AS LHV Group

Consolidated Annual Report 2013

(translation of the Estonian original)

Consolidated Annual Report **01.01.2013 – 31.12.2013**

Legal name	AS LHV Group
Commercial Registry no.	11098261
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
Fax	(372) 6800410
E-mail	lhv@lhv.ee
Main activities	Activities of holding companies
	Banking
	Security brokerage
	Financial advisory
	Finance lease and other lending
Management Board	Rain Lõhmus
	Erkki Raasuke
Supervisory Board	Andres Viisemann (chairman)
	Tiina Mõis
	Hannes Tamjärv
	Heldur Meerits
	Raivo Hein
	Tauno Tats
Auditor	AS PricewaterhouseCoopers

Table of contents

Notes to the consolidated financial statements

MANAGEMENT REPORT

Managing Director's Statement

2013 was a year of fast-paced development and setting of new goals for LHV Group (LHV). Focused work of several previous years has brought us to the point where the foundation of the key businesses has been established and day-to-day operations have shifted into full gear. Our self-confidence and energy level have increased and the following months and years provide us with an opportunity to move forward decisively.

The subsidiaries of LHV provide financial services in Estonia, Latvia, Lithuania and Finland. The economic environment of our businesses has slowly improved but remains quite fragile. The post financial crisis "new reality" has not yet completely found its balance and several important trends are still strongly progressing. The consumer confidence of the Baltic States showed the signs of continuous improvement and was supported by a growth in income happening at the fastest pace since the financial crisis. However, new anxiety was caused by the increased tension in the geopolitical situation at the end of 2013 in Eastern Europe and its further developments may have an impact on our economic climate.

We are of the view that economic conditions of above average complexity are more of an opportunity for LHV. As a small and flexible team, were are independent in our decisions and react quickly. Our businesses are responsive and are able to maintain their intensity and focus on what is most important at any given moment. Our team has a lot of useful experience in the fields of entrepreneurship and finance and we apply it on a daily basis to make better decisions.

The net profit of LHV in 2013 was EUR 4.3 million. All our core businesses were profitable and several new initiatives were added to the portfolio of businesses.

LHV Asset Management continued on its course of rapid growth of recent years. The number of active clients in second pillar pension fund management increased to 124 thousand and assets under management increased to EUR 341 million. In five years, LHV's market share has grown from 5% to close to 20% and in terms of service fees collected LHV has become the second biggest pension fund manager in the Estonian market.

The past year was also successful in terms of developing other asset management services. LHV Persian Gulf Fund was awarded the prestigious title of “Best Equity GCC Fund” by Zawya Thomson Reuters and maintained its 5-star rating with Morningstar (based on 3 years). The fund's assets under management reached EUR 26 million by the end of the year and the fund's annual return was 49.5%. 76% of the fund's investors are from outside Estonia.

LHV Bank was mostly focused on developing corporate finance. In a year, the number of loan clients grew by ca 100 clients to 261 and the financing portfolio grew to EUR 133 million. The corporate banking team at LHV has received a good response to its transparent and effective customer communication. Our growing strength is cooperation with small and mid-sized companies and their owners.

On the retail banking side we launched several new offerings. We introduced Estonia's first combined debit and credit card. In partnership with the owners of the Euronics store chain we started offering hire purchase. LHV's core services are now also available through mobile applications.

In May, we entered into partnership with the investment company Razfin for joint operations in the Lithuanian finance market. The first outcome of the partnership was the acquisition in July of Snoro Lizingas, one of the oldest and best-known consumer finance providers in Lithuania. The new name of the company is now MokiLizingas and we managed to turn its slowing level of business activity prior to acquisition into good growth already within the first half-year. Mokilizingas had over 70 thousand active clients at the end of the year and is once again one of the largest hire purchase providers in the Lithuanian market.

The successful 2013 allows us to look at the future with increasing expectations. We have set ourselves four goals for the near-term to be guided by and aim for:

- We wish to be the best financial service provider to private individuals and small and mid-sized companies accumulating financial assets and engaging in investing;
- We wish to be an attractive and renowned employer offering development, personal fulfilment and growth;

- We wish to conduct business in a manner that we achieve a return on equity employed in excess of 20% per annum;
- We aim to become a public company with publicly listed shares on a local securities exchange.

We can sense the kind and supportive view of clients and the public towards us in our day-to-day work. This is the privilege of a small and nimble market participant that we intend to take great care to maintain. Although LHV at the start of 2014 already celebrated its 15th anniversary, internally we view ourselves as a start-up with much more still ahead of us than what we have experienced in the past.

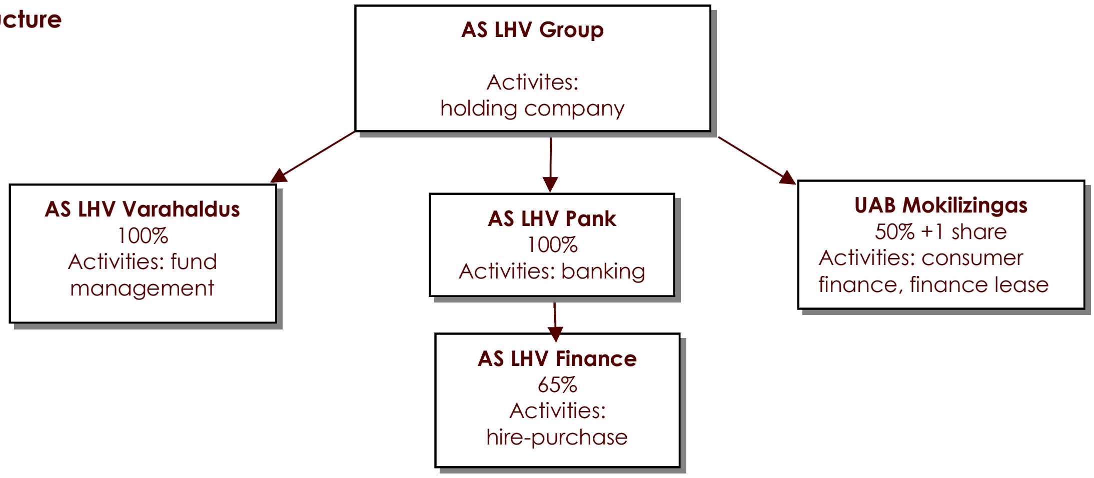
Erkki Raasuke

Overview of the Group

AS LHV Group (hereinafter: Group or LHV) is the biggest domestic finance group and capital provider in Estonia. The main subsidiaries of AS LHV Group are AS LHV Pank and AS LHV Varahaldus.

LHV was established in 1999 by people with long experience in investing and entrepreneurship. LHV-s offices for client servicing are located in Tallinn, Tartu, Riga, Vilnius and Helsinki. Over 200 people work in LHV. Over 50 000 customers use banking services offered by LHV and the LHV's pension funds have over 120 000 clients.

Group structure



Key events in 2013:

- **Group´s structure**

In November 2013 Group acquired 10% ownership SIA EUVECA Livonia Partners and in December 33% ownership in start-up OÜ Svipe. In addition to key investments presented in the graph above LHV Group has a 40% share in associate AS LHV Capital and 100% ownership of LHV Finance OY, which does not have any activities.

- **Group´s management**

In September, Erkki Raasuke started his term as the member of the LHV Group's Management Board.

- **Changes in share capital**

In 2013 the Group's share capital was increased in March and June in total amount 1.8 million euros. The capital paid in was 4.8 million euros, including the share premium.

- **Issuing subordinated bonds**

In 2013 subordinated bonds in the amount of 15.45 million euros were issued. Bonds were issued twice in June and in December and due date of the bonds is 8 years.

Strategy directions

The mission of LHV is to help create local capital and to support the development of local entrepreneurship. The values of LHV are: simple, supporting, resultant.

LHV concentrates on active and independent customers with an entrepreneurial mindset. For private consumers LHV mainly offers services of depositing and increasing monetary funds. For corporate clients LHV offers flexible and suitable financing and managing of everyday financial matters.

The products and services provided by LHV are simple, transparent and appropriate. Client interaction is mainly conducted using modern electronic communication channels. Costs avoided will reach the clients of LHV through affordable cost of everyday service.

LHV was created as a partnership and partnership is the central way of growing LHV's business. New initiatives will be implemented faster and more successfully when partners have same interests and long-term support of each other. All clients and partners of LHV may be owners of LHV in the future. LHV is striving for being a public company by listing its shares on the Tallinn stock Exchange.

Shareholders

AS LHV Group has 19 202 669 common shares with par value of 1 euro.

As at 10.03.2014 AS LHV Group had 155 shareholders:

- 12 725 948 shares (66,3%) belonged to the members of the supervisory board and management board and to their related parties.
- 5 727 238 shares (29,8%) belonged to Estonian entrepreneurs and investors and to their related parties.
- 749 483 shares (3,9%) belonged to current and previous employees of LHV and to their related parties.

Ten biggest shareholders as at 10.03.2014:

Number of shares	Percentage	Name of the shareholder
3 316 130	17,3%	AS Lõhmus Holdings
3 208 367	16,7%	Rain Lõhmus
1 637 897	8,5%	Andres Viisemann
1 200 000	6,2%	Ambient Sound Investments OÜ
1 172 215	6,1%	OÜ Krenno
875 000	4,6%	AS Genteel
806 978	4,2%	AS Amalfi
596 297	3,1%	OÜ Kristobal
498 511	2,6%	Tõnis Sildmäe
461 667	2,4%	Bonaares OÜ

Financial results of the Group

mln euros	2009	2010	2011	2012	2013
Volume of deposits	**32**	**114**	**208**	**279**	**352**
Volume of loans	**9**	**38**	**67**	**106**	**207**
Volume of funds	**53**	**85**	**144**	**252**	**374**
Net interest income	0,6	1,3	3,5	6,1	11,8
Net fee income	3,9	4,5	5,3	6,5	9,5
Net financial income	-0,6	-0,3	-1,1	0,8	2,7
Net income	3,9	5,5	7,7	13,4	24,0
Expenses	5,4	8,4	13,5	14,0	16,7
Operating profit	-1,5	-2,9	-5,9	-0,7	7,3
Loan provisions	0,0	0,0	2,6	1,1	2,9
Income tax expense	0,0	0,0	0,0	0,0	0,1
Profit	**-1,5**	**-2,9**	**-8,5**	**-1,8**	**4,3**
including parent company	**-1,4**	**-2,7**	**-8,5**	**-1,8**	**4,2**

Overview of the Group's subsidiaries in 2013

AS LHV Varahaldus

AS LHV Varahaldus is a fund management company for investment funds operating in Estonia.

In 2013, the main activity of the Company was the provision of fund management services to five compulsory pension funds, one voluntary pension fund and two UCITSs investing in equities.

During the year company's operating income increased 52%. The volume of fund assets managed by the Company increased 48% - from 252 million euros to 374 million euros. The number of active clients of compulsory pension funds increased from 106 thousand to 122 thousand (market share of 19,6%).

In terms of the volume of funds and number of clients, the Company is the third largest pension fund management company in Estonia. In 2013, the returns of the compulsory pension funds of LHV varied between 0,55% (LHV pf XS) and 6,60% (LHV pf XL). The return of LHV Supplementary Pension Fund was 7,55%. The investment strategy of LHV's pension funds became more cautious during the year. Unless the outlook for the global economy improves, there is little to be gained and potentially considerably more to be lost in the stock markets. For this reason, the share of equity investments among LHV's pension funds was modest at the end of 2013 and the main goal was to avoid major losses.

Between 15 May and 15 September, those who had joined the compulsory pension funds were able to file an application to increase their contribution rate, pursuant to which the pension contributions will increase to 3% + 6% for four years beginning with 2014. As at September, 21% of the clients of LHV's pension funds had completed this application. Together with those who had submitted applications for continuation of voluntary contributions in 2009, more than a half of the clients of LHV's funds will receive a 6% contribution from the state.

In 2013, the return of LHV Pension Gulf Fund was 49,48% and the volume of the fund increased 6,7 times during the year. At the award ceremony held in Dubai at 24 April, Zawya Thomson Reuters nominated the fund "The Best Equity GCC Fund of 2012". In January 2014, the international financial information company that follows and assesses the activities of fund managers, Citywire awarded the fund manager of the LHV Persian Gulf Fund, Joel Kukemelk, the highest AAA rating that has been given to fewer than 2% of the 9000 fund managers followed by Citywire around the world. The fund is available in the Baltic and Scandinavian countries.

Financial results

EUR million	2013	2012	change
net fee income	5.8	3.8	52%
other financial income	0.2	0.3	-45%
total net operating revenues	6.0	4.2	44%
operating expenses	-4.3	-4.0	5%
profit	1.7	0.1	1305%
assets under management	374	252	48%
number of clients in pension funds (thousands)	138	121	14%

Management

The Supervisory Board of LHV Varahaldus has three members: Andres Viisemann, Erki Kilu and Erkki Raasuke.
The Management Board of LHV Varahaldus has two members: Mihkel Oja and Kerli Lõhmus.

AS LHV Varahaldus main operational divisions are: Investments unit, Marketing and Customer services, Finance Management and Operations, Risk Management and Compliance.

AS LHV Pank

AS LHV Pank (hereinafter „the Bank") employs over 180 people. The Bank's clients include private individuals, small and medium-sized companies and institutional investors. The Bank has stronger investment and enterprise experience than other banks. LHV Pank is one of the largest brokers on NASDAQ OMX Baltic stock exchanges and the largest broker for Baltic retail investors in international markets. In January, the Bank founded a subsidiary AS LHV Finance that started to provide hire-purchase service to retailers. The Bank owns 65% of the subsidiary.

Business volumes

In 2013, the Bank's volume of deposits and loans increased significantly: the volume of deposits increased 26% to EUR 356 million and the volume of loans grew by 94% to EUR 206 million.

Amongst deposits, the volume of demand deposits increased 114% to EUR 164 million. The volume of term deposits decreased 6% to EUR 192 million.

By volume of loan portfolios, most of the growth came from corporate loans that increased 70% to EUR 133 million, whereas the leasing portfolio reached EUR 15 million and the hire-purchase portfolio reached EUR 5 million. In addition, during the year, the loans of Lithuanian financing enterprise Mokilizingas that belongs to parent company LHV Group were refinanced in the amount of EUR 24 million.

Profitability

The profit for the financial year totaled EUR 2.3 million. Significant growth in the volume of loans created good preconditions for faster growth of interest income and profitability. In addition, in March it was decided to reclassify the bond portfolio held to maturity date to portfolio recognized in market value and sell most of it.

During the year, a model for setting collective provisions was established for corporate loans, leasing and hire-purchase. In addition, the level of provisions of Finnish loans was analyzed and updated, and a decision was made to simplify the provisioning model, as a result of which provisions of Finnish loans increased.

Starting from June, the interest rates of Finnish loans and contract fees were renewed to ensure compliance with the new requirement in the Finnish legislation on maximum percentage rate of charge. Also, it was decided to significantly reduce maximum amounts for Finnish loans. In the third quarter, EUR 1.7 million of non-performing loans of the Finnish branch were sold. These were loan contracts that were being administered by bailiffs and the bank was no longer actively involved with. The centralization of daily functions of debt administration from Finland to Estonia was started.

Development

During the year, several new retail banking products and services were completed, which included launch of hire-purchase, multiple account card and Partner Bank Card, internet bank settlement services, SEPA payments, e-invoice, overdraft, new loan administration software and mobile bank app for iPhone. Work began in developing a mobile bank app for Android.

In 2013 an updated analyses environment was launched in the financial portal. Harju Elekter and Siauliu Bankas were included in the analyses as new enterprises. In July, the Bank joined the Marketmaking Program of Baltic Bourses and became a marketmaker for three stocks listed on the Tallinn Stock Exchange. Starting from January 2014, the Bank also became a marketmaker for one stock listed on the Vilnius Stock Exchange.

In the beginning of the year, the Bank won the Member of the Year 2013 Award at the Baltic Market Awards for the second year running.

Financial results

At year-end, the total assets of the LHV Pank´s consolidation group (hereinafter: LHV Pank) was EUR 400 million which is 28% bigger than at the beginning of the year. The volume of deposits in the Group increased to EUR 356 million, which is 26% more than at the start of the year. Of this amount, demand deposits totalled EUR 164 million and term deposits totalled EUR 192 million. The share of demand deposits reached 46% of all deposits. The volume of the LHV Pank's loan portfolio reached EUR 206 million and that of the bond portfolio was EUR 43 million, which is respectively 94% higher and 62% lower than at the beginning of the year.

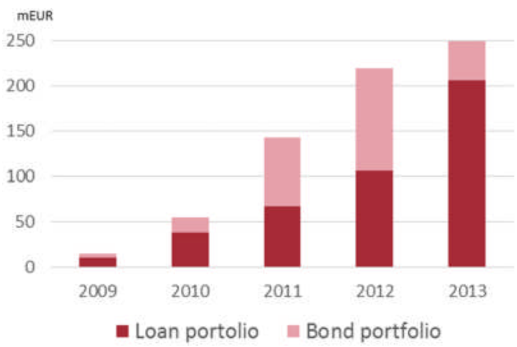
In 2013, the LHV Pank's net interest income totalled EUR 10.5 million, net fee and commission income totalled 3.0 million and financial income was EUR 2.3 million. The LHV Pank's net income totalled EUR 15.8 million, expenses totalled EUR 11.0 million and loan provisions totalled EUR 2.6 million. The LHV Pank's profit for the year was EUR 2.3 million.

At the year-end, the volume of loans issued to corporates totalled 133 million euros, the volume of margin loans secured by debt or equity securities totalled 10 million, the volume of consumer loans was 16 million, the volume of leasing was over 15 million and the volume of hire-purchase loans was almost 5 million.

In 2013, the number of customers holding assets in LHV Pank increased 29% and totalled 48 863 by the end of the year. The volume of customer securities totalled EUR 362 million at the end of 2013.

EUR million	2013	2012	change
net interest income	10.5	6.2	69%
net fee and commission income	3.0	2.6	15%
net gains from financial assets	2.3	0.4	510%
total net operating revenues	15.8	9.2	72%
other income	0.1	0.1	-15%
operating expenses	-11.0	-9.9	11%
loan losses	-2.6	-1.1	144%
profit / loss	2.3	-1.7	231%

EUR million	2013	2012	change
loan portfolio	204.6	106.1	93%
bond portfolio	42.7	112.8	-62%
customer deposits	356.3	282.0	26%
equity	26.9	14.7	83%
total assets	400.5	311.5	29%
number of customers holding assets in bank	48 863	37 953	29%
number of loan customers in Finland	9 066	6 878	32%
number of employees	186	152	22%



Management

The Supervisory Board of LHV Pank has seven members: Rain Lõhmus, Andres Viisemann, Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Erkki Raasuke. The Management Board of LHV Pank has six members: Erki Kilu, Kerli Lõhmus, Jüri Heero, Martti Singi, Indrek Nuume and Andres Kitter.

AS LHV Pank is divided between five largest divisions: Retail Banking, Corporate and Private Banking, IT, Finance Management and Operations, Risk Management (incl. compliance).

UAB Mokilizingas

The year 2013 marks the fifteenth year of the company's operations. A significant decline in sales in 2012 as a consequence of the bankruptcy of the sole shareholder Bankas Snoras AB in November 2011 indicated the need to set the target for 2013 focused on the restoration of confidence of partners and growth of the volume of operations and placing the company back to a competitive position in the market.

In August 2013, following the acquisition of shares by the new shareholders LHV Group and RAZFIN, the half-year turnover in giving out new loans made a drastic rise due to a successful cooperation with partners. Several special promotional campaigns were organised with retail networks as well as a successful campaign on the change of the name to Mokilizingas in November-December during which clients were offered to acquire purchase protection for no additional charge. Following the name change Mokilizingas plans to continue making regular investments in the promotion. The company plans to focus on solutions developed using modern technologies and innovative services aiming to present an attractive package of services and bring an additional value to clients and facilitate partners' cooperation with Mokilizingas UAB.

Products and marketing

In 2013, the new hire-purchase service DVIESE (eng. *Together*) was offered by the company under which the right to conclude the contract is given to two persons and in such a way more favourable conditions of hire-purchase are offered. In December, the updated online purchasing system (self-service) was presented to partners which allows buying goods on credit and signing necessary documents without leaving home. With the new purchasing system introduced, manual work related to the administration of the contract is no longer necessary on behalf of the partner. In 2013, the provision of the service of a consumer loan was started in all Paypost outlets in Lithuania, which became the second-largest sales channel after the self-service channel on the internet.

Stricter regulations on the assessment of creditworthiness of consumer loan recipients and responsible borrowing, which came in force on 1 July and require that the client's financial liabilities cannot exceed 40% of his/her income on the day the loan is granted, had a significant impact on the consumer loan market. The percentage of clients for whom a financing proposal is presented slightly declined in Mokilizingas.

In 2013 a growing competition was observed in the consumer loan market both by aggressive actions of consumer loan lenders and also by new market participants. Although the scheme of operations of other market participants is not identical to that of Mokilizingas UAB and the price of their services is substantially higher, the attraction of new clients became more difficult for the company. Competitors allocated substantial funds for advertising campaigns through various channels – television, radio, internet and others, whereas Mokilizingas UAB invested rather small amounts of funds for advertising through external marketing channels in 2013.

The year 2014 was started by offering to clients purchase protection which could be acquired for no additional charge. The company has set the target of achieving a significant increase in online sales. In addition, efforts will be made to simplify the online signing process of contracts on consumer loans, improve self-service systems for clients and partners and potentially develop alternative channels for the provision of loans.

In the second half of 2014 the company will be actively preparing for the introduction of the euro in Lithuania and development of the related systems.

Financial results

As of the end of 2013 the total loan portfolio was 26 mEUR and the number of clients was 71 thousand. The group consolidated the revenues of Mokilizingas for the second half year of 2013. Net interest income for this period was 1.5 mEUR and net fee revenues 0.6 mEUR. Operating expenses made 1.4 mEUR, loan provisions 0.2 mEUR, corporate income tax 0.1 mEUR and the profit for the period was 0.4 mEUR.

Management

The Supervisory Board of UAB Mokilizingas has four members: AS LHV Pank, AS LHV Group, KŪB „RAZFin, UAB „K2Z"
The Management Board UAB Mokilizingas has four members: Erkki Raasuke, Erki Kilu, Alvydas Žabolis, Khalid Bouzerda (management board members do not have signatory rights on behalf of the company)
CEO is Jurgis Rubazevicius, who has signatory rights on behalf of the company (Lithuanian system is different from that in Estonia).

Governance of the Group

Supervisory board

Andres Viisemann is the founder of LHV and the manager of pension funds. He is a member of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS Fertilitas and a member of the supervisory boards and management boards of other companies. Andres Viisemann graduated from the University of Tartu and obtained a Master's degree at INSEAD in international business management. He is a member of the supervisory board of Estonian Health Insurance Fund. Andres Viisemann and parties related to him own 2 472 822 shares of AS LHV Group.

Tiina Mõis is the owner and manager of AS Genteel. She is a member of the supervisory boards of AS LHV Pank, AS Baltika, AS Nordecon International and other companies. Tiina Mõis graduated from Tallinn University of Technology. She is a member of management board of Estonian Chamber of Commerce and Industry and a member of Estonian Accounting Standards Board. Tiina Mõis does not own any shares of AS LHV Group. AS Genteel owns 875 000 shares of AS LHV Group.

Hannes Tamjärv is the owner and a member of the management board of HTB Investeeringute OÜ. He is a member of supervisory boards of AS LHV Pank, Rocca al Mare Kooli AS, Nelja Energia AS, EfTEN Capital AS and other companies. Hannes Tamjärv graduated from Tallinn University of Technology. He is a member of management board of foundation Rocca al Mare Kooli SA and a member of the supervisory boards of foundations such as Heateo SA, SA Eesti Mälu Instituut and Inimsusevastaste Kuritegude Uurimise Eesti SA. Hannes Tamjärv does not own shares of AS LHV Group. HTB Investeeringute OÜ and related parties of Hannes Tamjärv own 400 000 shares of AS LHV Group.

Heldur Meerits is the owner and a member of the management board of AS Amalfi. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and Kodumaja AS and a member of the management boards and supervisory boards of other companies. Heldur Meerits graduated from the Faculty of Economics and Business Administration of Tartu University. He is a member of the supervisory boards of SA Avatud Eesti Fond, SA Dharma and other foundations. Heldur Meerits does not own shares of AS LHV Group. AS Amalfi owns 806 978 shares of AS LHV Group.

Raivo Hein is the owner and a member of management board of OÜ Kakssada Kakskümmend Volti. He is a member of the supervisory board of AS LHV Pank and a member of management boards and supervisory boards of other companies. Raivo Hein graduated from Tallinn University of Technology. Raivo Hein does not own shares of AS LHV Group. OÜ Kakssada Kakskümmend Volti owns 446 651 shares of AS LHV Group.

Tauno Tats is a member of the management board of Ambient Sound Investments OÜ. He is a member of the supervisory board of EfTEN Kinnisvarafond AS and a member of management boards and supervisory boards of other companies. Tauno Tats graduated from Tallinn University of Technology. Tauno Tats does not own shares of AS LHV Group. Ambient Sound Investments OÜ owns 1 200 000 shares of AS LHV Group.

Management board

Rain Lõhmus is a founder of LHV. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and AS Arco Vara and a member of the management boards and supervisory boards of other companies. Rain Lõhmus graduated from Tallinn University of Technology and management program of Harvard Business School. He is a member of Estonian Business Association. Rain Lõhmus owns 3 208 367 and AS Lõhmus Holdings owns 3 316 130 shares of AS LHV Group.

Erkki Raasuke is the chairman of the supervisory boards of AS LHV Pank and AS LHV Varahaldus and a member of the supervisory board of EfTEN Kinnisvarafond AS. Previously he has worked as an advisor to the Minister of Economic Affairs, as the chairman of the supervisory board of AS Estonian Air, as CFO of AB Swedbank and as the chairman of the management board, the CEO and CFO of AS Swedbank. Erkki Raasuke graduated from Tallinn University of Technology and management programs of INSEAD and BICG. Erkki Raasuke does not own shares of AS LHV Group.

Supervisory and Management Boards of the Subsidiaries

AS LHV Varahaldus
Supervisory Board: Andres Viisemann, Erki Kilu and Erkki Raasuke.
Management Board: Mihkel Oja and Kerli Lõhmus.

AS LHV Pank
Supervisory Board: Rain Lõhmus, Andres Viisemann, Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Erkki Raasuke.
Management Board: Erki Kilu, Kerli Lõhmus, Jüri Heero, Martti Singi, Indrek Nuume and Andres Kitter.

UAB Mokilizingas
Supervisory Board: AS LHV Pank, AS LHV Group, KŪB „RAZFin, UAB „K2Z"
Management Board: Erkki Raasuke, Erki Kilu, Alvydas Žabolis, Khalid Bouzerda.
CEO: Jurgis Rubazevicius

AS LHV Group is planning to implement incentive fees and share options for the members of the subsidiaries Management Board, heads of departments and employees equivalent to them. The precondition for receiving a share option will be based on financial performance that will be assessed by the Management Board and the Supervisory Board of AS LHV Group. The level of share options will depend on the successful fulfillment of corporate and individual targets. Issuing of share options will be decided in the general meeting of shareholders.

In 2013 the remunerations paid to management members of parent company and its main subsidiaries AS LHV Pank, AS LHV Varahaldus and UAB Mokilizingas totalled 743 thousand (2012: 450) euros, including all taxes.

Corporate governance report

This report is presented in accordance with the requirements of the Estonian Accounting Act and provides an overview of the governance of AS LHV Group (hereinafter: the Group or LHV) and compliance of governance with Corporate Governance Recommendations of NASDAQ OMX Tallinn Stock Exchange. LHV adheres to Corporate Governance Recommendations, unless otherwise specified in this report.

1. General meeting
LHV is a public limited company and its governing bodies are the general meeting of shareholders, the supervisory board and the management board.

The general meeting of shareholders is the highest governing body of LHV where shareholders invoke their rights. The primary duties of the general meeting of shareholders are amendment of the articles of association, increase and decrease of share capital, decisions on issuance of convertible bonds, election and extension of terms of supervisory board members, premature removal of supervisory board members, approval of the annual report and profit allocation, determining the number of auditors, appointment and recall of auditors and other decisions that are within the powers of the general meeting of shareholders pursuant to law.

Each shareholder has the right to participate in the general meeting of shareholders, address the general meeting in subjects presented on the agenda, ask relevant questions and make proposals.

General meetings of shareholders are called by the management board. The annual general meeting of shareholders held for approval of the annual report is held at least once per annum. The management board calls an annual general meeting of shareholders within six months of the end of the financial year. The management board gives at least three week's notice of the holding of an annual or extraordinary meeting of shareholders.

The agenda of the general meeting, proposals of the management and supervisory boards, draft resolutions and other relevant materials shall be made available to the shareholders prior to the general meeting. From 2014, materials shall be made available on the website of LHV. From 2014, shareholders will be given an opportunity to ask questions about subjects on the agenda before the day of the general meeting and publish them together with responses on the website of LHV.

The shareholders with the right to participate in the general meeting of shareholders will be determined based on the share register seven days before the general meeting of shareholders is held.

In 2013, the company called one annual general meeting and no extraordinary general meetings. The annual general meeting of shareholders held on 06.06.2013 approved the annual report of the 2012 financial year, elected an additional supervisory board member and resolved to increase share capital. The general meeting was held in Estonian.

In 2013, the general meeting was chaired by management board member Rain Lõhmus. From 2014, the chair of the general meeting will be appointed from among independent persons who will introduce the procedure for conducting the general meeting and the procedure of asking questions from the Management Board about the company's activities.

In 2013, management board member Rain Lõhmus and chairman of the supervisory board Andres Viisemann attended the general meeting of shareholders. From 2014, members of the supervisory board and at least one auditor will also be invited to attend the general meeting. If any members of the supervisory board are up for election at the general meeting who have not previously been supervisory board members of LHV and the auditor, the persons up for election shall attend the relevant general meeting. In 2013, an additional member of the supervisory board, Tauno Tats, was elected, who attended the general meeting.

No shareholders have any shares giving them special control rights or voting rights. LHV is not aware of any agreements in place between shareholders that would address the coordinated exercise of shareholder rights.

Shareholders with significant interest are Rain Lõhmus and persons related to him with 34.0% and Andres Viisemann and persons related to him with 12.9%.

2. Management Board
The management board is a governing body of LHV that represents and manages LHV. The management board consists of one to five members. The term of the management board member's powers is five years, unless otherwise decided by the supervisory board. If the management board of LHV has more than two members, the supervisory board shall appoint a chairman of the management board. The chairman of the management board organises the work of the management board. The company may be represented by each management board member in each transaction.

Management board members are Rain Lõhmus and Erkki Raasuke. Erkki Raasuke is a management board member since 23.09.2013. The supervisory board has entered into a service contract with Erkki Raasuke. The supervisory board sets the compensation policy for management board members.

The duties of Rain Lõhmus are to represent the company, participate in the development of LHV's strategy and its implementation by being a supervisory board member of the major subsidiaries of LHV.

The duties of Erkki Raasuke are the day-to-day management of LHV, representation of the company, coordination of the development of LHV's strategy and its implementation by being an active chairman of the supervisory boards of the major subsidiaries of LHV, as well as directing LHV's operations in foreign markets and investor communication.

Management board members submit an annual declaration of economic interests and conflicts of economic interests. In 2013, no business transactions took place between LHV and its management board members, their close relatives or persons related to them.

LHV's management board members are not management board members or chairmen of supervisory boards of other issuers. Rain Lõhmus is a member of the supervisory board of AS Arco Vara.

Management board members have not been granted authority to issue or repurchase shares.

3. Supervisory Board

The Supervisory Board is a governing body that plans the activities of the company, organises the management of the company and supervises the activities of the Management Board. The supervisory board determines and regularly reviews LHV's strategy, general plan of action, risk management policies and the annual budget. The supervisory board consists of five to seven members. Supervisory board members have terms of two years. Members of the supervisory board elect the chairman of the supervisory board from among themselves who organises the supervisory board's activities.

Supervisory board members are Andres Viisemann (chairman), Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Tauno Tats. Tauno Tats is a supervisory board member since 06.06.2013. The general meeting of shareholders has not set the compensation policy of supervisory board members. No compensation was paid to supervisory board members in 2013.

Supervisory board members submit an annual declaration of economic interests and conflicts of economic interests. In 2013, no business transactions took place between LHV and its supervisory board members, their close relatives or persons related to them.

In 2013, there were 10 regular supervisory board meetings and no extraordinary meetings. As part of supervisory board meetings, the supervisory board was regularly briefed on the operating and financial results of LHV's subsidiaries. The supervisory board approved the supervisory board's rules of procedure, the 2012 annual report before it was presented to the annual general meeting of shareholders for approval, issuances of subordinated bonds, acquisitions of ownership interest in subsidiary UAB Mokilizingas (formerly UAB Snoro Lizingas) and associate Svipe OÜ, conclusion of shareholders agreement for the management of UAB Mokilizingas, policy of potential incentive compensation and stock options to be issued to key employees of LHV subsidiaries and the financial plan of LHV for 2014-2018. Hannes Tamjärv and Heldur Meerits attended less than half of supervisory board meetings.

The supervisory board has formed two committees tasked to advise the supervisory board in issues related to audit and compensation as described below.

3.1. Audit committee

The audit committee is above all an advisory body to the supervisory board in the fields of accounting, audit, risk management, internal control and internal audit, supervision and budgeting and the legality of the activities. The audit committee must comprise at least two members.

The duties of the audit committee are to monitor and analyse the processing of financial information to the extent necessary for preparing quarterly and annual financial statements, effectiveness of risk management and internal control, the audit process of financial statements or consolidated financial statements and the independence of the auditor and independent auditor who represents it on the basis of law and compliance of its activities with provisions of the Authorised Public Accountants Act.

The audit committee is responsible for making proposals to the supervisory board and provide recommendations for the appointment or removal of the auditor, appointment or removal of the internal auditor, prevention or elimination of problems or ineffectiveness in the organisation and compliance with legislation and good practice of the trade.

Audit committee members are Gerli Kilusk (chair), Marilin Hein (vice chair) and Sulev Luiga. Compensation of the audit committee members is 100 euros per month (net). The audit committee was formed on 01.01.2014. Until that time, the audit committee comprised of the same members acted as the audit committee of AS LHV Pank, a subsidiary of LHV. In 2013, the audit committee gave four regular quarterly briefings to the supervisory board of AS LHV Pank about the results of the audit committee's work.

3.2. Compensation committee

The duties of the compensation committee are to evaluate the implementation of compensation policy in the companies within the LHV group and the effect of compensation-related decisions on compliance with requirements related to risk management, internal funds and liquidity. The compensation committee consists of at least three supervisory board members of AS LHV Pank.

The compensation committee supervises the compensation of management board members and employees of companies within the LHV group, evaluates the implementation of compensation policy at least annually and, if necessary, proposes to update the compensation policy and prepares the draft resolutions related to compensation for the supervisory board.

Members of the compensation committee are Erkki Raasuke (chairman), Rain Lõhmus (vice chairman) and Andres Viisemann. No compensation is paid to members of the compensation committee. The compensation committee was formed on 01.01.2014. Until that time, the compensation committee acted as the compensation committee of AS LHV Pank, a subsidiary of LHV. In 2013, the compensation committee held one regular meeting.

4. Cooperation of the management and supervisory boards

The management board and supervisory board work in close cooperation for the aim of better defending the interests of LHV. The basis for cooperation is above all the open sharing of opinions both between the management board and supervisory board and within the management board and supervisory board.

The management board and supervisory board jointly develop the issuer's goals and strategy. The management board in the management of the issuer is guided by the strategic instructions given by the supervisory board and regularly discusses strategic management issues with the supervisory board.

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of material developments equally.
Until now, LHV did not have an investor relations website. In 2014, LHV launched an investor relations website.
From 2014, LHV publishes on its website a financial calendar containing the publication dates of the annual report and interim reports and the date of the annual general meeting of shareholders.
In 2013, meetings with investors were held as needed and based on investor requests.

6. Financial reporting and auditing

LHV publishes an annual report annually. The annual report is audited and approved by the supervisory board.

The number of auditors is determined and auditors are appointed by the general meeting of shareholders, also establishing the policy for auditor compensation. Auditors are appointed for conducting a one-time audit or for a specific term.

In 2012, the management board with the audit committee organised a tender for the appointment of an auditor. As part of the tender, the company met and requested bids from three major internationally recognised companies. As a result of the tender, AS PricewaterhouseCoopers was chosen and appointed the company's auditor on the annual general meeting of shareholders held on 14.06.2012 and a three-year contract was concluded with the company for auditing the financial years 2012-2014.

Transactions with related parties are disclosed in the notes to the financial statements.

Declaration of conformity

LHV is in compliance with the Corporate Governance Recommendations with the exception of the following instructions and recommendations for the specified reasons:

> "*1.1.1. Issuers shall enable shareholders to present questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting the Issuer shall include the address or e-mail address to which the shareholders can send questions. Issuers shall guarantee a response to reasoned questions on the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.*"

LHV has not enabled shareholders to present questions on items mentioned in the agenda, including prior to the day of the General Meeting. LHV intends to do so in 2014.

> "*1.3.1. The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting.*"

A member of the Management Board has been elected as Chair of the General Meeting. LHV intends to elect an independent person as Chair of the General Meeting in 2014.

> "*1.3.2. Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.*"

At least one of the auditors did not participate in the General Meeting. LHV intends to do so in 2014.

> "*1.3.2. Supervisory Board member candidates who have not formerly been a Supervisory Board member and candidates for auditor shall participate in the General Meeting.*"

The candidate for auditor did not participate in the General Meeting. LHV is planning to do so in 2015.

> "*1.3.3. Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.*"

Observation of the General Meeting and its participation has not been made possible by means of communication equipment because so far there has been no need.

> "*2.2.1. The Management Board shall have more than one (1) member and a Chairman elected by its members.*
> *The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for co-operation between members of the board shall also be established.*
> *The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions.*"

Until 23.09.2013, LHV had one member of the Management Board, Rain Lõhmus. The Management Board has not elected a chairman. The area of responsibility for each member of the Management Board has not been established. A contract of service has not been concluded with Rain Lõhmus. LHV is a holding company without any day-to-day business activities. The major subsidiaries of LHV have Management Boards consisting of several members.

> "*2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.*
> *The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.*"

LHV discloses the total amount of compensation paid to Management Board members in the notes to the financial statements. LHV does not disclose the compensation of individual members of the Management Board because it constitutes personal information, the disclosure of which is not unavoidably required for the evaluation of the operations and management quality of LHV.

> "*3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members.*"

Supervisory Board members of LHV are not independent by the definition of the Corporate Governance Recommendations. LHV has been in the stage of active development and growth where it has preferred people of long-term management and banking experience as members of the Supervisory Board who are also the largest shareholders of LHV.

> "*6.1.1. Issuers shall publish annually its annual report and within a fiscal year its interim reports.*
> *The Management Board shall draw up annual accounts, which shall be audited by the auditor and the Supervisory Board. On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board. Members of the Management Board of the Issuer and other persons belonging to management shall leave the meeting during the auditor reports the most material conclusions of audit.*
> *The shareholders shall be presented the annual report signed by members of the Management Board and the Supervisory Board for examination. Together with annual report, the Supervisory Board shall make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code.*"

LHV has not prepared interim reports. LHV intends to start preparing interim reports in 2014. The auditor has not participated in the meeting of the Supervisory Board that involves the review of the annual report. LHV is planning to do so in 2014. LHV has not made available to shareholders the written report of the Supervisory Board. LHV is planning to do so in 2014.

> "*6.2.6. Upon introducing the findings of the audit to the Supervisory Board, the Auditor shall present inter alia:*
> *- An overview of the progress of the audit, co-operation with employees subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;*
> *- An overview of the independence of the auditor and the absence of conflict of interests during the audit;*
> *- An analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;*
> *- Their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;*
> *- His or her own opinion regarding financial forecasts made and the quality of the budget.*
> *The Auditor shall present an overview, analysis and opinion described above in writing to the Supervisory Board.*"

The Auditor has not presented an overview, analysis and opinion in writing to the Supervisory Board." LHV is planning to do so in 2014.

Risk management of the Group

The purpose of risk management is to identify, assess, manage and control all risks related to the activities of LHV Group and its subsidiaries. The principles of identification, measuring, reporting and control of risks at LHV Group and its subsidiaries are set out in the policies and procedures approved by the Supervisory Board and daily risk management is organised by Risk management unit. The purpose of risk management is to identify, assess, manage and control all risks related to the activities of the Group in order to ensure the Group´s reliability, stability and profitability. In the Group, risk management is based on three lines of defence. The first line of defence or business units is responsible for taking and managing risks. The second line of defence – which includes the risk management unit – is responsible for developing and maintenance of the risk management framework. The third line of defence or internal control department carries out independent control over risk management in the entire group. The rules and procedures of risk management are regularly reviewed at least once a year and updated in case of a need.

Detailed overview of the risks taken by the Group and also capital adequacy calculations are presented in Note 3 of the annual report.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

(in thousands of euros)

	Note	2013	2012
Interest income	6	14 910	10 980
Interest expense	6	-3 072	-4 923
Net interest income		**11 838**	**6 388**
Fee and commission income	7	10 440	7 277
Fee and commission expense	7	-1 014	- 889
Net fee and commission income		**9 426**	**6 057**
Net gains from financial assets measured at fair value	8	2 416	795
Foreign exchange rate losses	8	-23	-2
Other financial income	8	312	0
Net gains from financial assets		**2 705**	**793**
Other income		64	101
Operating expenses	9	-16 743	-14 048
Operating profit/loss for the year		**7 290**	**- 709**
Change in investment in associate		10	26
Impairment losses on loans and advances	14	-2 871	-1 074
Income tax (expense)		-84	0
Net profit/loss for the year		**4 345**	**-1 757**
Other comprehensive income/loss			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Revaluation of available-for-sale financial assets		-27	0
Total comprehensive income/loss for the year		**4 318**	**-1 757**
Profit/loss attributable to:			
Owners of the parent		4 237	-1 757
Non-controlling interest		108	0
Total profit/loss for the year		**4 345**	**-1 757**
Total comprehensive income/loss attributable to:			
Owners of the parent		4 210	-1 757
Non-controlling interest		108	0
Total comprehensive income/loss for the year		**4 318**	**-1 757**

Notes on pages 24 to 68 are an integral part of the consolidated financial statements.

Consolidated statement of Financial Position

(in thousands of euros)

	Note	31.12.2013	31.12.2012
Assets			
Balances with central bank	10	133 839	77 965
Due from credit institutions	10	17 004	10 900
Due from investment companies	10	1 466	1 547
Available-for-sale financial assets	11	11 903	0
Other financial assets at fair value through profit or loss	12	36 702	48 899
Held-to-maturity financial investments	13	0	67 965
Loans and advances to customers	14	206 768	106 067
Receivables from customers	15	1 507	641
Other assets	16	3 892	1 083
Goodwill	5	1 044	1 044
Tangible assets	17	491	635
Intangible assets	17	621	479
Investment in associates	5	131	69
Total assets		**415 368**	**317 294**
Liabilities			
Deposits from customers and loans received	18	356 381	284 150
Financial liabilities at fair value through profit or loss	12	433	656
Accrued expenses and other liabilities	19	6 891	2 169
Deferred income	14	0	590
Provisions	20	0	13
Subordinated loans	21	19 716	8 634
Total liabilities		**383 421**	**296 212**
Equity			
Non-controlling interest		**1 695**	**0**
Equity attributable to owners of the parent			
Share capital	22	19 202	17 382
Share premium		21 871	18 827
Share options		15	232
Reserves		223	223
Other reserves		-27	0
Accumulated deficit		-11 032	-15 581
Repurchased treasury shares		0	-1
Equity attributable to owners of the parent		**30 252**	**21 082**
Total equity		**31 947**	**21 082**
Total liabilities and shareholders' equity		**415 368**	**317 294**

Notes on pages 24 to 68 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

(in thousands of euros)

	Note	2013	2012
Cash flows from operating activities			
Interest received		14 362	10 980
Interest paid		-4 290	-4 888
Fees and commissions received		10 528	7 378
Fees and commissions paid		-1 014	-889
Other operating income received		64	0
Staff costs paid		-6 530	-5 017
Administrative and other operating expenses paid		-9 492	-8 485
Income tax paid		-84	0
Cash flows from/used in operating activities before change in operating assets and liabilities		**3 544**	**-921**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio		-636	-2
Loans and advances to customers		-83 051	-40 728
Term deposits with other credit institutions		2	9 176
Mandatory reserve at central bank		-846	-767
Security deposits		64	-90
Other assets		-942	-229
Net increase/decrease in operating liabilities:			
Demand deposits of customers		85 911	39 828
Term deposits of customers		-12 128	30 996
Loans received and repayments		-19 820	-194
Financial liabilities for trading at fair value through profit or loss		-223	216
Other liabilities		1 805	674
Net cash used in / generated from operating activities		**-26 319**	**37 959**
Cash flows from investing activities			
Purchase of non-current assets	17	-486	-256
Acquisition of subsidiaries and investments in associates, net of cash acquired		252	0
Acquisition of investment securities held to maturity		-2 790	-45 988
Proceeds from disposal and redemption of investment securities available for sale (previously held to maturity)		61 130	8 295
Net changes of investment securities at fair value through profit or loss		13 076	677
Net cash from / used in investing activities		**71 182**	**-37 272**
Cash flows from financing activities			
Non-controlling interest contribution to subsidiary´s share capital		175	0
Paid in share capital	22	4 864	8 591
Sale and purchase of treasury shares		1	-2
Loans received	21	15 450	4 500
Loans repayments	21	-4 300	0
Net cash from financing activities		**16 190**	**13 089**
Net increase in cash and cash equivalents		**61 053**	**13 776**
Cash and cash equivalents at the beginning of the year	10	87 859	74 083
Cash and cash equivalents at the end of the year		**148 912**	**87 859**

Notes on pages 24 to 68 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in thousands of euros)

	Share capital	Share premium	Share options	Reserves	Other reserves	Accumulated deficit	Treasury shares	Total	Non-controlling interest	Total equity
Balance as at 01.01.2012	**14 200**	**13 419**	**210**	**223**	**0**	**-13 824**	**0**	**14 228**	**0**	**14 228**
Paid-in share capital	3 182	5 409	0	0	0	0	0	8 591	0	8 591
Share options	0	0	22	0	0	0	0	22	0	22
Purchase of treasury shares	0	-1	0	0	0	0	-1	-2	0	-2
Total comprehensive loss for 2012	0	0	0	0	0	-1 757	0	-1 757	0	-1 757
Balance as at 31.12.2012	**17 382**	**18 827**	**232**	**223**	**0**	**-15 581**	**-1**	**21 082**	**0**	**21 082**
Balance as at 01.01.2013	**17 382**	**18 827**	**232**	**223**	**0**	**-15 581**	**-1**	**21 082**	**0**	**21 082**
Paid-in share capital	1 820	3 044	0	0	0	0	0	4 864	0	**4 864**
Share options	0	0	-217	0	0	0	0	-217	0	**-217**
Disposal of treasury shares	0	0	0	0	0	0	1	1	0	**1**
Acquisition of subsidiaries	0	0	0	0	0	312	0	312	1 587	**1899**
Profit for the year	0	0	0	0	0	4 237	0	4 237	108	**4 345**
Other comprehensive income	0	0	0	0	-27	0	0	-27	0	**-27**
Total comprehensive income for 2013	0	0	0	0	-27	4 237	0	4 210	108	**4 318**
Balance as at 31.12.2013	**19 202**	**21 871**	**15**	**223**	**-27**	**-11 032**	**0**	**30 252**	**1 695**	**31 947**

More detailed information is provided in Note 22.

Notes on pages 24 to 68 are an integral part of the consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

Notes to the consolidated financial statements

NOTE 1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the year ended 31 December 2013 for AS LHV Group (the "Group") and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank.

AS LHV Group is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu Road 2, Tallinn. AS LHV Group is a holding company whose subsidiary AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and Finland. There are offices for client servicing in Tallinn, Tartu, Riga, Vilnius and a branch office in Helsinki. AS LHV Finance offers hire-purchase services to merchants. AS LHV Varahaldus offers fund management services for pension funds and other funds to clients in Estonia. UAB Mokilizingas offers consumer finance and finance lease services in Lithuania. As at 31.12.2013, the Group employed 252 people (as at 31.12.2012: 174 people).

The consolidated annual report (including financial statements) was approved by the Management Board on 28 April 2014.

Rain Lõhmus, who owns 34.5% of the voting rights and Andres Viisemann, who owns 10.3% of the voting rights (see also Note 22), have significant influence over AS LHV Group. The consolidated annual report approved by the Management Board shall be authorized for approval by the Supervisory Board and shareholders. The shareholders have the right not to approve the consolidated financial statements while the Supervisory Board does not have that right.

NOTE 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented and to all the companies in the Group, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as: "financial assets and liabilities at fair value through profit or loss", including derivatives and assets available for sale.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial year started at 1 January 2013 and ended at 31 December 2013. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these financial statements which became mandatory for the Group's accounting periods beginning on or after 1 January 2013. The overview of these standards and the Group management's estimate of the potential impact of applying the new standards and interpretations are stated below.

In 2013 financial statements, management has made a change in presentation of information in Statement of Cash Flows. Investing activities cash flows from investment securities held to maturity and investment securities available for sale are disclosed in gross, as in 2012 financial statements information was provided on net basis.

a) Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2013.

IFRS 13, Fair Value Measurement; (effective for annual periods beginning on or after 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The application of the standard have not changed measurement of fair value of financial assets and financial liabilities, as the quoted market price used for financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price and the Group used the same measurement basis before 1 January 2013. The Standard also resulted in additional disclosures in these consolidated financial statements. Refer to Note 3.6.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact to the Group.

b) New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2014, and which the Group has not early adopted.

IFRS 9, Financial Instruments (not yet adopted by the EU) - IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic instrument features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014). The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the the principles of the standard, the impact of this standard on the Group and the timing of its adoption by the Group.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Consolidation

The 2013 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank.

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent company owns, directly or indirectly through its subsidiaries, more than 50% of the voting power of the subsidiary or otherwise has power to govern the financial and operating policies of the subsidiary. The acquisition method of accounting is used to account for the acquisition of subsidiaries (except for acquisitions among enterprises under common control) and business operations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

According to the acquisition method, the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary are recognized at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

Intercompany transactions balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the Group's statement of comprehensive income starting from the date of acquisition to the end of the financial year. Result of operations of subsidiaries disposed of during the year is consolidated into Group's statement of comprehensive income from the beginning of the financial year until the date of disposal.

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27 "Consolidated and Separate Financial Statements".

In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 28, the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separaate component of the Group's equity. Non-controlling interests in the comprehensive income is included within equity in the consolidated balance sheet separately from the equity attributable to the shareholders of the parent company and is disclosed below the consolidated statement of comprehensive income.

2.3 Associates

An associate is an entity over which the Group has significant influence but which it does not control. Generally, significant influence is assumed to exist when the Group holds between 20% and 50% of the voting rights.

In the consolidated financial statements, investments in associates are accounted for using the equity method. Under this method, the investment is initially recognized at cost which is thereafter adjusted for post-acquisition changes in the investors share of the investees equity (changes both in the profit/loss of the associate as well as other equity items (and with elimination or depreciation/amortisation of the differences between fair values and carrying amounts of the investee's assets, liabilities and contingent liabilities as determined in the purchase analysis. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets.

When the Group's share of losses in the associate accounted under the equity method exceeds the carrying amount of the associate, the carrying amount of the investment is reduced to zero and such long-term loans granted to the associate that in substance form a part of the investment are written down. Further losses are carried off-balance sheet. When the Group has guaranteed or incurred obligations on behalf of the associate, the respective liability as well as the loss under the equity method are recorded in the balance sheet. Other receivables from the associate are valued by the probability of proceeds.

An investment in the assets and liabilities of the acquired associate and goodwill that arose on acquisition is presented as a net amount in the balance sheet line "Investments in associates".

At each balance sheet date, it is assessed whether there is any indication that the recoverable amount of the investment has fallen below its carrying amount, If any such indications exist, an impairment test is performed. To determine the recoverable amount of the investment, the principles described in section 2.8 are used as the basis.

2.4 Foreign currency translation

(a) Functional and presentation currency

The functional and presentation currency of the entities in the Group is euro.

(b) Foreign currency transactions and balances

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank (central bank) prevailing at the dates of the transactions. Monetary assets and liabilities and non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Gains and losses on translation from monetary assets and liabilities are recorded in the statement of comprehensive income under the line "Foreign exchange rate gains/losses". Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the statement of comprehensive income under the line "Foreign exchange rate gains/losses".

2.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits with central bank and other banks, term deposits with original maturities of three months or less, that are available for use without any significant restrictions and which are subject to an insignificant risk of changes in value.

2.6 Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss
- held-to-maturity financial investments
- available-for-sale financial assets
- loans and advances

The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition. Refer to note 4 for information about reclassification of held-to-maturity financial investments to available-for-sale assets.

	IAS 39 category	Class (applied by the Group)	
Financial assets	Loans and advances	Loans and advances to credit institutions and investment companies	
		Loans and advances to customers	Corporate loans
			Loans to individuals
	Financial assets at fair value through profit or loss	Securities held for trading	Equity securities
			Listed debt securities
			Derivatives
	Available-for-sale financial assets	Investment securities	Listed debt securities
	Held-to-maturity financial investments	Investment securities	Listed debt securities

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include

- financial assets held for trading (incl. derivatives)
- financial assets designated at fair value through profit or loss at inception

A financial asset is classified as **held for trading** if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

Regular way purchases and sales of financial investments are recognised at the settlement date in the balance sheet. Financial instruments included in this category are initially recognised at fair value; transaction costs are taken directly to the profit or loss. After initial recognition, financial assets in this category are measured at fair value. Interest income is calculated based on financial assets' amortised cost using the effective interest rate method and is recorded within interest income in the statement of comprehensive income. Changes in fair values of these financial assets are recognised consistently, either as a profit or loss in the statement of comprehensive income of the accounting period under "Net gains/losses from financial assets measured at fair value". In accounting for financial assets at fair value through profit or loss, the change in the value of assets between the trade date and the settlement date are taken to profit or loss, similarly to the recognition of similar assets in the ownership of the Group. Dividend income on financial assets measured at fair value through profit or loss are recognised in the line "Dividend income" of the statement of comprehensive income when the right to receive dividends by the Group is established.

In case of listed securities (i.e. the securities which have an active market), the current bid price is considered as the fair value of investments. To find the fair value of investments not actively traded in the market, alternative methods such as the price of recent transactions (under market conditions), the discounted cash flow method or option valuation models are used.

Derivative financial instruments (futures, forward, swap and option contracts) are initially recognised in the balance sheet at the fair value net of transaction costs at the trade date and are subsequently valued at fair value through profit or loss. If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, the valuation techniques are used to find the fair value. Profits and losses from derivatives are recognised as income or expense of the period in the statement of comprehensive income under "Net gains/losses from financial assets measured at fair value". Derivatives are carried in balance sheet as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in the balance sheet are not netted. The Group does not use hedge accounting to account for its derivative financial instruments.

Financial assets designated at fair value through profit or loss at inception - securities are classified into this group, if the Group has upon initial recognition designated the securities to be recorded as at fair value through profit or loss and as a result the changes in the fair value of these securities are consistently recognised in the profit or loss of the reporting period in the statement of comprehensive income.

Financial assets and financial liabilities are designated at fair value through profit or loss when certain investments, such as debt or equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

Held-to-maturity financial investments are financial instruments quoted in an active market with a fixed due date and which the Management Board of the Bank has an intention and opportunity to hold until their maturity. They do not include:

(a) investments designated as fair value through profit or loss upon their initial recognition;
(b) investments classified as available-for-sale assets; and
(c) investments which meet the criteria of loans and receivables.

These investments are initially recognised at fair value, plus all directly attributable transaction costs incremental to their acquisities and they are subsequently measured at amortised cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line "Net profit/loss from financial assets" in the statement of comprehensive income.

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial instruments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Other changes in fair values of these financial assets are recognised in other comprehensive income.

(d) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances are initially recognised at fair value plus transaction costs, and are derecognised only when they are repaid or written-off. After initial recognition, the Group recognises loans and advances at amortised cost (less principal repayments and any potential impairment losses, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest rate method. In case of credit cards the borrower's actual use of limit is recorded in the balance sheet.

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of minimum lease payments (plus any unguaranteed residual value of the leased asset). Each lease payment received from the lessee is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. When there are service fees attributable to the conclusion of lease agreements, they are included in the calculation of the effective interest rate of the lease and calculation of a finance lease receivable. The basis for assessing receivables is the timely fulfilment of contractual obligations, the estimated market price of the leased asset and excess collateral, the financial position and reliability of the customer. Impairment of receivables is shown as a negative amount within the respective asset category in the balance sheet.

Loans restructured because of significant changes in contract terms are recognised as new loans when a new loan has been issued, incl. refinancing an existing loan or increasing an existing loan for payment of the loan principal, interest, overdue penalties or other fees related to it. Loans which include a change in other contractual terms as a result of deterioration of the customer's credit quality are recognised as earlier and a new loan is not issued.

Trade receivables arise from provision of services to the customers and are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (less repayments and a possible provision for impairment).

The impairment of loans and advances is assessed in accordance with the principles described in clause 2.7.

2.7 Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The Group assesses the risks conservatively, taking into consideration all known information about the solvency of the debtor and whether there are any objective circumstances indicating impairment (the buyer's financial difficulties, bankruptcy or inability to meet its obligations to the Group).

Corporate loans and leases are assessed individually, primarily based on the overdue status of loan and relisable of related collateral, if any. Other criteria used to determine whether there is objective evidence that an impairment loss has occurred are financial position of the company, industry situation, reliability of the borrower, the competence of its management and other factors. Margin loans secured by debt or equity securities both to legal as well as private individuals are assessed individually, using primarily the market value of collateral as the basis. Consumer loans, credit card loans and hire-purchase loans are assessed as a group. Private individuals are assessed in terms of their timely fulfilment of obligations, solvency, value of the collateral, age, education, length of employment, savings habits and other factors impacting credit risk.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. The Group regularly reviews future cash flow assessment methods and assumptions, in order to reduce potential differences between loss estimates and actual losses.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Any impairment losses are charged to statement of comprehensive income line "Impairment losses on loans and advances".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. The reversal of the impairment loss is recognised as income in the line "Impairment losses on loans and advances" in the statement of comprehensive income.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Interest income on loans is presented on the statement of comprehensive income under "Interest income".

2.8 Tangible assets

Tangible assets are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of tangible assets is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to operating expenses during the financial period in which they are incurred.

An item of tangible assets is carried in the balance sheet at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers, furniture and fixtures is 33%, for improvements of rental space either 20% p.a. or amortization throughout the rental period, depending on which is shorter. Depreciation is calculated starting from the month of acquisition until the carrying amount reaches the residual value of the asset. In case the residual value is greater than the carrying amount of the asset, no further depreciation expense is calculated.

The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date. The Group performs an impairment test when there are circumstances indicating impairment. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's fair value less costs to sell and its value in use), it is written down immediately to its recoverable amount recognising an impairment loss in the statement of comprehensive income for the period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in operating expenses /other income in the statement of comprehensive income for the period.

2.9 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance and currently comprise of acquired software licences. An intangible asset is initially measured at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis. The annual amortisation rate for purchased licenses is 33%. At each balance sheet date the appropriateness of amortization rates, methods and residual values is assessed. The Group reviews intangible assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use.

2.10 Financial guarantees

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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2.11 Financial liabilities

The Group classifies financial liabilities to 2 categories:

a) financial liabilities measured at fair value through profit or loss
b) financial liabilities measured at amortised cost

Recognition of a financial liability (derivative) at fair value through profit or loss is disclosed under accounting policy 2.6. a). All other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Borrowing costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in the statement of comprehensive income during the term of the instrument, using the effective interest rate. Interest costs are included in the statement of comprehensive income line “Interest expenses”.

Deposits from customers are initially recorded at the value date at their fair value less transaction costs and are subsequently measured at amortised cost using effective interest rate method in the balance sheet line “Deposits from customers and loans received“, accrued interest liabilities are included in the same line. Interest expense is recognised in the statement of comprehensive income line ”Interest expense” on the accrual basis.

Loans received, debt securities issued and similar subordinated loans are initially recognised at fair value, less transaction costs (cash received less transaction costs). The subordinated loans are those liabilities, which in case of a termination of a credit institution or declaration of bankruptcy, are settled after the satisfaction of the justifiable claims of other creditors. Other financial liabilities (trade payables, accrued expenses and other borrowings) are initially recognised at fair value less transaction costs.

2.12 Payables to employees

Payables to employees include unpaid salary accruals and a vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance payments is included within current liabilities in the balance sheet and as personnel costs in the statement of comprehensive income.

Social tax includes payments to the state pension fund. Group has no existing legal nor constructive obligations to make pension or similar payments supplementary to social tax.

2.13 Provisions and contingent liabilities

Liabilities arising from an obligating event before the balance sheet date that have either a legal or contractual basis Liabilities arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Group’s current operating practice (legal or constructive obligation) that require the outflow of resources , the realisation of which is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and the amount of which can reliably be estimated but for which the timing or amount are not definitely known are recognised as provisions in the balance sheet. The provisions are recognised based on the management’s estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. The provision expense and an expense from the change in the carrying amount of provisions are included within expenses in the accounting period. Provisions are not set up to cover future operating losses.

When it is probable that a provision will be realised later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

Other contingent liabilities (guarantees, other than financial guarantees, and other commitments) the realisation of which is less probable than non-realisation or related costs cannot be determined reliably, that in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable on a portfolio basis. If it becomes probable that an outflow of future economic benefits will be required for an item or portfolio of items previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

2.14 Distinction between short- and long-term financial assets and liabilities

Assets from which resources are expected to flow to the Group within 12 months are recognised as current assets. The portion of assets with expected inflows later than 12 months after the balance sheet date is recognised as non-current assets.

Liabilities are classified as current when they are due within twelve months after the balance sheet date or if the Group does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Loans with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue, are recognised as current. Loans that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current (Note 3.4).

For all long-term assets and liabilities the long-term portion is separately disclosed in respective disclosure to these financial statements.

2.15 Revenue and expenses

Revenues and expenses are recorded on an accrual basis. Revenue is recognised when it is probable that the economic benefits associated with the transaction are received by the Group, the amount of the revenue can be measured reliably and services were rendered by the Group. Revenue from services rendered in the ordinary course of business is recognised at fair value of the fee received or receivable. Expenses are recognised when the Group has obligation to pay for the expense and/or the Group has received goods or services, and the latter occurs at an earlier date.

Fee and commission income (incl. custody and portfolio management fees) are recognised on an accrual basis when the service has been provided and the Group has a right of claim to the receivable. Loan commitment fees that are directly related with the undrawn portion of the loan commitment and which changes based on the portion of the unused commitment are recognised as fee income during the period when draw down is available. Commissions and fees arising from provision of advisory services to third parties (purchase or sale of businesses, acquisitions, etc.) are generally recognised upon completion of the underlying transaction or when service is provided over a longer period of time, based on the stage of completion method. Portfolio management, other consultation fees and management fees related to investment funds are recognised according to the agreement, usually over the period during which the service is provided. The same principle is applied to wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled or based on the stage of completion. Other one-time service revenues and other revenues are recognised on an accrual basis at the moment of executing the respective transaction.

Fee and commission expenses are recognised after the service has been received and when the liability has incurred.

Interest income and expense is recognised in the statement of comprehensive income for all financial instruments carried at amortised cost using the effective interest rate method or for debt securities measured at fair value through profit or loss. Amortisation of transaction costs of debt securities measured at fair value through profit or loss is not recognised as interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future impairment losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income is recognised when the legal right to receive dividends is established.

2.16 Asset management services

The Group is engaged in providing asset management services. Such assets that have been given to the Group to be managed by third parties and that the Group does not own are not included in the balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.17 Leases - Group as the lessee

Leases of tangible assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the lease term. The Group primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of comprehensive income as "Operating expenses".

2.18 Taxation and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate is 21/79 on net dividends paid. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania and Finland that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

Corporate income tax rates	2013	2012
Latvia	15%	15%
Lithuania	15%	15%
Finland	24.5%	26%

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax liability in respect of the Group's available equity which would accompany the payment of available equity as dividends, is not reported in the balance sheet. The maximum amount of income tax payable, which would arise paying out the retained earnings as dividends, is disclosed in the Note 22 to the financial statements.

2.19 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group has not used offsetting in financial year or previous year.

2.20 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

NOTE 3 Risk management

The purpose of risk management is to identify, assess, manage and control all risks related to the activities of LHV Group and its subsidiaries. The principles of identification, measuring, reporting and control of risks at LHV Group and its subsidiaries are set out in the policies and procedures approved by the Supervisory Board and daily risk management is organised by Risk management unit. The purpose of risk management is to identify, assess, manage and control all risks related to the activities of the Group in order to ensure the Group´s reliability, stability and profitability. In the Group, risk management is based on three lines of defence. The first line of defence or business units is responsible for taking and managing risks. The second line of defence – which includes the risk management unit – is responsible for developing and maintenance of the risk management framework. The third line of defence or internal control department carries out independent control over risk management in the entire group. The rules and procedures of risk management are regularly reviewed at least once a year and updated in case of a need.

3.1 Capital management

The goal of the Group's capital management is to:

- ✓ ensure continuity of the Group's business and ability to generate return for its shareholders;
- ✓ maintain a strong capital base supporting the development of business;
- ✓ comply with capital requirements as established by supervision authorities;

The amount of capital that the Group managed as of 31.12.2013 was 44 927 thousand euros (31.12.2012: 27 827 thousand euros). Capital is managed according to internal rules. Risk and Capital Committee (RCC) oversees capital management in the Group. The RCC is involved in the development of an optimal balance sheet structure, it monitors liquidity and interest rate risk, and makes recommendations for raising additional share capital, if necessary, in order to ensure the Group's further development and to comply at any given time with the prudential requirements established for credit institutions.

Capital adequacy

Capital base	**31.12.2013**	**31.12.2012**
Paid-in share capital	19 202	17 381
Share premium	21 871	18 827
Reserves	223	223
Accumulated deficit	-15 581	-13 824
Non-controlling interests	1 695	0
Net profit/loss for accounting period	4 206	-1 757
Intangible assets (subtracted)	-1 665	-1 523
Total Tier 1 capital	**29 951**	**19 327**
Subordinated loans	19 600	8 500
Total Tier 2 capital	**19 600**	**8 500**
Exceeding limitations of subordinated loans and preferred stock	-4 625	0
Net own funds for capital adequacy calculation	**44 927**	**27 827**
Capital requirements		
Central government and central banks under standard method	0	232
Credit institutions and investment companies under standard method	373	689
Companies under standard method	8 303	5 674
Retail claims under standard method	7 348	2 812
Overdue claims under standard method	366	190
Investment funds' shares with standardised approach	422	305
Other assets under standard method	564	244
Total capital requirements for covering the credit risk and counterparty	**17 376**	**10 146**
Capital requirement against foreign currency risk	432	311
Capital requirement against interest position risk	413	702
Capital requirement against equity portfolio risks	6	6
Capital requirement for operational risk under base method	1 331	934
Total capital requirements for adequacy calculation	**19 558**	**12 099**
Capital adequacy (%)	**22.97**	**23.00**
Tier 1 Capital Ratio (%)	**15.31**	**15.97**

The net capital of a credit institution at any time shall be equal to or exceed the minimum amount of share capital prescribed in the Credit Institutions Act (EUR 5 million). Capital adequacy level, i.e. the ratio of the Bank's own funds to risk-weighted assets shall be at least 10%. According to the new capital standards (CRR/CRD IV) the minimum capital adequacy ratio will be increased to 12.5% starting from 2014. Each year, the Bank's Supervisory Board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks arising from fast growth. Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

Capital adequacy and the use of regulatory capital are monitored by the Finance Department. Reports about the compliance with prudential and capital requirements for covering the risks are submitted regularly to supervision authorities. The Group consolidated basis and LHV Pank as standalone uses standard method for calculating capital requirements for credit and market risk and basic indicator approach calculating operational risk capital requirement.

The own funds of LHV Varahaldus as the fund manager need at any given time exceed the minimum amount of share capital laid down in the Investment Funds Act (3 000 thousand euros). The net own funds of a fund manager, who is managing pension funds with the market value of over EUR 125 million, must be at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million.

The Group has complied with all capital requirements during the financial year and in previous year.

3.2 Credit risk

Credit risk is the potential loss which would arise from the counterparty's inability to meet its obligations to the Group. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and other financial institutions, bonds, but mostly credit exposures to customers, including outstanding loans, given guarantees, other receivables and commitments. In order to mitigate credit risk, Group analyses the operations and financial position of its customers and business partners. After authorising the loan, the solvency of the customer and the value of the collateral are regularly monitored.

3.2.1 Distribution of credit risks

The Group classifies the financial assets exposed to credit risk in the following key categories:

a) debt securities
b) loans and advances to credit institutions and investment companies (referred to as "banks" in the tables)
c) leverage loans (margin loans secured by debt or equity securities), incl. repo loans
d) corporate loans
e) consumer loans without collateral
f) credit cards
g) leasing
h) hire-purchase
i) mortgage loans

a) Debt securities

The Credit Committee sets limits for taking credit risk associated with debt securities considering the issuer's rating. The RCC or authorised employees make decisions regarding investments within the limits set.

The Group´s debt securities at fair value through profit or loss (FVTPL), available-for-sale (AFS) and held-to-maturity (HTM) according to ratings given by Standard & Poor's or equivalent:

Rating	FVTPL	AFS	Total 31.12.2013	FVTPL	HTM	Total 31.12.2012
AAA	15 462	9 198	24 660	25 769	0	25 769
AA- to AA+	2 842	189	3 031	5 395	3 190	8 585
A- to A+	6 602	599	7 201	17 089	22 492	39 581
BBB- to BBB+	6 807	1 917	8 724	12 742	17 708	30 450
B- to BB+	313	0	313	2 592	654	3 246
Non-rated	0	0	0	5 378	793	6 171
Total (Note 11, 12 and 13)	**32 026**	**11 903**	**43 929**	**68 965**	**44 837**	**113 802**

No principal and accrued interest receivables arising from debt securities are overdue. During 2013 debt securities portfolio decreased from EUR 113 802 thousand to EUR 43 929 thousand mainly due to the fact that LHV Pank reclassified it´s held to maturity portfolio to available-for-sale portfolio and sold most of it.

b) Loans and advances to central bank, credit institutions and investment companies

Management estimates that the credit risk exposure from cash and cash equivalents, held at the central bank, other correspondent banks and investment institutions has inherently low credit risk. The funds of the Group according to ratings given by Standard & Poor's or equivalent (central bank without a rating) are held as follows:

Rating	Credit institutions	Inv. companies	Total 31.12.2013	Credit institutions	Inv. companies	Total 31.12.2012
Central bank	133 839	0	133 839	77 965	0	77 965
AA- to AA+	1 140	0	1 140	441	0	441
A- to A+	13 480	1 359	14 839	9 190	0	9 190
BBB to BBB+	569	0	569	0	0	0
Non-rated	1 815	107	1 922	1 269	1 547	2 816
Total (Note 8)	**150 843**	**1 466**	**152 309**	**88 865**	**1 547**	**90 412**

No loans and advances to central bank, credit institutions and investments companies are overdue.

c) Leverage loans

LHV Pank gives margin loans secured by debt or equity securities to its customers, i.e. financial leverage. The maximum amount of the loan depends on the market value of the assets held as collateral in the investment account, and on the general limit set by LHV Pank which is currently 100 thousand euros (or an equivalent in a foreign currency) per customer through LHV Pank's website. The granting of major loans assumes an analysis of the portfolio offered as collateral by the customer and the decision is within the competence of the Credit Committee. The list of acceptable marketable financial instruments and the levels of the required collateral are published on LHV Pank's website www.lhv.ee. The risks arising from financial leverage are mitigated by constant monitoring of the market values of the financial instruments required as collateral. The Group has set sufficiently conservative limits to the ratio of the loan and the collateral assets value. When the value of collateral assets falls below the established limit, LHV Pank is entitled to demand a transfer of additional collateral to the account or pay off the loan in the customer's account without the customer's trade order, liquidating the collateral asset for this purpose. See Note 3.2.2. for more detailed information on the credit quality of loans.

Stress tests are carried out for evaluating the credit risk of leveraged loans in order to determine potential losses in case of changes in the value of collateral and for evaluating the credit risk of other loans, the probability of the lender becoming insolvent, the amount of loans not covered by collateral at the time of insolvency and the amount of the resulting related expected loss is assessed. If necessary, decisions are made in respect of allocating additional risk capital in order to cover credit risk. As of 31.12.2013 LHV Pank has one leverage loan in the amount of 18 thousand euros with a collateral value of 0 and the loan has been fully impaired (31.12.2012:18 thousand euros).

d) Corporate loans

Since 2009, LHV Pank also issues corporate loans. Prior to issuing a loan, a credit risk analysis is performed for each customer, including an analysis of the customer's economic activities, reporting and cash flows, background checks, the company's structure, management and owners' related risk, an analysis of the industry and economic environment. Each customer is assigned to credit rating (1-13). The Credit Committee makes decisions in respect of risk-taking on the basis of a unanimous resolution. The maximum limit of a loan issued to a customer by LHV Pank is 25% of net own funds. The requirements for loan collateral are established in the Group's Credit Policy. In general, the pledged assets need to be secured, the life of the collateral needs to be longer than the due date of the loan and the market value of the collateral needs to exceed the outstanding loan balance. After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. See Note 3.2.2. for more detailed information on the credit quality of loans.

e) Consumer loans

The credit scoring model is being used to assess clients' credit behaviour in Finland. In addition to the customer's previous payment behaviour and income, the credit scoring model also takes into account other statistical parameters, which have previously been collected by types of customer. Consumer loans are issued only to individuals and using cash flows as collateral.

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the classic method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). As at 31.12.2013, the group-based impairment reserve makes up 9.4% of consumer loans and the related interest receivables (31.12.2012: 7.8%). Loans and receivables, in respect of which the bailiff has sent a notice regarding the termination of the proceedings, have been written off the balance sheet.

Group offers consumer loans also in Lithuania after purchase of Mokilizingas. Consumer loans are issued only to individuals and using cash flows as collateral.

Loan portfolio is assumed to be homogeneous and therefore provisioned on general basis. Provisions made are based on prudence, consistency and comparability principles. Each product group is classified as performing (less than 90 days overdue and are not terminated), non-performing (more than 90 days overdue and/or terminated) and doubtful (Original loan schedule has expired and there has been no cash flows received for continuous period of 6 months; fraud case, etc.). Loss rates are calculated from the past historical data for defaults and full history of recoveries. Due to default rate volatility and uncertain data quality a conservative buffer of 20% shall be imposed for both product PD and LGD rates. PD and LGD values are updated at least once a year with new historical data in order to maintain adequate provision levels on portfolio. If necessary, additional impairments will be made in the balance sheet. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

f) Credit cards

From 2011, LHV Pank issues credit cards and in spring 2012, started to issue Partner credit cards in cooperation with Tallinna Kaubamaja. Similarly with consumer loans, the credit card portfolio uses the credit scoring model to assess the customer's credit behaviour. The scoring is made at the time the application is filed and is one of the criteria for issuing a loan.

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2013, the group-based impairment reserve amounted to 3.6% of credit card loans and related receivables (31 December 2012: 2.4%).

g) Leasing

In autumn 2012, LHV Pank started to offer leasing products for individuals and legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2013, the group-based impairment reserve amounted to 1.0% of leasing portfolio (31.12.2012: 0%).

Also in Lithuania leasing products are offered for individuals as well as for legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Provision for finance lease is calculated using following methodology: net book value of portfolio minus net present value of portfolio. Net present value is calculated from future cash flows discounted by effective interest rate and adjusted for coefficient of possible losses. In addition to homogenous impairment, some problem loans are assessed individually based on the market/stress-sale value of the underlying assets.

h) Hire-purchase

In 2013 AS LHV Finance started to offer hire-purchase services for merchants. The creditworthiness of customers is assessed by using scoring models, which mainly consist of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 Decembrer 2013, the group-based impairment reserve amounted to 1.4% of hire-purchase.

Since purchase of Mokilizingas hire-purchase is offered also in Lithuania. The creditworthiness of customers is assessed and provisions are made based on the same framework as for Lithuanian consumer loans.

i) Mortgage loans

In 2013 LHV Pank started to offer on limited bases mortgage loans to customers. This line of business is relatively small and no provisions have been made for those loans.

3.2.2 Credit quality

Maximum credit risk exposure	31.12.2013	31.12.2012
Balances with banks and investment companies (Note 10)	152 309	90 412
Other financial assets at fair value (bonds) (Note 11, 12)	44 369	45 837
Held-to-maturity financial investments (Note 13)	0	67 965
Loans and advances to customers (Note 14)	206 768	106 067
Other receivables from customers (Note 15)	1 507	641
Other assets (Note 16)	650	713
Total assets	**405 603**	**311 635**
Off-balance sheet liabilities (Note 25)	39 185	16 131
Total maximum credit risk exposure	**444 788**	**327 766**

Loans and advances to customers and banks as at 31.12.2013	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to legal persons							
Corporate loans	125 067	0	3 752	**128 819**	-632	-238	**127 949**
Overdraft	3 918	0	0	**3 918**	0	0	**3 918**
Leverage loans	4 218	0	0	**4 218**	0	0	**4 218**
Leasing	12 394	0	2 505	**14 900**	-115	-204	**14 580**
Mortgage loans	43	0	0	**43**	0	0	**43**
Credit card loans	47	0	0	**47**	-2	0	**45**
Loans to individuals							
Consumer loans	13 226	0	10 565	**23 791**	- 1 138	-1 637	**21 015**
Hire-purchase	18 092	0	5 011	**23 102**	-581	-836	**21 686**
Leverage loans	5 721	0	18	**5 739**	0	-18	**5 721**
Leasing	3 083	0	386	**3 469**	-23	-15	**3 431**
Mortgage loans	1 948	0	0	**1 948**	0	0	**1 948**
Credit card loans	2 083	0	168	**2 251**	-53	-28	**2 170**
Overdraft	29	0	0	**29**	0	0	**29**
Other loans to individuals	0	15	0	**15**	0	0	**15**
Total loans and advances to customers	**189 869**	**15**	**22 404**	**212 288**	**-2 543**	**-2 977**	**206 768**
Loans and advances to banks	152 309	0	0	**152 309**	0	0	**152 309**
Total (Notes 10 and 14)	**342 178**	**15**	**22 404**	**364 597**	**-2 543**	**-2 977**	**359 077**

Loans are individually impaired from the first day of payment delay.

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As part of risk analysis the Group is performing regularly stress tests and sensitivity analysis regarding credit risk and its components (such as probability of default (PD), loss given default (LGD)). In credit impairment assessment the Group is basing on potential loss calculation. The Group has performed stress test in cases when PD and LGD estimations will both increase 10 percent (for example, from 1.0% to 1.1%). The impact of the described stress test to impairments is aggregated in the table below.

Impact to impairment as at 31.12.2013 (in case PD and LGD levels will increase by 10%)	**Balance as at 31.12.13**	**Impairment with increased PDs and LGDs**	**Impact to impairment booked**
Loans to legal persons			
Corporate loans	128 819	-993	-63
Leasing	14 900	-331	-29
Loans to individuals			
Consumer loans	23 792	-3 014	-459
Hire-purchase	23 102	-1 424	-214
Leasing	3 468	-41	-7
Credit card loans	2 251	-97	-14
Total	**196 331**	**-5 899**	**-785**

Loans and advances to customers and banks as at 31.12.2012	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Col-lective iImpair-ment	Indi-vidual impair-ment	**Net**
Loans to legal person							
Leverage loans	4 658	0	0	**4 658**	0	0	**4 658**
Corporate loans	77 135	1 330	132	**78 597**	0	-26	**78 571**
Leasing	1 906	0	0	**1 906**	0	0	**1 906**
Loans to individuals							
Leverage loans	6 486	0	18	**6 504**	0	-18	**6 486**
Consumer loans	5 693	0	7 451	**13 144**	-63	-966	**12 115**
Leasing and mortgage loans	936	0	0	**936**	0	0	**936**
Credit card loans	0	0	96	**1 428**	-31	-3	**1 394**
Total loans and advances to customers	**91 121**	**1 330**	**7 697**	**107 174**	**-94**	**-1 013**	**106 067**
Loans and advances to banks	90 412	0	0	**90 412**	0	0	**90 412**
Total (Notes 10 and 14)	**181 533**	**1 330**	**7 697**	**197 586**	**-94**	**-1 013**	**196 479**

The rating scale used for evaluating the probability of default of corporate loans consists of a total of 13 credit ratings where 1 stands for the lowest and 13 for the highest credit risk. Ratings 1 and 2 are attributed only on the basis of average ratings of rating agencies Fitch, Moody's and Standard & Poor's, and are subject to the Group's financial analysis as necessary. Thus, ratings 1 and 2 are attributed only to international enterprises, organisations, local governments and countries whose solvency has been confirmed by the rating agencies with their investment grade rating. Also rating classes 3 -13 are partly based on the evaluation of rating agencies, although this category includes mainly Estonian enterprises that do not have an international rating.

Distribution of internal ratings of corporate loans:

- 1 – minimum credit risk. Rating is attributed only on the basis of ratings issued by rating agencies; average rating of rating agencies must be equivalent to at least AAA (Moody's Aaa).
- 2 – minimum credit risk. Rating is attributed only on the basis of ratings issued by rating agencies, average rating must be equivalent to at least AA+ (Moody's Aa1).
- 3 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least AA- (Moody's Aa3).

- 4 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least A- (Moody's A3).
- 5 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB+ (Moody's Baa1).
- 6 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB (Moody's Baa2).
- 7 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB- (Moody's Baa3).
- 8 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB (Moody's Ba2).
- 9 – elevated credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB- (Moody's Ba3).
- 10 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B+ (Moody's B1).
- 11 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B- (Moody's B3).
- 12 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. In the opinion of a LHV credit analyst, the financial situation of the legal entity is sufficiently weak and the entity probably becomes insolvent and falls into rating class 13. Average rating of rating agencies must be equivalent to at least C (Moody's Caa).
- 13 – insolvent – the entity is insolvent. The entity is 90 days past due or is subject in a restructuring or bankruptcy procedure. Average rating of rating agencies must be equivalent to at least D (Moody's C).

Distribution of corporate loans by internal ratings as of 31.12.2013	**Neither past due nor impaired**	**Individually impaired**	**Total**
4 relatively low credit risk	1 139	0	1 139
5 medium credit risk	350	0	350
6 medium credit risk	8 286	0	8 286
7 medium credit risk	34 284	215	34 499
8 higher-than-medium credit risk	40 054	0	40 054
9 high credit risk	20 463	121	20 584
10 speculative rating	15 205	0	15 205
11 speculative rating	5 286	0	5 286
12 non-satisfactory rating	0	3 215	3 215
13 insolvent	0	201	201
Total	**125 067**	**3 752**	**128 819**

Distribution of corporate loans by internal ratings as of 31.12.2012	**Neither past due nor impaired**	**Past due but not impaired**	**Individually impaired**	**Total**
4 relatively low credit risk	2 600	0	0	2 600
5 medium credit risk	2 955	0	0	2 955
6 medium credit risk	8 037	0	0	8 037
7 medium credit risk	17 737	0	0	17 737
8 higher-than-medium credit risk	24 722	152	0	24 722
9 high credit risk	10 107	0	0	10 107
10 speculative rating	5 916	298	0	5 916
11 speculative rating	4 109	0	0	4 109
12 non-satisfactory rating	952	880	0	1 832
13 insolvent	0	0	132	132
Total	**77 135**	**1 330**	**132**	**78 597**

In the following table there are presented unused portions of corporate loans and guarantee limits. In addition to that as at 31.12.2013 there are also commitments to grant mortgage loans in total amount of 351 thousand euros. No impairment provisions have been made for off-balance sheet liabilities because the value of collaterals exceeds the value of potential liabilities.

Credit quality of off-balance sheet liabilities to corporates	31.12.2013	31.12.2012
4 relatively low credit risk	2 129	1 250
5 medium credit risk	2 950	67
6 medium credit risk	9 581	318
7 medium credit risk	14 205	8 643
8 higher-than-medium credit risk	5 486	2 667
9 high credit risk	3 887	1 372
10 speculative rating	10	568
12 non-satisfactory rating	580	1 246
Total (Note 25)	**38 834**	**16 131**

Distribution of internal ratings for other loan products:

- Excellent – margin loans secured by debt or equity securities and loans with very low business risk.
- Very good – loans with lower business risks and no past due payments.
- Good – loans with lower business risks and past due payments up to 30 days.
- Satisfactory – loans with average business risk and up to 60 days past due.
- Weak or doubtful – loans carrying higher business risk, past due more than 60 days and portfolio in proceedings by the bailiff.

Loans and receivables are divided into 7 groups in the tables below:

1. Leverage loans
2. Credit cards
3. Leasing
4. Consumer loans
5. Hire-purchase
6. Overdraft
7. Mortgage loans

As of 31.12.2013	1	2	3	4	5	6	7	Total
Neither past due nor impaired								
Excellent	9 939	0	0	0	0	0	0	**9 939**
Good and very good	0	2 130	15 476	13 226	18 092	3 947	1 991	**54 862**
Individually impaired								
Good	0	81	2 425	4 683	2 520	0	0	**9 710**
Satisfactory	0	18	236	1 941	593	0	0	**2 788**
Weak or doubtful	18	69	230	3 941	1 897	0	0	**6 156**
Total	**9 957**	**2 298**	**18 367**	**23 792**	**23 102**	**3 947**	**1 991**	**83 454**

Other loans to individuals in amount of 15 thousand euros were past due but not impaired as of 31.12.2013.

As of 31.12.2012	1	2	3	4	5	6	7	Total
Neither past due nor impaired								
Excellent	11 144	0	0	0	0	0	0	**11 144**
Good and very good	0	1 428	2 843	5 693	0	0	0	**9 964**
Individually impaired								
Good	0	0	0	3 060	0	0	0	**3 060**
Satisfactory	0	0	0	1 353	0	0	0	**1 353**
Weak or doubtful	18	0	0	3 038	0	0	0	**3 056**
Total	**11 162**	**1 428**	**2 843**	**13 144**	**0**	**0**	**0**	**28 577**

In addition to the loans granted, loan contracts have been concluded and signed whereby the unused loan commitment was EUR 32 629 thousand as at 31.12.2013 (as at 31.12.2012, EUR 13 578 thousand), see also Note 25.

Structure of collateral of loans	2013	2012
Listed securities	5%	10%
Unlisted equity securities	7%	7%
Mortgages, real estate	40%	36%
Guarantee of KredEx and Rural Development Foundation	6%	10%
Pledges of rights of claim	3%	7%
Deposits	2%	6%
Leased assets	9%	2%
Others	9%	7%
Consumer loans and credit card loans without a collateral	20%	14%

The Group considers the loan as non-performing and writes it down when the loan payments have not been collected by the due date and/or the expected cash flows from the realisation of collateral are not sufficient for covering the carrying amount of the loan principal and interest payments. The Group evaluates these loans individually. In case of individual evaluation, the amount of the impairment loss is the difference between the residual value of the receivable and expected cash flows discounted at the effective interest rate. In 2013, the Group provisioned corporate loans in the total amount of EUR 858 thousand (2012: 26 thousand).

	Over-collateralized loans		Under-collateralized loans	
As at 31.12.2013	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
Corporate loans and corporate credit lines	99 887	212 692	34 169	16 636

In relation to under-collateralized corporate loans it should be taken into consideration, that the Group has assessed the market value of certain collaterals very conservatively (personal sureties, commercial pledges). Under-collateralized are mainly loans with higher risk, for which the Group carries out monthly monitoring in credit committee, in order to hedge potential credit losses.

The Group does not monitor the value of collateral regularly and individually for leasing and hire-purchases, but instead is conservative in granting loans and monitors customers in arrears on regular basis.

Collaterals for leverage loans are monitored on daily basis and in case of collateral value falling immediate measures are taken to avoid credit losses. As of 31 December 2013, all leveraged loans and repurchase loans are over-collateralized, except one leveraged loan in the amount of EUR 18 thousand (2012: 18 thousand), which has been provisioned.

Consumer loans and credit card loans are issued without collateral and risk mitigation is done by regular monitoring of clients payment behaviour.

Loans, which have overdue interest or principal receivables and for which an impairment is recognized as at the balance sheet date, are divided to past due categories according to the past due time from the last scheduled payment. Loans and receivables are divided into 7 groups in the following tables:

1. Corporate loans
2. Consumer loans
3. Leverage loans
4. Credit cards
5. Leasing
6. Hire-purchase
7. Other loans to individuals

Structure of loans impaired according to past due time:

As at 31.12.2013	1	2	3	4	5	6	7	Total	Individual impairment	Net
No past due payments	2 344	0	0	0	0	0	0	**2 344**	-231	**2 113**
Past due receivables										
1-30 days	639	4 683	0	81	2 425	2 520	15	**10 364**	-537	**9 827**
31-60 days	0	1 941	0	18	236	593	0	**2 788**	-165	**2 623**
61-90 days	769	646	0	8	41	140	0	**1 605**	-62	**1 543**
91-180 days	0	1 381	0	61	43	163	0	**1 648**	-509	**1 139**
181-360 days	0	1 397	0	0	96	184	0	**1 676**	-582	**1 094**
more than 360 days	0	518	18	0	49	1 411	0	**1 996**	-891	**1 105**
Total	**3 752**	**10 566**	**18**	**168**	**2 891**	**5 011**	**15**	**22 420**	**-2 977**	**19 443**

As at 31.12.2012	1	2	3	4	Total	Individual impairment	Net
1-30 days	152	3 060	0	53	**3 265**	-35	**3 230**
31-60 days	488	1 353	0	11	**1 852**	-141	**1 711**
61-90 days	0	497	0	7	**504**	-81	**423**
91-180 days	690	952	0	25	**1 667**	-240	**1 427**
181-360 days	132	1 290	0	0	**1 422**	-350	**1 072**
more than 360 days	0	299	18	0	**317**	-166	**151**
Total	**1 462**	**7 451**	**18**	**96**	**9 027**	**-1 013**	**8 014**

Credit quality of other receivables	31.12.2013	31.12.2012
Receivables not impaired and not past due	1 405	570
Receivables past due (not impaired)	102	71
incl. receivables from individuals	17	39
incl. receivables from legal persons	85	32
Total (Note 15)	**1 507**	**641**

3.3 Market risk

Market risk arises from the LHV Group's trading and investment activities in the financial markets from interest rate products, foreign exchange and stock markets as well as lending activities and taking in financial resources. Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. Internal judgement is used to assess potential losses. In order to mitigate market risk, conservative limits have been established for the trading portfolio and open foreign currency exposures.

LHV Varahaldus invests over half of its capital in the units of investment funds managed by it. The management of LHV Varahaldus is responsible for assuming and monitoring of the market risk.

3.3.1 Foreign currency risk

Foreign currency risk may arise from acquisition of securities mostly denominated in foreign currencies or foreign currency receivables and liabilities. The Treasury of LHV Group is responsible for daily monitoring of open foreign currency positions. LHV Panks' foreign currency risk management is based on risk policies, limits and internal procedures. The internal limits for open foreign currency positions are proposed by Risk Control unit and Treasury and the limits are set internally by Risk and Capital Committee. The limits set by the Committee are maximum nominal limits in euro equivalent with a respect to the Group's net own funds. Limits imposed on individual currencies are in line with the boundaries proposed by the Bank of Estonia. If the open currency position exceeds the limits set by the Committee, measures are immediately implemented to close or reduce such positions (hedging the risk with relevant instruments, such as foreign currency forwards or futures).

Lithuanian litas positions are internally subject to less limitations compared to other currencies as the litas is pegged to the euro using a fixed exchange rate, thus the fluctuations of the litas are not significant. As at 31.12.2013 the LVL position was insignificant due to Latvia's euro adoption as of 1'st of January 2014.

Information regarding assets and liabilities bearing currency risk is presented in the following tables.

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in EUR equivalent in respective columns, according to the exchange rate prevailing at the balance sheet date. Derivatives reported at fair value in the balance sheet have been included at contractual amounts under contingencies and commitments. Open currency exposure and the volume of financial assets and liabilities of the Group at the balance sheet date do not significantly differ from the average exposure during the year.

31.12.2013	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies (Note 10)	140 417	1 703	410	313	7 784	1 683	**152 309**
Securities (Notes 11, 12, 13)	48 280	4	0	1	319	1	**48 605**
Loans granted (Note 14)	179 493	26 224	295	15	708	33	**206 768**
Receivables from customers (Note 15)	1 293	213	0	0	1	0	**1 507**
Other assets	93	16	0	0	558	0	**667**
Total assets bearing currency risk *	**369 575**	**28 160**	**705**	**329**	**9 370**	**1 717**	**409 856**
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 18)	363 289	685	841	332	9 333	1 617	**376 097**
Interest rate swaps	433	0	0	0	0	0	**433**
Accrued expenses and other liabilities (Note 19)	3 463	3 302	9	10	73	34	**6 891**
Total liabilities bearing currency risk *	**367 185**	**3 987**	**850**	**342**	**9 406**	**1 651**	**383 421**
Open foreign currency position	**2 390**	**24 173**	**-145**	**-13**	**-36**	**66**	**26 435**

31.12.2012	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	81 139	1 165	629	177	6 716	586	**90 412**
Securities	116 214	0	0	1	648	1	**116 864**
Loans granted	104 873	92	278	14	776	34	**106 067**
Receivables from customers	634	0	0	1	4	2	**641**
Other assets	130	0	0	0	584	0	**714**
Total assets bearing currency risk *	**302 990**	**1 257**	**907**	**193**	**8 728**	**623**	**314 698**
Liabilities bearing currency risk							
Deposits from customers and loans received	281 919	703	676	184	8 747	555	**292 784**
Interest rate swaps	656	0	0	0	0	0	**656**
Accrued expenses and other liabilities	2 777	14	9	16	9	0	**2 825**
Total liabilities bearing currency risk *	**285 352**	**717**	**685**	**200**	**8 756**	**555**	**296 265**
Open foreign currency position	**17 683**	**540**	**222**	**-7**	**-28**	**68**	**18 433**

* the balances of total assets and total liabilities bearing currency risk above do not include currency futures at their fair value, but they are shown here at their full contractual cash flow amounts as contingencies and commitments (see also Note 12); also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

A sensitivity analysis has been performed for the effect of possible reasonable changes attributable to open currency positions on the total comprehensive income, with the assumption of other conditions remaining constant. Sensitivity analysis has not been performed for LTL and LVL as the rates are fixed against EUR, while LVL rate had 1% fluctuation corridor, but seized to exist as of 01.01.2014 due to euro adoption in Latvia.

Impact on comprehensive income	Change	2013	Change	2012
USD exchange rate	+/-10%	+/-2	+/-10%	+/-2
SEK exchange rate	+/-10%	+/-2	+/-10%	+/-1

3.3.2 Price risk

Financial instruments bearing price risk at Group are securities held in the trading portfolio and investment portfolio (Note 11, 12). At the Group, limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for bonds in the investment portfolio. The risk management unit monitors the compliance with limits.

Sensitivity analysis of the impact to net result from the risk exposures against reasonable possible change (in thousands euros):

Impact on comprehensive income	Change	2013	Change	2012
Equity securities	+/-10%	+/-2	+/-15%	+/-3
Debt securities	+/-0.7%	+/-287	+/-1.9%	+/-830

LHV Pank does not hold significant amounts of equity securities in its position, due to which the sensitivity to change in the market value of these positions is marginal. LHV Pank's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 0.7% (2012: 1.9%).

The goal of the investment portfolio of LHV Varahaldus is to invest available funds similarly to how the assets of the funds managed by LHV Varahaldus are invested as a result of which LHV Varahaldus invests more than one half of capital in the funds managed by it. In order to ensure liquidity, the remaining available funds are invested in securities, including bonds and deposits.

Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 1% of the number of units in each of the mandatory pension fund managed by it. The investment portfolio of LHV Varahaldus consists of both pension funds units as well as the units of investment funds managed by it. Management cannot reasonable certainty assess the price change of the units of funds managed by it over the following 12 months, as result of which the possible effect on the income statement is not presented here.

3.3.3 Interest rate risk

Interest rate risk reflects the mismatch in the balance sheet items and the off-balance sheet items when interest rate repricing periods, volumes or the underlying interest rate of assets, liabilities and derivatives do not correspond exactly. Group's interest rate risk management is based on risk policies, limits and internal procedures resulting in identification of all significant sources of interest rate risk and balanced risk taking. Interest rate risk is measured through various scenario analyses by calculating several net interest income scenarios and comparing the difference between these scenarios. The basic measures of interest rate risk uses two scenarios – an increase and a decrease of interest rates to measure the effect on the banks' net interest income for a 12 month period. Internal limits for interest rate risk management are set by LHV Pank's Risk and Capital Committee and the operational risk management is the Treasury's responsibility.

The goal of monitoring, measuring and managing interest rate risk is to evaluate the profitability of the Group's interest-bearing products, to forecast interest income and to set limits for risk management in order to prevent significant reduction of income through limitation of risks in two aspects:

- cash flow interest rate risk whereby in case of a 1% change in market interest rates, a change in annual net interest income is limited as compared to the estimated actual income based on the term structure of instruments currently in the balance sheet;
- fair value interest rate risk whereby in case of a 1% change in market interest rates, a change in the Group's economic value is limited (fair value of assets and liabilities is determined by discounting the future cash flows at the market rate of interest).

The balance sheet and margins on assets and deposits are assumed to be constant over time.

The interest rates of the deposits ranged from 0.7% up to 1 % in the first half of 2013 (up to 3.2% in 2012). A slight increase in interest rates in the second half of 2013 increased interest rates of the deposits back up to 1%. The interest rates for leverage loans granted are changed at most once a month according to fluctuations in market interest rates. In 2013, the interest rate on loans received for specific purposes was 1.5% (2012: the same) and the effective interest rate of subordinated loans entered into in 2012 was 7.27% (2012: 7.38%). The information about contractual interest rates is provided in Note 21.

As at 31.12.2013, stress tests were performed to the biggest interest sensitive subsidiary of the group: AS LHV Pank. An increase of 1% in interest rates would affect the bank's annual net interest income and profit by EUR +1 841 thousand (2012: EUR +158 thousand). In the same time, a decrease of 1% in interest rates would affect the bank's annual net interest income (profit) by EUR -860 thousand (2012: +379 thousand). A 1% increase in market interest rates would raise the bank's economic value, i.e. equity, by EUR 3 117 thousand (2012: EUR 605 thousand). A 1% decrease in market interest rates would decrease the bank's economic value (equity) by EUR -644 thousand (2012: EUR +1 179 thousand). In 2013, the effect on the bank's economic value is positive due to the fact that the bank has invested in current assets and because of the nature of demand deposits, hence the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

The table below shows the structure of the interest-earning assets and interest-bearing liabilities of the Group according to the recalculation dates of interest rates at the principal amounts of receivables and liabilities. Leveraged loans are treated as a one-month product maturing at the next interest fixing date.

31.12.2013	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest-earning assets					
Balances with other banks and inv. companies	152 309	0	0	0	**152 309**
Securities	30 169	7 084	4 653	354	**42 260**
Loans to customers	51 452	87 389	62 204	8 148	**209 193**
Total	**233 930**	**94 473**	**66 857**	**8 502**	**403 762**
Interest-bearing liabilities					
Deposits from customers and loans received	93 080	144 946	116 574	1 214	**355 814**
Subordinated loans *	0	0	19 635	0	**19 635**
Total	**93 080**	**144 946**	**136 209**	**1 214**	**375 449**
Interest pricing gap	**140 850**	**-50 473**	**-69 352**	**7 288**	**28 313**

31.12.2012	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets					
Balances with other banks and inv. companies	90 411	0	0	0	**90 411**
Securities	35 452	35 775	32 633	6 776	**110 636**
Loans to customers	40 649	46 563	14 750	4 110	**106 072**
Total	**166 512**	**82 338**	**47 383**	**10 886**	**307 119**
Liabilities					
Deposits from customers and loans received	99 603	98 570	82 988	1 483	**282 644**
Subordinated loans*	0	2 790	5 478	0	**8 268**
Total	**99 603**	**101 360**	**88 466**	**1 483**	**290 912**
Interest pricing gap	**66 909**	**-19 022**	**-41 083**	**9 403**	**16 207**

* The contractual term of subordinated loans signed in 2012 and 2013 is 8 years. The interest rate will be changed annually after three years from signing date.

LHV

3.4 Liquidity risk

Liquidity risk relates to the solvency of LHV Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. LHV Groups' liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, LHV Groups' liquidity management reflects a conservative approach towards liquidity risk. The liquidity risk management includes stress testing and business continuity plan for liquidity management. Stress testing framework includes a survival period metrics, which represents a combined liquidity risk scenario, including both idiosyncratic and market-wide stress. Internal metrics are complemented by the Basel III metrics - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which the Group (including subsidiary LHV Pank) is fully compliant with as of 31.12.2013.

The treasury of LHV Pank is responsible for the management of liquidity risk. In order to hedge liquidity risk, the probable net position of receivables and liabilities by maturities is regularly monitored and adequate amounts of liquid assets are kept in each time period, the concentration of bank's liabilities by maturities is also monitored. To enable covering unexpected monetary outflows, LHV Pank holds a liquidity buffer. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the Treasury, which can be readily sold or used as collateral in funding operations with the central bank LHV Pank has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2013 and 31.12.2012, the Group does not have any debts past due.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and therefore, the tables do not reconcile to the positions in the balance sheet. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows).

Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6.

31.12.2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates					
Deposits from customers and loans received	257 585	92 717	5 687	1 268	**357 257**
Subordinated loans	1 366	1 047	5 721	23 787	**31 921**
Other liabilities	6 318	0	0	0	**6 318**
Unused loan commitments	32 629	0	0	0	**32 629**
Financial guarantees by contractual amounts	6 556	0	0	0	**6 556**
Interest rate swaps	24	177	236	0	**436**
Total liabilities	**304 478**	**93 941**	**11 644**	**25 055**	**435 117**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with banks and inv. companies	152 309	0	0	0	**152 309**
Debt securities in market value	12 626	9 335	22 423	408	**44 792**
Loans and advances to customers	32 168	54 288	137 794	19 356	**243 606**
Receivables from customers	1 507	0	0	0	**1 507**
Total assets held for managing liquidity risk	**198 610**	**63 623**	**160 217**	**19 764**	**442 214**
Maturity gap from assets and liabilities	**-105 868**	**-30 318**	**148 573**	**-5 291**	**7 097**

31.12.2012	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates					
Deposits from customers and loans received	177 330	101135	7 571	3 115	**289 151**
Subordinated loans	159	481	5 785	6 620	**13 045**
Other liabilities	2 008	0	13	0	**2 093**
Unused loan commitments	1 908	10 420	1 250	0	**13 578**
Financial guarantees by contractual amounts	553	1 293	722	0	**2 568**
Interest rate swaps	19	206	431	0	**656**
Total liabilities	**182 049**	**113 535**	**15 772**	**9 735**	**321 091**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with banks and inv. companies	90 412	0	0	0	**90 412**
Bonds in market price	13 012	20 505	12 561	528	**46 606**
Held-to-maturity bonds	4 259	11 825	50 250	7 014	**73 348**
Loans and advances to customers	15 073	30 201	58 915	12 259	**116 448**
Receivables from customers	640	0	0	0	**640**
Total assets held for managing liquidity risk	**123 397**	**62 531**	**121 726**	**19 801**	**327 455**
Maturity gap from assets and liabilities	**-58 652**	**-51 004**	**105 954**	**10 066**	**6 364**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below.

31.12.2013	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Asset distribution by geography										
Balances with banks and inv. companies	143 768	518	2 427	1 150	452	1	2 526	1 359	108	**152 309**
Financial investments and securities	5 437	0	790	201	282	6 020	29 501	815	5 558	**48 605**
Loans and advances to customers	159 116	580	25 897	16 996	15	0	3 163	0	1	**206 768**
Receivables from customers	1 286	2	219	0	0	0	0	0	0	**1 507**
Other assets	431	5	2 814	0	0	0	0	642	0	**3 892**
Goodwill and associates	1 175	0	0	0	0	0	0	0	0	**1 175**
Tangible and intangible assets	841	0	87	136	0	0	0	0	48	**1 112**
Total assets	**312 055**	**1 105**	**33 234**	**18 483**	**749**	**6 021**	**35 190**	**2 816**	**5 715**	**415 368**
Distribution of liabilities by geography										
Deposits from customers and loans received	349 985	860	1 850	569	2	42	2 358	129	585	**356 381**
Subordinated loans	19 716	0	0	0	0	0	0	0	0	**19 716**
Other liabilities	3 884	9	3 313	105	0	0	11	2	0	**7 324**
Total liabilities	**373 585**	**869**	**5 163**	**674**	**2**	**42**	**2 369**	**131**	**585**	**383 421**

Unused loan commitments to Estonian residents amount to EUR 32 629 thousand (2012: EUR 13 578 thousand).

31.12.2012	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Asset distribution by geography										
Balances with banks and inv. companies	81 633	473	2 029	283	68	160	4 284	1 370	112	**90 412**
Financial investments, incl. derivatives	5 954	0	1 820	4 121	4 147	13 859	65 484	7 877	13 603	**116 864**
Loans and advances to customers	86 459	672	855	14 911	24	0	3 146	0	0	**106 067**
Receivables from customers	627	9	5	0	0	0	0	0	0	**641**
Other assets	370	5	3	0	0	0	0	705	0	**1 083**
Goodwill and associates	1 113	0	0	0	0	0	0	0	0	**1 113**
Tangible assets	924	0	0	190	0	0	0	0	0	**1 114**
Total assets	**177 079**	**1 159**	**4 712**	**19 505**	**4 239**	**14 019**	**72 914**	**9 952**	**13 715**	**317 294**
Distribution of liabilities by geography										
Deposits from customers and loans received	279 427	1 086	1 222	679	49	36	1 311	21	319	**284 150**
Subordinated loans	8 634	0	0	0	0	0	0	0	0	**8 634**
Other liabilities	3 241	15	43	115	0	0	10	4	0	**3 428**
Total liabilities	**291 302**	**1 101**	**1 265**	**794**	**49**	**36**	**1 321**	**25**	**319**	**296 212**

As at 31.12.2013, the loans issued to 4 customers and 2 correspondent banks (2012: total 14) had a large risk exposure, i.e. more than 10% of the net own funds (NOF) of Group either individually or via group risk, totalling 70% of NOF (2012: 32%). The Group has invested in the bonds of 2 issuers (2012: 8) with a large risk exposure, totalling 43% of NOF (2012: 146%).

Distribution of loans granted by industry (gross):

	31.12.2013	%	31.12.2012	%
Individuals	60 344	28.43%	22 012	20.54%
Real estate	26 039	12.27%	19 479	18.17%
Financial services	43 958	20.71%	19 244	17.96%
Manufacturing	21 004	9.89%	11 163	10.42%
Professional, scientific and technical activities	10 204	4.81%	7 482	6.98%
Wholesale and retail	9 125	4.30%	2 385	2.23%
Other servicing activities	6 076	2.86%	4 491	4.19%
Art and entertainment	6 048	2.85%	786	0.73%
Transport and logistics	7 360	3.47%	2 048	1.91%
Agriculture	5 598	2.64%	5 612	5.24%
Administrative activities	4 200	1.98%	5 354	5.00%
Construction	3 298	1.55%	0	0.00%
Education	2 249	1.06%	2 410	2.25%
Information and communication	2 218	1.05%	710	0.66%
Public administration	0	0.00%	540	0.50%
Other areas at activities	4 567	2.15%	3 458	3.23%
Total	**212 288**	**100%**	**107 174**	**100%**

3.6 Fair value of financial assets and financial liabilities

The Management Board of The Group has assessed the fair value of assets and liabilities carried at amortised cost in the balance sheet. For estimating fair value, the future cash flows are discounted on the basis of the market interest yield curve.

The following table gives an overview of the hierarchy of valuation techniques used for valuation of financial assets and liabilities measured at fair value:

	Level 1	Level 2	Level 3	31.12. 2013	Level 1	Level 2	Level 3	31.12. 2012
Financial assets at fair value through profit or loss								
equity securities (note 12)	4 676	0	0	**4 676**	3 062	0	0	**3 062**
debt securities available-for-sale (note 11)	11 903	0	0	**11 903**	0	0	0	**0**
debt securities at fair value through profit or loss (note 12)	32 026	0	0	**32 026**	45 837	0	0	**45 837**
Total financial assets	**48 605**	**0**	**0**	**48 605**	**48 899**	**0**	**0**	**48 899**
Financial liabilities at fair value through profit or loss								
interest rate swaps	0	**433**	0	**433**	**0**	**656**	0	**656**
Total financial liabilities	**0**	**433**	0	**433**	**0**	**656**	**0**	**656**

Levels used in hierarchy:

- Level 1– quoted prices in active market
- Level 2 – valuation technique based on observable market data as inputs (rates and interest curves from similar transactions)
- Level 3 – other valuation techniques (e.g. discounted cash flow method) with judgemental inputs

Interest rate swaps are instruments where active markets supply observable inputs to the valuation model which is used for establishing the fair value. The fair value for such OTC derivatives is calculated as a theoretical net present value (NPV), based on independently sourced market parameters, assuming no risk and uncertainties. Market observable zero coupon yield curve is used for discounting in NPV calculations.

AS at 31.12.2013 the fair value of corporate loans is EUR 522 thousand (0.4%) higher than their carrying amount. The loans have been issued at market conditions in the segment that the Group operates in and therefore their fair value is not much different from their carrying amount as at 31.12.2013 and 31.12.2012. The fair value level of corporate loans is 3 as significant judgmental assumptions are used for the valuation process.

Leveraged loans granted to customers are of sufficiently short-term nature and they have been issued at market terms, therefore the fair market rate of interest and also the fair value of loans do not change significantly during the loan term. The effective interest rate of consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value (at 31.12.2012: same). The fair value level of leveraged and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

As at 31.12.2012, the fair value of held-to-maturity financial investments was EUR 2 201 thousand higher than their carrying amount, taking into consideration the quoted market price for respective instruments. Therefore, as of 31.12.2012, held-to-maturity financial investments were valued as level 1. In spring 2013 management board decided to reclassify held-to-maturity portfolio to available-for-sale portfolio, recognized in fair value.

Trade receivables (other than the receivables related to loans and advances to customers), and accrued expenses and other liabilities have been incurred in the course of ordinary business and are payable in the short-term, therefore, the management estimates that their fair value does not significantly differ from their carrying amount. These receivables and liabilities are interest-free. The fair value level of those receivables, accrued expenses and other liabilities is 3.

Customer deposits with fixed interest rates are primarily short-term and pricing of the deposits is subject to market conditions; as a result, the fair value of deposits determined using the discounted future cash flows do not significantly differ from their carrying amount. The fair value level of customer deposits is 3 as significant judgmental assumptions are used for the valuation process.

For the term structure of financial assets and financial liabilities, refer to Note 3.4.

3.7 Operating risk

Operating risk is a potential loss caused by human, process or information system flaws. When completing transactions, transaction limits and competence systems are used to minimise potential losses and the principle of duality is used in the Group's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure.

The information received from monitoring operating risk helps to gather initial information to secure capital adequacy of the Group and to evaluate capital requirements. The analysis of cases collected into the database enables the Group to identify the flaws in rules of procedure, avoid making mistakes in the future and mitigate possible risks or define the terms of their acceptance. The risk control manager of LHV Pank is responsible for collecting information.

Compliance control and internal audit have an important role in evaluating, monitoring and mitigating the operating risk. Pursuant to the Credit Institutions Act and Securities Market Act, the main task of Compliance Officer is to define the risks of non-compliance of the activities of the Group with legislation, recommended guidelines of the Financial Supervisory Authority and procedure rules of the Group, considering the nature, range and complexity of business and services rendered, and arrangement of mitigating or avoiding those risks. Internal audit is an independent and objective, assuring and consulting activity that is targeted at improving the Group's performance and adding value. Internal audit helps achieving the goals of the Group, using a systematic and disciplined approach to assess and increase the efficiency of the risk management, control and organisational management process.

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of revenue and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 3.2, 10, 11, 12, 13 and 14).

According to IAS 39, the Group classified a portion of its bond portfolio as a held-to-maturity portfolio. At the start of 2013, the Group's management estimated that it does not intend to hold the investments until maturity and the bond portfolio that was held-to-maturity was reclassified as available-for-sale portfolio (see also Note 11). As a result of the reclassification of the portfolio, the Group's equity increased by EUR 2.2 million since the market value of the portfolio was higher than the amortised cost recognised in the balance sheet. The difference between carrying amount and fair value of the portfolio was at first recognized in other comprehensive income and after selling most of the portfolio reclassified to statement of profit or loss. According to IAS 39 the Group cannot classify debt securities to held-to-maturity for the next two years because of the breach of held-to-maturity criteria set in IAS 39.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are reported prospectively in the statement of comprehensive income.

NOTE 5 Subsidiaries and associated companies, goodwill

As at 31.12.2013, the Group's subsidiaries which have been consolidated in these financial statements include:

- AS LHV Pank (Estonia, ownership interest 100%)
- AS LHV Varahaldus (Estonia, ownership interest 100%)
- LHV Finance OY (Finland, ownership interest 100%)
- UAB Mokilizingas (Lithuania, ownership interest 50% + 1 share)

In the beginning of year 2013 AS LHV Pank established a subsidiary AS LHV Finance. AS LHV Pank paid 325 thousand euros of monetary contribution for 65% of ownership and a non-controlling interest paid 175 thousand euros of monetary contribution for 35% of ownership. The contribution of the non-controlling interest has been reflected in the consolidated statement of changes in equity on the line "Acquisition of subsidiaries".

As at 31.12.2013, the Group's associates include:

- AS LHV Capital (Estonia, ownership interest 40%)
- OÜ Svipe (Estonia, ownership interest 33%, acquired in 2013)
- SIA Euveca Livonia Partners (Latvia, ownership interest 10%, acquired in 2013)

Total book value of associates as of 31.12.2013 is 131 thousand euros (as of 31.12.2012: 69 thousand euros). During 2013, new investment to OÜ Svipe was made in amount 50 thousand euros. Additionally, new investment to SIA Euveca Livonia Partners was made in amount 2 thousand euros.

As at 31.12.2013, goodwill in amount EUR 1 044 thousand in the consolidated balance sheet of AS LHV Group consists of:

- positive goodwill which had arisen on the acquisition of the ownership interests in AS LHV Varahaldus in the amount of EUR 482 thousand
- positive goodwill which had arisen after the conclusion of a purchase contract entered into in 2009 in the amount of EUR 562 thousand.

Impairment tests were performed as at 31.12.2013 and as at 31.12.2012. The cash generating unit of goodwill is AS LHV Varahaldus. The calculation of the value in use is based on the following assumptions:

- The volume of assets under management is expected to increase 29% per annum (2012: 25%)
- Increase of income of fund manager is expected to be average of 21% per annum (2012: 25%);
- Due to the economic environment, growth of 14% in indirect costs is expected per annum (2012: 4%);
- The discount rate used is 11% (2012: 13%)

When using the main assumptions, the management used previous years' experience and its best estimate in respect of probable expectations. Based on the results of the impairment test performed as at 31.12.2013 and as at 31.12.2012, the recoverable amount of goodwill is higher than its carrying amount, as a result of which no impairment losses have been recognized.

On 07.08.2013 AS LHV Group acquired 50% + 1 of shares of UAB „Snoro Lizingas". Business name was changed to UAB Mokilizingas due to negative image of former name. UAB Mokilizingas acts in a field of consumer finance offering hire purchase of wide range of consumer goods and services and consumer loans as well as financial lease services for legal entities.

AS LHV Group recognised the acquisition of UAB Mokilizingas in accordance with requirements of IFRS 3 by carrying out purchase price allocation. In the course of the purchase price allocation, the value of assets of the UAB Mokilizingas was assessed and the assets were recognised in fair value. Fair value of assets was assessed as at 30.06.2013. There are no transactions or events between the transaction date (7.08.2013) and date of the financial information used for the purchase price allocation (30.06.2013), which is the date closest to the transaction date with reliable financial information available, that have had a significant impact on the value of net assets acquired.

Upon an acquisition of UAB Mokilizingas no trademark has been identified. After the transaction the business was rebranded immediately as the previous brand name "Snoras Lizingas" was associated with its bankrupt parent company Snoaras Bank.

EUR (thousand)	Fair values recorded on acquisition
Cash and cash equivalents	1 404
Current financial lease and consumer loan receivables	15 233
Non-current assets held for resale	82
Other receivables	457
Prepayments	1 108
Other current assets	101
Inventories	1
Current assets	**18 495**
Non-current financial lease and consumer loan receivables	5 944
Intangible assets	8
Property, plant and equipment	92
Deferred income tax asset	45
Non-current assets	**6 089**
Total assets	**24 584**
Trade payables to suppliers	738
Advances received for financial lease and consumer loans	485
Taxes payable	347
Salary and social security payables	46
Other current liabilities	936
Current liabilities	**2 552**
Financial debts	19 208
Non-current liabilities	**19 208**
Total net assets identified	**2 824**
Amount paid for the acquisition of ownership	**2 200**
Negative goodwill	**624**
Amount paid by the Group	**1 100**
Negative goodwill acquired by the Group	**312**
Non-controlling interest	**1 412**

Acquisition-related costs (due diligence and other) of EUR 30 thousand have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2013.

The total fair value of consumer loan and financial lease receivables and other receivables is 21 140 thousand euros and includes consumer loan and financial lease receivables with a fair value of 20 796 thousand euros. The gross contractual amount for these receivables due is 21 742 thousand euros, of which 602 thousand euros is expected to be uncollectible.

The fair value of the non-controlling interest in UAB Mokilizingas, an unlisted company, was estimated by using the proportionate share of fair value of net assets recorded at purchase price allocation, being amount EUR 1 412 thousand.

The interest and fee and commission income included in the consolidated statement of comprehensive income since 1 July 2013 contributed by UAB Mokilizingas was in total amount of EUR 3 604 thousand. UAB Mokilizingas also contributed profit attributable to owners of the parent in amount of EUR 206 thousand over the same period.

NOTE 6 Net interest income

Interest income	2013	2012
From balances with credit institutions and investment companies	24	113
From balances with central bank	45	96
From debt securities	1 105	3 032
incl. debt securities held-to-maturity	*0*	*1 763*
incl. debt securities available-for-sale	*601*	*0*
incl. debt securities at fair value through profit or loss	*504*	*1 269*
Leasing	441	28
Leverage loans and lending of securities	833	968
Consumer loans	4 177	2 282
Loans to companies	6 622	0
Hire purchase and other loans	1 663	4 461
Total	**14 910**	**10 980**
Interest expense		
Deposits from customers and loans received	-3 072	- 4 923
Incl. related parties (note 26)	*-1*	*0*
Total	**-3 072**	**- 4 923**
Net interest income	**11 838**	**6 057**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	**2013**	**2012**
Estonia	8 229	5 285
Finland	3 404	2 282
Latvia	42	51
Lithuania	2 062	121
Total	**13 737**	**7 739**

NOTE 7 Net fee and commission income

Fee and commission income	2013	2012
Financial advisory services	0	5
Security brokerage and commissions	2 066	2 138
incl. related parties (Note 26)	*3*	*1*
Asset management and similar fees	6 429	4 353
incl. related parties (Note 26)	*5 675*	*3 704*
Currency convert revenues	*350*	*230*
Fees from cards and payments	*399*	*166*
Fees related to collection of debts	*341*	*282*
Fee for Snoras portfolio administration*	515	0
Other fee and commission income	340	103
Total	**10 440**	**7 277**
Fee and commission expense		
Security brokerage and commissions paid	-504	-528
Collection costs	-510	-361
Total	**-1 014**	**-889**
Net fee and commission income	**9 426**	**6 388**

** Mokilizingas is providing portfolio administration services to Snoras Bank, to whom the portfolio was sold in 2011.*

Fee and commission income by customer location:	2013	2012
Estonia	8 889	6 526
Finland	341	283
Latvia	120	145
Lithuania	885	318
Sweden	204	4
Other	1	1
Total	**10 440**	**7 277**

NOTE 8 Gain/loss from financial assets

	2013	2012
Gain/loss from revaluation of foreign exchange rates	-23	-2
Net gain/loss on trading portfolio securities recognized at fair value	2 259	479
Incl. revaluation of bonds	*2 266*	*822*
Incl. revaluation of interest rate swaps	*-7*	*-343*
Gain from investment portfolio securities designated at fair value	157	316
Incl. revaluation of fund units	157	316
Other financial income	312	0
Net gain/loss from financial assets	**2 705**	**793**

NOTE 9 Operating expenses

Staff costs	Note	2013	2012
Wages, salaries and bonuses		5 047	3 772
Social security and other taxes		1 615	1 245
Total		**6 662**	**5 017**
IT expenses		939	873
Information services and bank services		523	530
Marketing expenses		3 543	3 551
Office expenses		392	362
Transportation and communication costs		159	152
Training and travelling expenses of employees		198	175
Other outsourced services		1 805	1 206
Other administrative expenses		873	769
Depreciation	17	588	545
Operating lease payments	23	864	784
Other operating expenses		197	84
Total operating expenses		**16 744**	**14 048**

The average number of employees for the financial year was 211 (2012: 160).

NOTE 10 Balances with central bank, credit institutions and investment companies

	31.12.2013	31.12.2012
Demand deposits *	18 470	12 445
Term deposits with maturity more than 3 months	0	0
Statutory reserve capital at central bank	3 397	2 551
Other receivables from central bank *	130 442	75 414
Accrued interest	0	2
Total	**152 309**	**90 412**
* cash and cash equivalents in the statement of cash flows	148 912	87 859

Distribution of receivables by countries is presented in Note 3.5. Balances with investment companies amounting to EUR 1 466 thousand (2012: EUR 1 547 thousand) are included under demand deposits. All other demand and term deposits are held at credit institutions or the central bank. Mandatory banking reserve as at 31.12.2013 was 1% (2012: 1%) of all financial resources taken in (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

NOTE 11 Available-for-sale financial assets

The Group has available-for-sale bond portfolio in amount of 11 903 thousand euros as of 31.12.2013 which resulted from reclassification of held-to-maturity portfolio. In result of reclassification unrealized gain of 2 233 thousand euros was recognized in other comprehensive income. After selling most of the portfolio, financial gain of EUR 2 278 thousand EUR was reclassified from other comprehensive income to statement of profit or loss. The balance of other comprehensive loss in equity is 27 thousand euros, which includes also revaluation of the remaining of portfolio during the year.

NOTE 12 Financial assets and liabilities at fair value through profit or loss

Securities held for trading:	31.12.2013	31.12.2012
Equity securities	460	17
Debt securities	32 026	45 837
Designated as at fair value through profit or loss upon initial recognition:		
Fund units	4 216	3 045
incl. investments in managed pension funds	*4 006*	*2 883*
incl. investments in managed investment funds	*210*	*162*
Total financial assets	**36 702**	**48 899**
Interest rate swaps	433	656
Total financial liabilities	**433**	**656**

Bid price is the fair value for quoted financial investments and securities. The information about revaluation gain/loss for such financial assets is presented in the Note 8. Interest income from debt securities is recorded as interest income in statement of comprehensive income.

NOTE 13 Held-to-maturity financial investments

In 2011, the Group set up a held-to-maturity bonds portfolio, which was carried at amortised cost in the balance sheet. The portfolio volume as at 31.12.2012 totalled EUR 67 965 thousand. In 2013 the Bank reclassified the portfolio as available-for-sale portfolio and sold most of it, see also note 11.

NOTE 14 Loans granted

	31.12.2013	31.12.2012
Loans to legal persons	**151 945**	**85 162**
incl. corporate loans	128 819	78 597
incl. overdraft	3 918	0
incl. leveraged loans	4 218	4 658
incl. leasing	14 900	1 862
incl. credit card loans	47	0
incl. mortgage loans	43	44
Loans to individuals	**60 344**	**22 012**
incl. consumer loans	23 792	13 144
incl. hire-purchase	23 102	0
incl. leveraged loans	5 739	6 504
incl. leasing	3 468	815
incl. credit card loans	2 251	1 428
incl. mortgage loans	1 948	121
incl. credit lines	29	0
Incl. other loans	15	0
Total	**212 288**	**107 174**
Impairment provisions	-5 520	-1 107
Total	**206 768**	**106 067**

In 2013, the average effective interest rate of new consumer loans issued to individuals was 28-40% (2012: 20-28%). The average effective interest rate for hire-purchase was around 24%, credit cards 13% and leasing 4%. The contractual interest rate of leveraged loans issued to individuals is generally equal to their effective interest rate, because no other significant fees have been received upon their issue.

Deferred income in 2012 included service fees of loans in the amount of EUR 590 thousand, which are released to interest income over the loan term and the current portion of which totalled EUR 251 thousand and the non-current portion totalled EUR 339 thousand. In 2013 deferred income is included in loan portfolio on asset side of the balance sheet.

Changes in impairments in 2013	**Corporate loans**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leverage loans**	**Total**
Balance as at January 1	-26	-1 029	-34	0	0	-18	**-1 107**
Acquired subsidiary's impairments at the date of acquisition	0	-1 024	0	-1 650	-241	0	**-2 915**
Impairment provisions set up during the year	-858	-1 679	-49	-169	-116	0	**-2 871**
Written off during the year	14	957	0	402	0	0	**1 494**
Balance as at December 31	**-870**	**-2 775**	**-83**	**-1 417**	**-357**	**-18**	**-5 520**

Changes in impairments in 2012	**Corporate loans**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leverage loans**	**Total**
Balance as at January 1	0	-3 042	0	0	0	0	**-3 042**
Impairment provisions set up during the year	-26	-996	-34	0	0	-18	**-1 074**
Written off during the year	0	3 009	0	0	0	0	**3 009**
Balance as at December 31	**-26**	**-1 029**	**-34**	**0**	**0**	**-18**	**-1 107**

Net and gross investments on finance leases

	31.12.2013	31.12.2012
Net investment according to remaining maturity		
up to 1 year	*6 018*	512
1-5 years	*12 145*	2 064
over 5 years	*72*	18
Total net investment	**18 235**	**2 594**
Unearned future interest income according to remaining maturity		
up to 1 year	*422*	79
1-5 years	*836*	156
over 5 years	*120*	1
Total unearned future interest income	**1 378**	**236**
Gross investment according to remaining maturity		
up to 1 year	6 440	591
1-5 years	12 981	2 220
over 5 years	192	19
Total gross investment	**19 613**	**2 830**

For interest income on loans granted, see Note 6.
For credit risk exposures and loan collateral, see Note 3.2.
Distribution of loans granted by currencies is disclosed in Note 3.3.
Distribution of loans granted by due dates is disclosed in Note 3.4.
The regional distribution of loans granted is disclosed in Note 3.5.

NOTE 15 Receivables from customers

	31.12.2013	31.12.2012
Securities brokerage fees from intermediaries	0	29
Asset management fees from customers	594	418
incl. related parties (Note 26)	*549*	*372*
Other fees for providing services to customers	687	94
Payments in transit	1	65
Other receivables related to collection of receivables	12	35
Other receivables	213	0
Total	**1 507**	**641**

All fees, other than other receivables related to collection of receivables, are receivable within 12 months of the balance sheet date, and are considered as current assets.

NOTE 16 Other assets

	31.12.2013	31.12.2012
Guarantee deposits of Baltic stock exchanges	8	9
Guarantee deposit of MasterCard	642	704
Prepayments to Financial Supervision Authority	144	85
Tax prepayments	114	0
Repossessed assets	15	0
Prepayments to merchants for registered customer contracts	2 629	0
Other prepayments *	339	285
Total	**3 892**	**1 083**

* Prepayments include office rent, insurance, communication services, periodicals and training.

Prepayments are expected to be received or used within 12 months of the balance sheet date, and are therefore considered current assets. Guarantee deposits on the Baltic stock exchanges are held to guarantee securities trading activity on the stock exchanges of Tallinn, Riga and Vilnius and the deposit of MasterCard to guarantee credit card transactions, and should therefore both be considered non-current assets.

NOTE 17 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2011			
Cost	1 698	647	2 345
Accumulated depreciation and amortisation	-823	-119	-942
Carrying amount	**875**	**528**	**1 403**
Changes occurred in 2012:			
Purchase of non-current assets	77	179	256
Write-off of non-current assets	-69	-25	-94
Depreciation/amortisation charge	-317	-228	-545
Balance as at 31.12.2012			
Cost	1 706	801	2 507
Accumulated depreciation and amortisation	-1 071	-322	-1 393
Carrying amount	**635**	**479**	**1 114**
Changes occurred in 2013:			
Purchase of non-current assets	64	422	486
Acquisition of subsidiary	92	8	100
Depreciation/amortisation charge	-300	-288	-588
Balance as at 31.12.2013			
Cost	1 862	1 231	3 093
Accumulated depreciation and amortisation	-1 371	-610	-1 981
Carrying amount	**491**	**621**	**1 112**

Tangible assets include computer technology and office equipment, furniture, capitalized costs of office renovation. Intangible assets include licences and development costs. In 2013 and 2012, there was no indication of impairment of tangible and intangible assets.

NOTE 18 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	**31.12.2013 total**	Individuals	Legal entities	Public sector	**31.12.2012 total**
Demand deposits	49 187	105 720	5 790	**160 697**	34 951	39 615	220	**74 786**
Term deposits	80 857	86 505	24 226	**191 588**	106 493	87 112	10 112	**203 717**
Loans received	0	107	3 422	**3 529**	0	0	4 141	**4 141**
Accrued interest liability	322	202	43	**567**	1 075	401	30	**1 506**
Total	**130 366**	**192 534**	**33 481**	**356 381**	**142 519**	**127 128**	**14 503**	**284 150**
incl. related parties (Note 26)	*563*	*1 726*	*0*	*2 289*	*24*	*1*	*0*	*25*

Loans received from public sector are from Maaelu Edendamise Sihtasutus (Rural Development Foundation) with an intended purpose to finance loans to small enterprises operating in rural areas.

Distribution of deposits from customers and loans received by currency is presented in Note 3.3.
Distribution of deposits from customers and loans received by maturity is presented in Note 3.4.
Distribution of deposits from customers and loans received by geography is presented in Note 3.5.

The nominal interest rates of most deposits from customers and loans received equal their effective interest rates as no other significant fees have been paid.

NOTE 19 Accrued expenses and other liabilities

	31.12.2013	31.12.2012
Financial liabilities		
Trade payables	1 503	550
Payables to merchants	2 873	0
Other short-term liabilities	1 062	483
Payments in transit	158	264
Financial guarantee contracts issued	191	89
Subtotal	**5 786**	**1 386**
Non-financial liabilities		
Tax liabilities	371	284
Payables to employees	734	499
Subtotal	**1 105**	**783**
Total	**6 891**	**2 169**

Payables to employees consist of unpaid salaries; bonus accruals and vacation pay accrual for the reporting period and the increase in liabilities is caused by the increase in the number of employees during the year. Payments in transit consist of foreign payments and payables to customers related to intermediation of securities transactions. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

NOTE 20 Provisions

As at 31.12.2012 in the statement of financial position, a provision has been recognised in the amount of EUR 13 thousand, the cost of which was included within operating expenses. In 2013 the provision was reversed due to expiring of the possible claim.

NOTE 21 Subordinated loans

On 8 March 2013, the Group redeemed bonds subscribed by investors in the total amount of EUR 3 million and, simultaneously, investors increased the share capital of the Group by EUR 3 million (share capital at nominal value in the amount of EUR 1.2 million and share premium in the amount of EUR 1.8 million).

As at 31.12.2013, subordinated loans include bonds issued in the total amount of EUR 18 635 thousand (31.12.2012: EUR 7 268 thousand).

In December 2012, Group issued subordinated bonds in the amount of EUR 4.5 million euros. Related bonds are denominated in euro. The due date of the bonds is 20 December 2020 and the interest rate is 7% during the first three-year period and 7% + 3 months EURIBOR onwards. After three years, the issuer has the right to prematurely redeem the bonds. During three years, investors have the right to convert their bonds to the issued shares of the Group.

During the 2013 subordinated bonds were issued twice – in June and in December, in amount of EUR 5 400 and 10 050 thousand respectively. The interest rate for both is 7% during the first three-year period and 7% + 3 months EURIBOR onwards. The due date of the bonds is 21 June 2021 and 20 December 2021 respectively. After three years, the issuer has the right to prematurely redeem the bonds.

Interest expenses on subordinated bonds in the amount of EUR 526 thousand (2012: EUR 261 thousand) are included within interest expenses in the statement of comprehensive income. As of 31 December 2013, the accrued interest liability of subordinated bonds was EUR 48 thousand (31 December 2012: EUR 264 thousand). Interest liabilities are accounted in the statement of financial position using the effective interest rate.

NOTE 22 Shareholders' equity in the public limited company

Rain Lõhmus who owns 34.5% of the voting rights and Andres Viisemann who owns 10.3% of the voting rights in AS LHV Group have significant influence over the company.

	31.12.2013	31.12.2012
Share capital *(in EUR thousand)*	19 202	17 382
Number of shares (pcs)	19 202 669	17 381 638
Par value of a share	1 EUR	1 EUR

According to the Company's articles of association, the minimum share capital is EUR 10 million and the maximum share capital is EUR 40 million. The share capital has been fully paid in cash.

On 8 March 2013, the Group redeemed bonds subscribed by investors in the total amount of EUR 3 million and, simultaneously, investors increased the share capital of the Group by EUR 3 million (share capital at nominal value in the amount of EUR 1.2 million and share premium in the amount of EUR 1.8 million). The share capital of AS LHV Group was also increased in June 2013 by EUR 621 thousand. The share capital was paid in cash and was subscribed at premium: the issue price was EUR 3.0 per share with the nominal value of EUR 1.

As at 31.12.2013, the accumulated deficit of the Group totalled EUR 11 032 thousand (31.12.2012: accumulated deficit EUR 15 581 thousand). Thus, it is not possible to pay dividends to the shareholders.

NOTE 23 Finance and operating lease

The Group leases office premises and cars under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The minimum unilaterally non-cancellable lease payable in the next period amounts to EUR 1 200 thousand (2012: EUR 1 643 thousand), the current portion of which amounts to EUR 567 thousand (2012: EUR 769 thousand) and the non-current portion amounts to EUR 633 thousand (2012: EUR 874 thousand). In 2013, the operating lease payments for office premises in the amount of EUR 781 thousand (2012: EUR 769 thousand) and operating lease payments for cars in the amount of EUR 13 thousand (2012: EUR 15 thousand) are included within operating expenses.

NOTE 24 Assets under management

The Group, operating as an account manager for its customers, has custody of or intermediates the following customer assets:

	31.12.2013	31.12.2012
Cash balance of customers	**5 620**	**6 234**
Securities of customers	**317 989**	**212 493**
incl. members of the Management and Supervisory Board and legal entities controlled by them	*17 708*	*11 647*
Total	**323 609**	**218 727**

Asset management fees for the management of these assets have been in the range of 0.015 – 0.025 % (for, respective income, see Note 7).

The monetary funds of the customers who use the platform of an active securities trader or the trading system LHV Trader offered by LHV Pank, have been recognised as off-balance sheet assets. Due to the nature of the system, LHV Pank has deposited these funds in personalised accounts with its partner and as the monetary funds of these customers are not used for business purposes by LHV Pank (they cannot be lent to other customers or used as collateral), therefore the monetary funds are recognised as off-balance sheet assets. LHV Pank earns commission and interest income on intermediation of transactions in these accounts similarly to customers' accounts reflected in the Group's balance sheet. LHV Pank has provided contractual guarantees to its partner in respect of LHV Trader accounts, guaranteeing potential losses to be incurred from financing of the transactions executed by customers intermediated by itself (leveraging), with the primary collateral being the securities used as collateral for leveraged loans. In its current practice, no such losses in respect of which the guarantee provided by LHV Pank would apply have incurred and LHV Pank has not paid any compensation relating to the guarantee.

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NOTE 25 Contingent liabilities

Irrevocable transactions	Unused loan commitments	Financial guarantees	Total
Liability in contractual amount 31.12.2013	32 629	6 556	**39 185**
Liability in contractual amount 31.12.2012	13 578	2 553	**16 131**

Tax authorities have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2012 - 2013. The Group's management estimates that there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

Due to the losses of earlier periods of the Finnish branch, the Group has EUR 750 thousand in potential contingent income tax assets. The management has estimated that the probability of reducing the income tax liability of future periods at the expense of contingent income tax asset cannot be estimated sufficiently reliably and has decided to recognise the income tax asset as off-balance sheet asset.

NOTE 26 Transactions with related parties

In preparing the consolidated financial statements of the Group, the following entities have been considered related parties:

- owners (parent company and owners of the parent);
- entities in the consolidation group (incl. fellow subsidiaries and associates);
- members of the management board, head of internal audit unit and legal entities controlled by them;
- close relatives of the persons mentioned above and the entities related to them.

Transactions	Note	2013	2012
Total service fee and commission income	*7*	**5 676**	**3 705**
Incl. managed funds		*5 675*	*3 704*
Incl. members of the management board and legal entities controlled by them		*3*	*1*
Interest expenses	*6*	**1**	**0**
Incl. members of the management board and legal entities controlled by them		*1*	*0*

Balances	Note	31.12.2013	31.12.2012
Receivables as at the year-end		**549**	**372**
Incl. managed funds	*15*	549	372
Liabilities as at the year end		**2 289**	**25**
Incl. members of the management board and legal entities controlled by them	*18*	2 289	25

Receivables have originated from rendering services, they do not bear interest and have been received by the time of compiling the annual report.

In 2013, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 743 thousand (2012: EUR 450 thousand), including all taxes. As at 31.12.2013, remuneration for December and accrued holiday pay in the amount of EUR 75 thousand (31.12.2012: EUR 69 thousand) is reported as a payable to management (Note 19). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2013 and 31.12.2012 (pension liabilities, termination benefits, etc.). In 2013, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 23 thousand (2012: EUR 27 thousand).

The Group has signed contracts with the members of the Management Board, which do not provide for severance benefits upon termination of the contract. In any matters not regulated by the contract, the parties adhere to the procedure specified in the legislation of the Republic of Estonia.

Information on assets of related parties held as an account manager is presented in Note 24.

NOTE 27 Separate financial statements of parent company

In accordance with the Estonian Accounting Act, information on the separate primary financial statements of the parent of the consolidation group shall be disclosed in the notes to the financial statements.

Statement of comprehensive income of the parent
(in thousand euros)

	2013	2012
Interest income	462	186
Interest expenses	-525	-261
Net interest income	**-63**	**-75**
Net gains from financial assets measured at fair value	-4	0
Other financial income	112	0
Net financial income	**108**	**0**
Operating expenses	-131	-95
Net loss for the financial year	**-86**	**-170**
Total comprehensive loss for the year	**-86**	**-170**

Statement of financial position of the parent
(in thousand euros)

	31.12.2013	31.12.2012
Assets		
Due from other banks and investment companies	3 596	2 027
Loans granted	10 579	7 365
Investments in subsidiaries	42 290	31 390
Investments in associates	62	10
Total assets	**56 527**	**40 792**
Liabilities		
Accrued expenses and other liabilities	23	0
Other financial liabilities	0	1
Subordinated liabilities	18 683	7 532
Total liabilities	**18 706**	**7 533**
Shareholders' equity		
Share capital	19 202	17 382
Share premium	21 871	18 827
Share options	15	232
Reserves	223	223
Accumulated deficit	-3 490	-3 404
Repurchased treasury shares	0	-1
Total shareholders' equity	**37 821**	**33 259**
Total shareholders' equity and liabilities	**56 527**	**40 792**

Statement of cash flows of the parent

(in thousand euros)

	2013	2012
Cash flows from operating activities		
Interest received	462	186
Interest paid	-525	-261
Other financial income received	112	0
Change in other receivables	336	-184
Operating and other expenses	-135	-95
Cash flows from/used in operating activities before change in operating assets and liabilities	**250**	**-354**
Net increase/decrease in operating liabilities:		
Change in other liabilities	-194	111
Net cash used in / generated from operating activities	**56**	**-243**
Cash flows from investing activities		
Loans granted	-3 550	-4 000
Acquisition of subsidiary and associates	-10 952	-6 950
Net cash used in investing activities	**-14 502**	**-10 950**
Cash flows from financing activities		
Payment to share capital	4 864	8 951
Purchase or disposal of treasury shares	1	-2
Subordinated loans paid back	-4 300	0
Subordinated loans received	15 450	4 500
Net cash from financing activities	**16 015**	**13 089**
Increase/decrease in cash and cash equivalents	**2 027**	**1 896**
Cash and cash equivalents at the beginning of the financial year	1 569	131
Cash and cash equivalents at the end of the financial year	**3 596**	**2 027**

Statement of changes in shareholders' equity

(in thousands of euros)

	Share capital	Share premium	Share options	Reserves	Other reserves	Accumulated losses	Treasury shares	Total
Balance as at 01.01.2012	**14 200**	**13 419**	**210**	**223**	**0**	**-13 824**	**0**	**14 228**
Paid-in share capital	3 182	5 409	0	0	0	0	0	**8 591**
Share options	0	0	22	0	0	0	0	**22**
Purchase of treasury shares	0	-1	0	0	0	0	-1	**-2**
Total comprehensive income for 2012	0	0	0	0	0	-170	0	**-170**
Balance as at 31.12.2012	**17 382**	**18 827**	**232**	**223**	**0**	**-3 404**	**-1**	**33 259**
Carrying amount of holdings under control and significant influence	0	0	0	0	0	-31 390	0	-31 390
Value of holdings under control and significant influence under equity method	0	0	0	0	0	19 213	0	19 213
Adjusted unconsolidated equity as at 31.12.2012	**17 382**	**18 827**	**232**	**223**	**0**	**-15 581**	**-1**	**21 082**
Balance as at 01.01.2013	**17 382**	**18 827**	**232**	**223**	**0**	**-3 404**	**-1**	**33 259**
Paid-in share capital	1 820	3 044	0	0	0	0	0	4 864
Share options	0	0	-217	0	0	0	0	-217
Disposal of treasury shares	0	0	0	0	0	0	1	1
Total comprehensive income for 2013	0	0	0	0	0	-86	0	-86
Balance as at 31.12.2013	**19 202**	**21 871**	**15**	**223**	**0**	**-3 490**	**37 821**	**37 821**
Carrying amount of holdings under control and significant influence	0	0	0	0	0	-41 459	0	-41 459
Value of holdings under control and significant influence under equity method	0	0	0	0	-27	33 918	0	33 890
Adjusted unconsolidated equity as at 31.12.2013	**19 202**	**21 871**	**15**	**223**	**-27**	**-11 032**	**0**	**30 252**

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Signatures of the Management Board to the Consolidated Annual Report

The Management Board has prepared the management report and the consolidated financial statements of AS LHV Group for the financial year ended 31 December 2013. The consolidated financial statements present a true and fair view of the Group's financial position, the results of operations and its cash flows.

28.04.2014

Rain Lõhmus /signed/ **Erkki Raasuke** /signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Group

We have audited the accompanying consolidated financial statements of AS LHV Group and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS LHV Group and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/signed/

Ago Vilu
Auditor's Certificate No. 325

/signed/

Verner Uibo
Auditor's Certificate No. 568

28 April 2014

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for profit distribution

The Management Board of LHV Group AS proposes to the General Meeting of Shareholders to add the profit for reporting period attributable to shareholders of the parent in the amount of EUR 4 237 thousand to the accumulated deficit.

Signatures of the Supervisory Board to the consolidated annual report

The Supervisory Board has reviewed the annual report which consists of the management report and the financial statements, the auditor's report and the proposal for covering the loss, and approved it for presentation at the General Meeting of Shareholders.

30.04.2014

Andres Viisemann	/signed/	**Tiina Mõis**	/signed/
Hannes Tamjärv	/signed/	**Heldur Meerits**	/signed/
Raivo Hein	/signed/	**Tauno Tats**	/signed/

Allocation of income according to EMTA classificators

EMTAK	Activity	2013	2012
66121	Security and commodity contracts brokerage	3 435	3 468
64191	Credit institutions (banks) (granting loans)	15 664	10 952
66301	Fund management	5 810	3 804
66191	Financial consultancy services	0	5
64911	Finance lease	441	28
	Total income	**25 350**	**18 257**