

What should I know before entering into a lease agreement?

An overview of the principal rights and obligations arising from the agreement has been provided below, along with the information on any risks inherent in a lease transaction. Make sure you read the information.

Please bear in mind that we only provide an overview of the rights, obligations, risks and dangers which are considered the most important and have raised the most questions. Never forget that we do not describe your personal lease agreement, which may entail different terms and conditions

Before you sign a lease agreement

Make sure you familiarise yourself with all risks involved, and consider whether you truly wish to enter into a lease agreement. If you are convinced that you want to enter into a lease agreement, consider which one of the two options – financial lease or operational lease – best suits your needs and resources. Financial lease allows you to become a true owner of the leased object upon making all lease payments. Operational lease requires the object to be returned to the bank. Upon agreement with the bank, the leased object may be bought out at its residual value upon expiry of the lease.

- (i) Make sure you read all terms and conditions of the lease agreement, including the general conditions. You should also read the standard European consumer credit information sheet (even if it takes some time, it's worth the read).
- (ii) Please read all other conditions and documents referred to in the conditions of the lease agreement – e.g. the General Conditions of AS LHV Pank (hereinafter LHV).
- (iii) Think about what will happen if your income decreases and expenses increase for one reason or another. Would you still be able to make lease payments?

If necessary, please do not hesitate to contact LHV or an area specialist for explanations, advice or additional information.

Contents of the lease agreement

As we have already mentioned, you can choose between two types of lease agreements. Depending on the type of lease, LHV will purchase the leased object and hand it over to you. In return, you assume the obligation to make lease payments for the term specified in the agreement. You also assume the obligation to pay interest.

The size of the payment will depend on numerous factors – e.g. the cost of the object purchased by LHV, your personal contribution, the interest, the lease period, etc. The size of the payment will also be affected by the general economic environment, as manifested in the base interest rate.

If you have already signed the lease agreement and wish to cancel the agreement, you will have the right to cancel the agreement within 14 days after the signing. To cancel the agreement, the corresponding application must be submitted in the manner and to the address specified in the agreement. See chapter "Expiry and premature termination of the agreement" in the agreement for additional information.

Interest rate

Lease interest is calculated based on the outstanding amount payable to the bank, the lease period, and the applicable interest rate. A 30-day month and 360-day year is used as the basis for the calculation. In the first month of the agreement, interest will be calculated based on the number of days left of the month when the agreement was concluded.

Each time you make a lease payment, the outstanding amount payable to the bank will be reduced, with the interest thus decreasing. The monthly payment will be the same, as the lower interest allows to repay more of the principal. This serves your best interests, as you do not have to check the payment schedule, if the amount of payment remains the same during the period. In actual fact, you will thus repay the lease more quickly.

Should the base interest change or an interest period expire, the bank will calculate the size of the payment for the next period, and inform you accordingly. Euribor is a factor over which neither you nor the bank has any control. Change of Euribor will either raise or lower your repayment.

Everybody always talks about the "annual percentage rate of charge", when it comes to loan agreements. The annual percentage rate of charge shows the final cost of borrowing. In calculating the annual percentage rate of charge, LHV takes account of the following:

- (i) the amount borrowed from the bank for the purchase of an object – i.e. the credit amount;
- (ii) interest;
- (iii) agreement fee;
- (iv) insurance payments (when concluding an insurance contract via LHV).

The annual percentage rate of charge is a good indicator in the evaluation of different offers. Any comparison should consider the costs included in the calculation of the annual percentage rate of charge, as different lease providers have different practice.

Consequences of a breach of payment obligation

Make sure your payments are always made in a timely manner and in the agreed amount. Failure to effect the payment will not postpone your obligation. Rather, it will incur additional expenses - the fine for delay and the fee for the notice of debt.

Fine for delay

Should you fail to make the lease payment in a timely manner, a fine for delay will, unfortunately, be imposed on the debt amount. The exact size of the fine for delay will be fixed in your agreement. The fine for delay will be calculated on the principal payment and will cease to be calculated when the payment is made in full.

Fee for the notice of debt

Should you delay payment, the bank will send you a notice of debt, for which a separate fee will be charged. The exact size of the fee for the notice of debt will be fixed in your agreement

Contractual penalty

Should you breach an obligation - e.g. fail to return the property to the bank at the agreed time – the bank will have the right to charge a contractual penalty. See chapter "Liability and contractual penalty" in your agreement for further information.

Please bear in mind that in case of repeated failure to effect the lease payments, the bank will have the right to terminate the agreement and demand both the return of the leased object in your possession and full payment of the debt. This will result in the repayment of the principal, interest, fine for delay, fee for the notice of debt and the insurance costs.

Should you fail to fulfil the payment obligation, the bank will have the right to put the leased object up for compulsory sale. If the funds thus raised do not cover the debt, if no-one agrees to buy the object or if you still fail to return the object, the bank will have the right to initiate bankruptcy proceedings. Within the framework of the bankruptcy proceedings, a claim may be raised for the disposal of any other property that you might own, so as to raise the funds to pay for the leased object.

Should you foresee any payment difficulties, we kindly ask you to contact us as soon as possible. Don't be embarrassed - contact us, if the situation could prove permanent (e.g. if you lost your job or your salary was cut). Together we can come up with a solution which satisfies all parties involved.

Other information

The pre-contractual information (including the terms and conditions) will be given and the agreement concluded in Estonian. The agreement will be governed by the laws of the Republic of Estonia. Any court disputes will be solved under the jurisdiction specified by law. Should the negotiations with the bank fail, you will have the right to turn to the Consumer Protection Board.