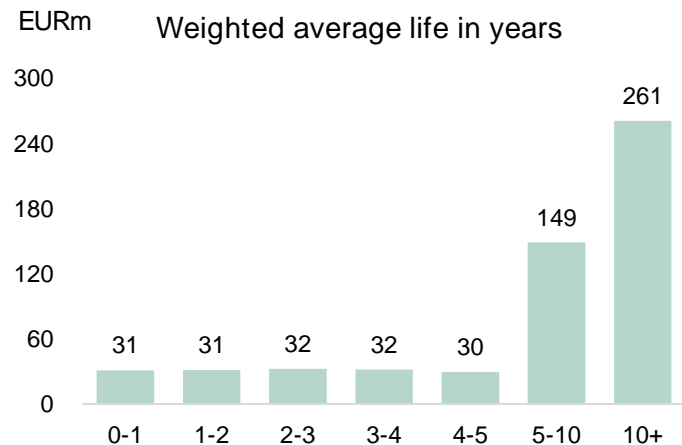
## Cover pool

Eligible cover assets statistics	
Planned covered bond first issue	250 EURm
Number of loans	10 964
Number of borrowers	10 421
Total current balance of eligible loans	566 EURm
Average current balance per loan	51.6 EURk
WA current indexed LTV (%)	48.3%
WA residual life (years)	10.4
WA seasoning (months/years)	78.4 / 6.5
Loan interest rate type	97% floating
Property type	100% residential
Loans currency denomination	100% euro
Principal payment type	100% amortising
Property location	Estonia
Committed / Moody's OC requirement	5% / 19%

- Cover Pool only includes mortgage loans secured by mortgages over properties located in Estonia
- Additional liquidity buffer assets will also be added to the cover pool, as required by the law
- LHV will not add derivatives into cover pool. This is taken into account in the OC requirement from rating agency perspective
- The table shows LHV's total portfolio of eligible mortgages as of 31 March 2020. Actual cover pool has been selected randomly out of eligible cover assets. Overcollateralisation level is in line with legal and rating agency requirements.

# LHV Bank

## Eligible mortgages as at 31 March 2020

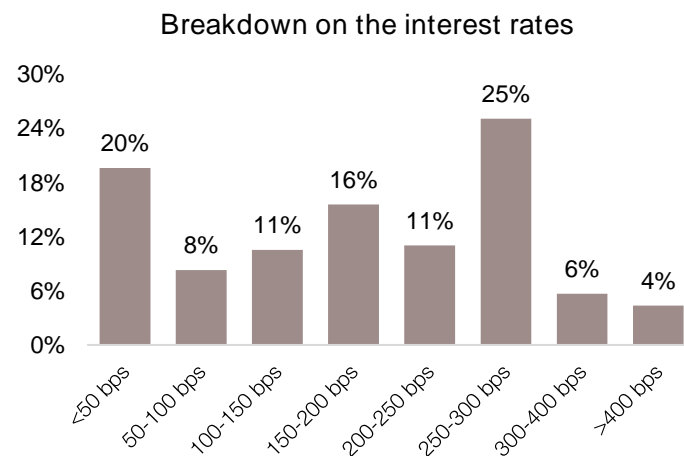
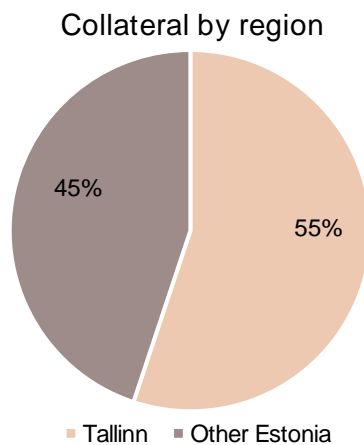
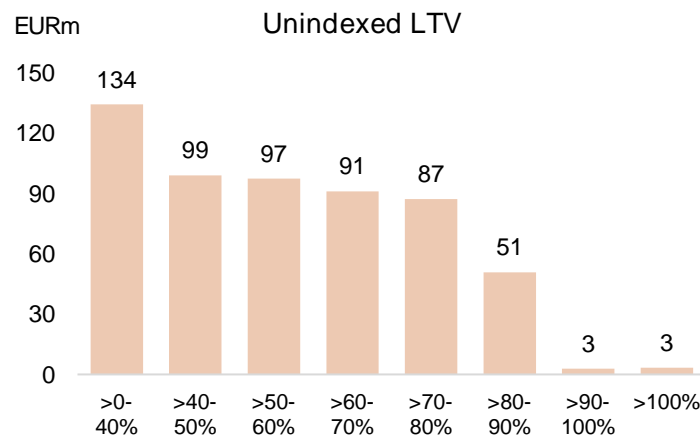
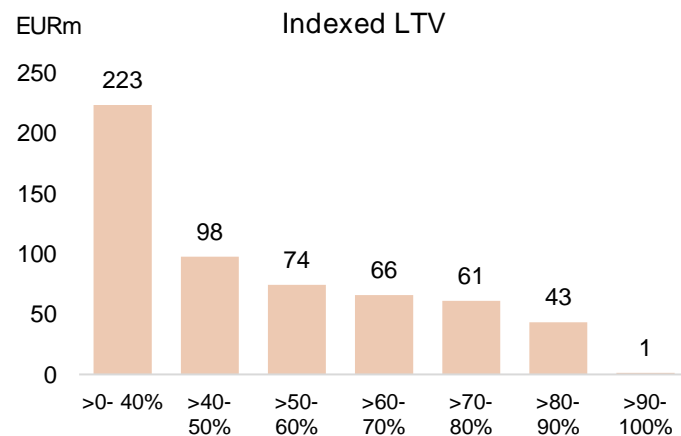


- Weighted average life of the portfolio is 10.4 years and weighted average final maturity is 19.0 years
- Average seasoning of the portfolio is 6.5 years. 21% of the mortgages were signed in the past year
- Average loan size is EUR 51,600
- 97.0% of the mortgages are on a floating interest rate bases which is market standard in Estonia



# LHV Bank

## Eligible mortgages as at 31 March 2020



- Mortgage loans are well collateralised with weighted average current indexed LTV of 48.3% and unindexed LTV of 55.3%
- Mortgage properties are mostly situated in Tallinn or the surrounding Harju county
- Average interest rate is 1.85%. Interest rates are typically composed of a floating base rate and a margin which is fixed for the whole life of the loan. A large share of the loans have base rate floor at 0%.

## Eligibility criteria for mortgages in cover pool

- Mortgage granted to private individual
- Mortgages on Estonian residential property as collateral for the loan
- Indexed LTV  $\leq 70\%$  (loans with higher LTV can still be included in cover pool but only part of the loan would be taken into account for coverage calculation). LHV currently applies also internal limit which prevents loans with LTV  $\leq 100\%$  from being allocated to the cover pool
- First ranking mortgage or effective first rank (where issuer also owns all higher ranking mortgages on the same property)
- Insurance and asset valuation rules must be complied with
- Legal mortgage value to loan amount  $\geq 110\%$
- Euro currency
- Actively managed cover pool: no mortgages in arrears will be added to the cover pool. Mortgages in arrears more than 30 days will be removed from the cover pool and replaced if needed.

## Mortgage loan product strategy and origination

- Mortgage loan is an anchor product for LHV. We do not aim to be a price leader but offer premium service to our customers (flexibility and speed in processing applications) to fulfil our profitability targets
- Customers include Estonian residents or non-residents only if there is strong connection with Estonia
- Euro based
- Up to 30 years maximum maturity
- LTV up to 85% (can be higher with state guarantee)
- Valuation of collateral at market value, valuation by valuer with professional certificate. Regular indexation after signing loan (at least annual)
- Credit process always includes income verification from bank statements
- Credit history checks are conducted based on internal databases and information from credit bureaus
- Maximum debt-to-income ratio up to 50% is in place, interest rate sensitivity test is conducted
- All mortgages are signed in notary public office and registered in official land register

# LHV Bank

## Proposed offering term sheet

Issuer	LHV Pank AS
Status	Estonian Covered Bond, backed by Estonian residential mortgages
Issue amount	250 EURm
Maturity	Intermediate maturity
Coupon	Fixed
Currency	EUR
Covered bond rating (Moody's)	Aa1 (expected)
Bank rating (Moody's)	Baa1 (deposits) / A3 (counterparty credit risk)
Listing	Euronext Dublin
Documentation	Issuer's Covered Bond Programme, prospectus dated [x] May 2020
Other	LCR Level 2A Expected to be ECB repo eligible ECBC covered bond label compliant
Bookrunners	Citi, LBBW, Nordea

# Appendix

# LHV Bank

## Supervisory board members



Rain Lõhmus is the founder of LHV. Rain serves as a member of the supervisory boards of AS LHV Pank, AS LHV Finance and AS Arco Vara, and as a member of the management boards and supervisory boards of several other companies. Rain has graduated from the Tallinn University of Technology and completed the MBA programme in Harvard Business School. He is also a member of the Estonian Business Association.



Andres Viisemann is the founder of LHV and the manager of LHV's pension funds. Andres serves as a member of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS Fertilitas, and as a member of the management boards and supervisory boards of several other companies. Andres has graduated from the University of Tartu, and has acquired an MBA degree in international business management in INSEAD.



Tiina Mõis is the owner and managing director of AS Genteel. Tiina is a member of the Supervisory Board of AS LHV Pank, AS Baltika and several other companies. Tiina has graduated from the Tallinn University of Technology and has served as a member of the Board of the Estonian Chamber of Commerce and Industry, and as a member of the Estonian Accounting Standards Board.



Heldur Meerits is the owner of and member of the Management Board of AS Amalfi. Heldur serves as a member of the supervisory boards of AS LHV Pank and Kodumaja AS, and as a member of the management boards and supervisory boards of several other companies. Heldur has graduated from the Faculty of Economics and Business Administration of the University of Tartu, and serves as a member of the supervisory boards of the Dharma Foundation and several other foundations.



Raivo Hein is the owner of and member of the Management Board of OÜ Kakssada Kakskümmend Volti. Raivo serves as a member of the Supervisory Board of AS LHV Pank, and as a member of the management boards and supervisory boards of several other companies. Raivo has graduated from the Tallinn University of Technology.



Madis Toomsalu is a member of the management board of AS LHV Group and the chairman of the supervisory boards of AS LHV Pank and AS LHV Varahaldus. He is also member of the management board of MTÜ FinanceEstonia. Madis Toomsalu has obtained a Bachelor's degree in business management from the Tallinn University of Technology (TalTech) in 2009 and a Master's degree in 2011 in public sector finance.

# LHV Bank

## Management team



Erki Kilu has been the CEO of LHV Bank since 2008, the bank got its licence in 2009. Erki has worked previously in Seesam Life Insurance for almost 10 years on several positions, ending up as the CEO of the company. Erki has graduated from Estonian Business School and completed his BA in International Business Administration. Erki has completed the MBA programme in University of Tartu in Business Administration. Erki Kilu also serves as the Chairman of the Board of the Estonian Banking Association



Meelis Paakspuu has worked as the CFO of LHV since 2015. Previously he has worked as the CFO of DNB Bank and Head of Swedbank CEE Treasury units. Meelis has studied in University of Tartu and London Business School



Kadri Haldre has worked as Head of Treasury of LHV Bank since April 2019. Previously, she has worked as the Head of Treasury in Eesti Energia and also in the asset management sector. She has MSc from Copenhagen Business School



Indrek Nuume is a member of Management Board of LHV Bank, Head of Private and Business Banking since 2009. Indrek has long term corporate banking experience and has worked in previously in Danske Bank. Indrek holds MBA from University of Tartu



Andres Kitter is a member of Management Board of LHV Bank and is also leading financial intermediaries business line. Worked in finance and banking since 2000, worked in SEB Leasing and managed Skype Payment operations team. Andres holds Masters degree from University of Tartu



Kadri Kiisel has worked in LHV Bank since 2011 starting as the manager of LHV Bank's Tallinn branch, since 2017 she has been the head of branches and since 2018 a member of AS LHV Finance Management Board. Kadri acquired an MBA degree in finance from University of Tartu



Jüri Heero has worked in LHV since 2000, he started as an IT specialist and worked his way up to become a member of the board and IT manager. Jüri has graduated from the University of Tartu where he studied economics



Martti Singi has worked in LHV as the CRO since 2012. He has a long banking experience starting with Hoiupank in 1996, after which he has worked in SEB and Swedbank on various positions related to risk control and finance. Martti has graduated from Estonian Business School, he completed his MBA in Banking and Finance

Meelis Paakspuu  
CFO  
[meelis.paakspuu@lhv.ee](mailto:meelis.paakspuu@lhv.ee)

Kadri Haldre  
Head of Treasury  
[kadri.haldre@lhv.ee](mailto:kadri.haldre@lhv.ee)

