AS LHV Group
Consolidated Annual Report 2016

(Translation of the Estonian original)

Consolidated Annual Report 01.01.2016 – 31.12.2016

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	**Erkki Raasuke (until 04.12.2016),**
	Madis Toomsalu (from 05.12.2016)
Supervisory Board	**Rain Lõhmus**
	Andres Viisemann
	Tiina Mõis
	Heldur Meerits
	Raivo Hein
	Tauno Tats
	Sten Tamkivi
Auditor	**AS PricewaterhouseCoopers**

Contents

Statement of Managing Director 4
Management report 6
Business environment 8
Financial results 10
Governance of the Group 17
Corporate Governance report 20
CONSOLIDATED FINANCIAL STATEMENTS 29
Consolidated statements of profit or loss and other comprehensive income 29
Consolidated statements of financial position 30
Consolidated statements of cash flows 31
Consolidated statements of changes in equity 32
Notes to the consolidated financial statements 33
NOTE 1 General information 33
NOTE 2 Summary of significant accounting policies 34
NOTE 3 Risk management 46
NOTE 4 Significant management estimates and assumptions 69
NOTE 5 Business segments 69
NOTE 6 Subsidiaries and associated companies, goodwill 71
NOTE 7 Net interest income 73
NOTE 8 Net fee and commission income 74
NOTE 9 Operating expenses 74
NOTE 10 Due from central bank, credit institutions and investment companies 75
NOTE 11 Available-for-sale financial assets 75
NOTE 12 Financial assets and liabilities at fair value through profit or loss 75
NOTE 13 Discontinued operations 76
NOTE 14 Loans and advances to customers 76
NOTE 15 Receivables from customers 77
NOTE 16 Other assets 78
NOTE 17 Tangible and intangible assets 78
NOTE 18 Deposits from customers and loans received 79
NOTE 19 Accounts payable and other liabilities 79
NOTE 20 Operating lease 80
NOTE 21 Subordinated debts 80
NOTE 22 Shareholders' equity in the public limited company 81
NOTE 23 Assets under management 82
NOTE 24 Contingent assets and liabilities 83
NOTE 25 Transactions with related parties 84
NOTE 26 Basic earnings and diluted earnings per share 85
NOTE 27 Separate financial statements of parent company 86
Signatures of the management board to the consolidated annual report 90
Independent auditor's report 91
Proposal for profit distribution 98
Signatures of the supervisory board to the annual report 99
Allocation of income according to EMTA classificators 100

Statement of Managing Director

Dear LHV investor,

LHV Group and its subsidiaries (hereinafter: LHV) have had another successful year. Most of our objectives were achieved, with room to spare. LHV's shares were listed on the Tallinn Stock Exchange in May, the overall staff satisfaction is the highest on record, and we received several important recognitions during the year.

The economic environment has remained stable, despite the worrying underlying trends. The inauguration of the new President of the United States is likely to add further to trade barriers, to the detriment of most of the country's trade partners, including the European Union. Against the backdrop of over-regulation, high debt burden, negative demographic dynamics and radical tendencies in Europe, it is difficult to achieve long-term, broad-based growth. To fix these problems, the governments of several major countries have decided to boost expenditure, rather than maintain a budget balance. With OPEC cutting production volumes, this has fuelled expectations of inflation, which can, in itself, be considered a positive trend in the current interest rate environment.

Regional economic environment is characterised by a growth in wages and consumption in the Baltic States, a strong real estate cycle in Sweden and a sluggish recovery in Finnish economy. Investments are greatly missed in all of these markets, despite a strong credit cycle. Growth in loan volumes is also evident in Estonia, although we can detect the first signs of a rise in credit pricing and growth in the number of companies in debt. The greatest concern for enterprises is availability of labour and a quick growth in labour costs, leading to a drop in profit. Nonetheless, convergence with Europe is unavoidable. To enhance efficiency of labour costs, we therefore need to boost investments. The record-low fixed financing costs provide a good foundation for such efforts. This is certainly something our enterprises should further exploit.

Low interest rates have inflated the real estate sector, triggering a potential oversupply in rental cashflow projects. LHV avoids financing projects without tenants; residential developments are only financed if the corresponding conditions serve to ensure a market balance. On a positive note, no other major balance shifts or risks are evident on the domestic scale.

LHV has done well in such an environment. Even though financial intermediation is among the most regulated business sectors, we have the opportunity to offer modern-day, customer-tailored solutions. Our special talent lies in the ability to be involved and to understand the market. This allows us to offer traditional products in a cutting-edge dressing, along with modern conditions. Model-based products can be tailored to the customer's needs. We lay emphasis on speed, with simplicity, availability and speed having a significant bearing on the product in the competitive digital age. Financial products do not have to be boring and old-fashioned. A product should create a positive emotional bond, and serve as a well-designed rational tool at the customer's service. LHV's results demonstrate that we have only scratched the surface with this approach.

Certainly, the year 2016 marked a milestone in corporate growth. On May 23, AS LHV Group launched public trading of its shares on the NASDAQ Tallinn Stock Exchange. A total of more than five thousand investors decided to invest in the success of LHV, contributing to our mission of boosting domestic capital. The listing of the shares marked the fulfilment of a long-term objective and a logical continuation of the listing of subordinated bonds in 2015. In order to support LHV's growth, we engaged a total of EUR 13.9 million from our investors, issuing two million new shares. The issue was oversubscribed three times, with the earnings per share amounting to nearly 40% in 2016.

LHV posted a net profit of EUR 19.9 million in 2016. This constitutes a EUR 5.1 million increase from last year, with a 20.7% return on equity for the shareholders of LHV. Profit was supported by strong customer activity, strong credit quality and the extraordinary revenue generated by the acquisition of Danske Capital and its managed funds. Business volumes and profits were boosted in all core activities.

At the end of September, the Financial Supervision Authority issued the annual Supervisory Review and Evaluation Process (SREP) to LHV Group and LHV Bank. Based on the rates as at the end of 2015, the Financial Supervision Authority established the minimum total capital ratio at 14.39% and the minimum Tier 1 capital ratio at 11.49% for LHV Group and LHV Bank. In view of the Financial Supervision Authority's evaluation, and by adding the negative scenario buffer, LHV Group established the group's minimum total capital ratio at 16.19% and the minimum Tier 1 capital ratio at 13.29%.

The net profit posted by the largest business unit - LHV Bank - amounted to EUR 13.2 million, having grown by EUR 3.3 million, year-on-year. Loans to customers increased by EUR 126 million and totalled EUR 532 million. EUR 156 million worth of new deposits were engaged during the year, with the total volume of deposits amounting to EUR 785 million by the end of the year. The number of customers grew by 31 thousand, year-on-year, amounting to 144.1 thousand as at the end of the year.

The Bank received various recognitions at the beginning of the year. In January, NASDAQ declared LHV Bank the Baltic Member of the Year. In February, the survey company Dive declared LHV Bank the bank with the best service in Estonia. In the annual Most Valuable Employer poll conducted by CV-Keskus, LHV Bank rose from last year's 17th position to the 8th position, succumbing only to Estonia's largest companies and ranking second among banks.

In 2016, LHV Bank focused mainly on gaining new customers, enhancing user convenience and expanding the credit product offers. We launched the corporate micro-loan product and laid greater emphasis on small enterprise financing, together with the provision of the required banking services. Mortgage loan - a product, whose existence eliminates the main obstacle for a private customer wishing to change his or her bank - was launched at the end of the year. We have brought our cost structure to a level which allows to provide the mortgage loan product on favourable conditions. We opened a new, more spacious office in Tartu. Both LHV's investment seminars and the Börsihai (Stock Exchange Shark) game witnessed a record number of participants. We have responded to growing public interest by enhancing the flexibility of our Growth Account product, allowing all interested customers to start regular investment with small amounts.

LHV Bank has positioned itself the third-largest local bank in Estonia. Our home market is Estonia, and we wish to excel here. This means ranking among the top three banks, with regard to both customer numbers and business volumes, as well as efficiency and profitability per employee.

LHV Asset Management posted a net profit of EUR 6.1 million in 2016 - EUR 1.5 million more than last year. Net fee and commission income increased by EUR 3.7 million to EUR 12.9 million. The expense side was affected by a depreciation of client agreements, recognised through acquisition of Danske Capital and its managed funds, in the amount of EUR 0.4 million. The revenue of LHV Asset Management is bound to decrease by an average of 19% in February 2017, when the new management fee rates for the 2nd pillar funds take effect. The lowering of the fees is a benefit gained by 2nd pillar fund customers from the Danske Capital transaction.

For LHV Asset Management, the highlight of the year was signing the acquisition of AS Danske Capital on January 29. Immediately after conclusion of the contract and acquisition of the required permits, LHV launched the merger of the two management companies. The merger took effect on July 28, with the balance sheet date of May 1. As a result of the merger, Danske Capital was dissolved, with LHV Asset Management becoming its legal successor. LHV's business plan also includes merger of pension funds with a similar strategy. Similar mandatory pension funds will be merged on May 3 2017.

In order to finance the purchase of Danske Capital, the share capital of LHV Asset Management was increased by EUR 8.2 million to EUR 12.0 million in February. In view of the current profit and lowering of the capital requirements as a result of merger of the management companies, LHV Asset Management decreased its share capital by EUR 2.7 million before the end of the year. The acquisition of and merger with Danske Capital generated EUR 6.6 million in intangible assets, with the client agreements to be depreciated over a period of several years.

Alongside actively managed pension funds, LHV Asset Management also launched passively managed pension funds in the second half of the year. The principal feature of passive funds is that these funds are not actively managed. This, in turn, allows to offer passive funds at lower management fees. Passive funds are invested in markets at all times, with the yield mimicking the fluctuations of global markets.

We witnessed several stock market declines during the year, but the markets rebounded quickly. Actively managed pension funds avoided major investment risks, with the funds easily navigating all market fluctuations. Our flagship - LHV Pension Fund L - ranked second in its category in terms of yield as at the end of the year. Among conservative funds, LHV Pension Fund S generated the highest yield for the year.

The number of active customers of LHV's mandatory pension funds grew by 49 thousand, year-on-year, amounting to 179.6 thousand. The pension funds acquired through the purchase of Danske Capital had a total of 35.4 thousand customers as at the end of the year. The volume of funds managed by LHV grew by EUR 404 million to EUR 974 million, of which EUR 253 million can be attributed to the transaction-related pension funds.

Mokilizingas posted a net profit of EUR 1.9 million in 2016 - a EUR 0.8 million increase, year-on-year. Profit was positively affected by the disposal of uncollectable receivables in the amount of EUR 0.9 million in Q4. The loan portfolio shrank by EUR 1 million during the year, totalling EUR 36 million. Mokilizingas' return on equity was 31.6%. Mokilizingas is the second largest hire-purchase provider on the Lithuanian market, and is recognised for the good service and transparent pricing. In cooperation with a partner in the telecommunication sector, Mokilizingas also started offering hire-purchase services in Latvia. Furthermore, the credit card product is currently in pilot stage.

All in all, the year 2016 was successful for LHV. We follow the principle of simplicity and modernity and believe in the opportunities for further growth in all key segments. Retail banking will focus on modern-day payment solutions and development of a futuristic mobile bank; the corporate loan and consumer financing segment in Estonia and Lithuania will concentrate on strong credit quality to provide a good foundation for growth in the credit portfolio; private banking will pursue the next level of quality. Asset Management will focus on fond yield and expansion of the client base. In addition to organic growth, we will continue to search for opportunities beyond Estonian and Lithuanian borders. We will continue to make forward-looking investments, with the basic principle of achieving long-term capital efficiency.

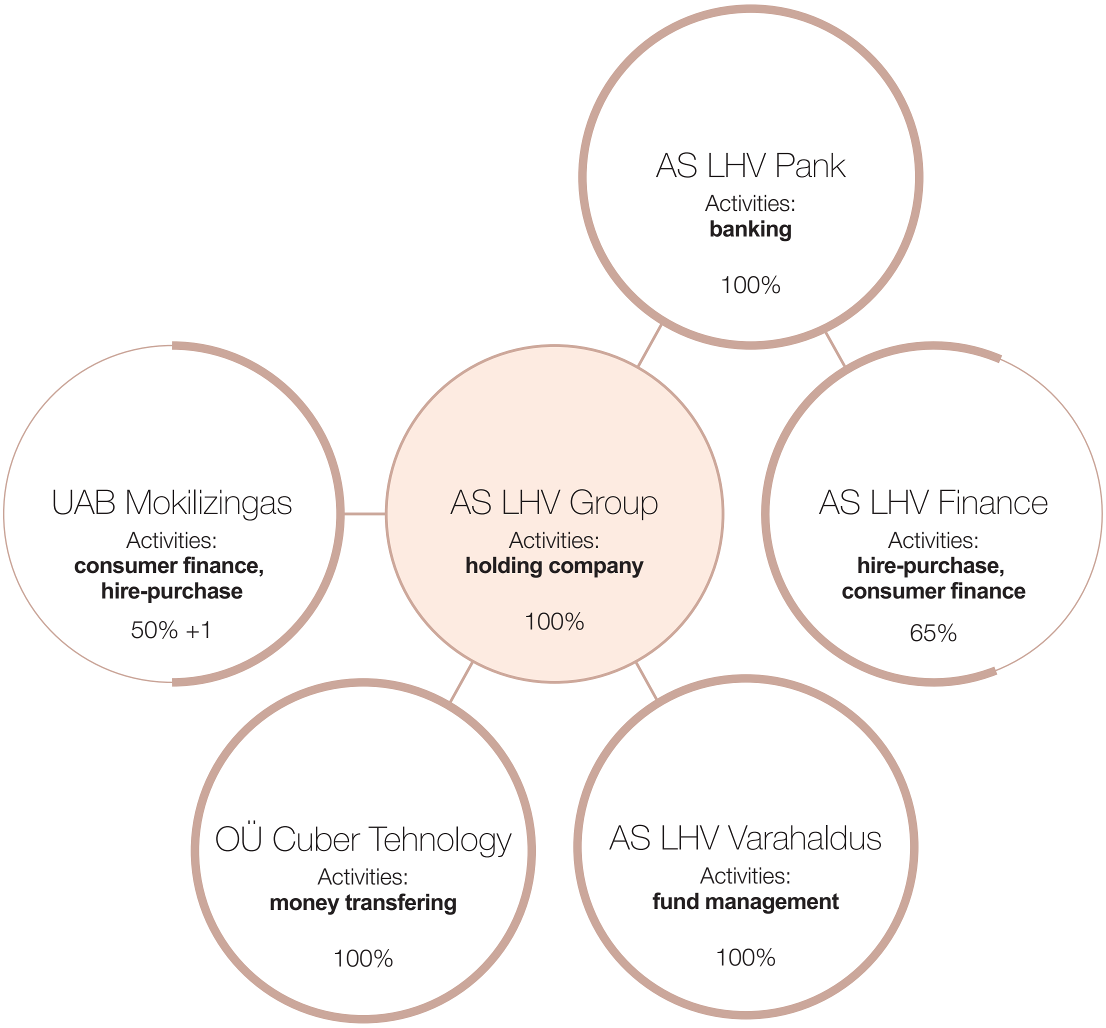
LHV's objectives for the upcoming years:

- we endeavour to serve as the best financial service provider to private customers and SMEs who wish to save and invest financial assets;
- we endeavour to serve as an attractive and recognised employer, offering progress, self-fulfilment and growth;
- we endeavour to do business in such a way as to ensure a 20% return on equity;
- we endeavour to become Estonia's most valuable publicly traded company.

Madis Toomsalu

Management report

AS LHV Group (hereinafter: the 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 (hereinafter: the Bank) and AS LHV Varahaldus (hereinafter: 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 and Vilnius. Over 330 people work in LHV. Over 144 000 customers use banking services offered by LHV and the LHV's pension funds have over 204 000 clients.



Key events in 2016:

- **IPO and listing shares**

In May 2016 LHV issued 2 million new shares and listed all it's shares on NASDAQ Tallinn Stock Exchange. By that extremely successful transaction LHV Group fulfilled the promise given to shareholders 5 years ago.

- **LHV Bank**

AS LHV Pank launched in Q4 mortgage loan product and that filled last larger gap in product offering to retail clients. In addition LHV Pank was the first one to start issuing NFC cards in Estonia.

- **Mokilizingas**

Mokillizingas stopped providing financial leasing services and is now focusing only on consumer loans and hire-purchase products.

- **LHV Varahaldus**

LHV Varahaldus bought Danske Capital and merged that into it's organization. In Q4 LHV Varahaldus was the first to launch index funds to offer low fee based second and third pillar pension fund.

Operating principles

The mission of LHV is to help create local capital and to support the development of local entrepreneurship.

LHV concentrates on active and independent customers with an entrepreneurial mind-set. 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 operations.

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.

LHV is public company which is listed on the Tallinn Stock Exchange since May 2016, so all clients and partners of LHV may be owners of LHV.

Shareholders

AS LHV Group has 25 356 005 common shares with par value of 1 euro.

As at 31.12.2016 AS LHV Group had 5 170 shareholders:

- 13 108 473 shares (51.7%) belonged to the members of the supervisory board and management board and to their related parties.
- 12 247 532 shares (48.3%) belonged to Estonian entrepreneurs and investors and to their related parties.

Ten biggest shareholders as at 31.12.2016:

Number of shares	Percentage	Name of the shareholder
3 357 920	13.2%	AS Lõhmus Holdings
2 628 367	10.4%	Rain Lõhmus
2 052 344	8.1%	Viisemann Investment AG
1 595 620	6.3%	Ambient Sound Investments OÜ
1 210 215	4.8%	OÜ Krenno
999 456	3.9%	AS Genteel
951 978	3.8%	AS Amalfi
701 297	2.8%	OÜ Kristobal
653 165	2.6%	SIA Krugmans
581 718	2.3%	OÜ Merona Systems

Business environment

Even though the final figures are yet to be revealed, the world economy is likely to have decelerated in 2016, for the second year in a row. According to IMF's January forecast, there is a good chance that the trend will be reversed, with the global economic growth expected to gain momentum and reach 3.4% this year.

The dynamics of the previous six months suggest that developed and developing markets have taken a different path. The new administration in the United States foresees a growth in budgetary expenditure. Similarly, the forecast for the Chinese economy has been upwardly revised against endless government stimulus. In Latin America, however, economic recovery has remained sluggish, failing all expectations. Mexico is suffering from US-related political uncertainty, and the Indian economy from backlashes of the banknote replacement.

The keyword for 2017 is "elections" – in Europe, the year will see elections in both Germany and France, while the newly inaugurated President of the United States is already revealing the first major changes in course. Growth in protectionist tendencies, review of international trade treaties and prolongation of the long-awaited structural reforms have the potential to re-shape the long-term economic outlook.

Economic growth in the euro area hovered around 1.7% in Q3, with the annual change expected to remain in the same ballpark. The IMF forecasts a marginal slow-down in growth, to 1.6%. The return of inflation, fuelled by the recovery in oil and energy prices, will start exerting pressure on domestic consumption (the main engine for growth so far), with the pressure on wage increase remaining non-existent. Consumption is positively affected by consistent growth in employment. Enhanced corporate profitability is bound to attract investments.

The Economic Sentiment Indicator of Estonia's key trade partners remained at five-year highs, strongly advancing in the second half of the year. A major advance in sentiment was evident in Finland and Lithuania in 2016, suggesting an improvement in the countries' economic outlook.

Despite overall optimism, the economic growth in Sweden is losing pace, dropping to 2.8% in Q3. This can mainly be attributed to stabilisation of domestic consumption, which, up to now, has been stimulated by low interest rates. The growth in investment volumes is also expected to slow down significantly. The forecast for Swedish economic growth this year is around 2%. Estonia's interests revolve around a strong growth in Swedish import volumes and investor-friendly tendencies in Swedish banks.

Finland is continuing its sluggish recovery, with the economy growing 1.7% in Q3. Consumer confidence rose above long-term average in 2016 and is nearing ten-year highs - the highest among EU Member States. The positive trend is reflected in the general economy, where domestic consumption has remained the main engine for growth for quite some time. The key for the upcoming year lies in the ability to boost export volumes. So far, this has remained quite a stumbling block. Similarly to Sweden, Estonia's interests lie in further growth in Finnish import volumes.

The economic growth in Lithuania - a major destination market for LHV - slowed down to 1.7% in Q3. This can mainly be attributed to shrinking volumes of projects financed through EU assistance funds, which also had an adverse effect on the construction sector. Strong domestic consumption remained the main engine for growth, fuelled by a quick increase in wages and decrease in unemployment. The Lithuanian economic growth is expected to improve, compared to the 2% growth last year. Growth in the volume of EU financed projects could provide a further stimulus, with the transition to the new programming period expected to contribute.

The Estonian economy in 2016 can mainly be characterised by failure to meet the overly optimistic forecasts – the estimated growth of 1% is the slowest in the post-crisis period. Difficulties in the oil shale industry and the energy sector, mainly conditioned by external factors, also had their bearing. The poor investment volumes in recent years have impeded the potential growth of Estonian economy. The economic forecast published by the European Central Bank in December foresees a 2.6% growth for the year. Income increase is expected to continue, but the return of inflation will have a significant impact on growth in real wages. Consequently, export and investments are becoming increasingly important, alongside domestic consumption. Government expenditure is expected to rise, fuelled, among other things, by the EU Presidency and the local government elections in the autumn of 2017. The policy measures implemented by the new coalition have caused a greater-than-usual uncertainty with regard to the outlook for the upcoming year.

Key economic indicators of Estonia*

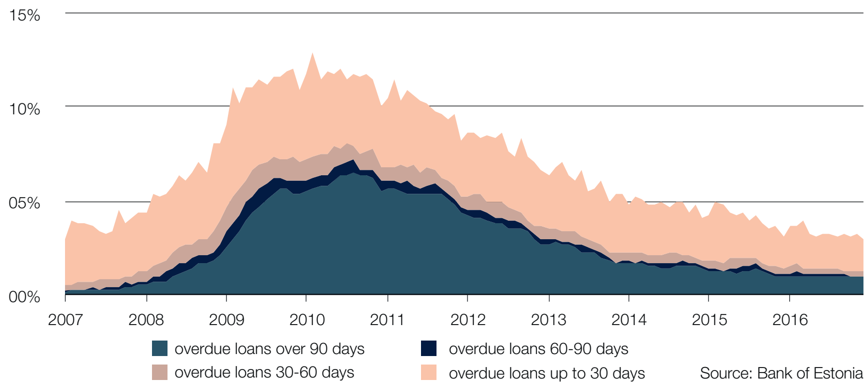
	2007	2008	2009	2010	2011	2012	2013	2014	Bank of Estonia forecast 2015	2016E	2017E
Nominal GDP (EUR billion)	16.25	16.52	14.15	14.72	16.67	17.93	18.89	19.76	20.25	20.78	21.73
GDP volume***	7.7%	-5.4%	-14.7%	2.3%	7.6%	4.3%	1.4%	2.8%	1.4%	1.0%	2.6%
Private consumption expenditures****	9.0%	-4.9%	-15.3%	-1.6%	3.7%	4.3%	3.8%	3.3%	4.7%	3.4%	2.7%
Government consumption expenditures	6.6%	4.6%	-3.2%	-0.4%	1.3%	3.2%	1.9%	2.7%	3.4%	-0.4%	2.4%
Fixed capital formation	10.3%	-13.1%	-36.7%	-2.7%	34.4%	12.7%	-2.8%	-8.1%	-3.3%	0.2%	4.1%
Exports	12.6%	0.9%	-20.3%	24.0%	24.2%	4.8%	2.3%	3.1%	-0.6%	3.6%	3.4%
Imports	13.0%	-6.2%	-30.6%	21.2%	27.2%	9.7%	3.2%	2.2%	-1.4%	5.0%	3.1%
CPI	6.6%	10.4%	-0.1%	3.0%	5.0%	3.9%	2.8%	-0.1%	-0.5%	0.1%**	2.8%
Unemployment rate (% of the labour force)	4.6%	5.5%	13.5%	16.7%	12.3%	10.0%	8.6%	7.4%	6.2%	6.8%	8.2%
Current account (% of GDP)	-15.0%	-8.7%	2.5%	1.8%	1.3%	-1.9%	-0.4%	0.9%	2.2%	2.2%	1.5%
Budget balance (% of GDP)*****	2.7%	-2.7%	-2.2%	0.2%	1.2%	-0.3%	-0.2%	0.7%	0.1%	0.3%	-0.4

“* Numbers reported are annual rates of change in per cent, if not noted otherwise;
** actual;
*** GDP and its components are chain-linked;
**** including NPISH;
***** the budget balance forecast considers only those measures on which sufficient information was availanble at the date of the forecast.
Sources: Eesti Pank, Eurostat, Statistics Estonia”

LHV is not expecting any abrupt economic changes in Estonia over the 12-month horizon. Economic growth is expected to pick up pace, but is unlikely to achieve its full potential. The policy measures of the new coalition will be a major factor. Rapid growth in wages is exerting pressure on the already dropping corporate profits. Corporate adaptability and successful enhancement of productivity will thus play an increasingly important role. A qualitative leap in investments is required to achieve the objectives.

In terms of economic sectors, higher-than-average risks are evident in the processing industry and energy-related sectors, which are facing wage pressures. Special attention should also be paid to transport and warehousing as well as the risks of the construction sector, where the drop in profit figures has been significant, compared to previous periods. LHV has also taken a more conservative approach to the real estate market, carefully monitoring the dynamics on the local and Scandinavian markets. Rental property projects involve a significant risk of insufficient demand for absorbing the developed volumes in the near future, with corrections expected in either rental prices or vacancy rates.

Overdue loans share in loan portfolio



On a positive note, the financing environment remains favourable. 2016 saw a growth in the balance of loans taken from credit institutions. The loan to deposit ratio and overdue loans have maintained their post-crisis lows. With the record-low interest rates and interbank competition having a positive impact on local entrepreneurship, the opportunities should be further exploited. LHV stands ready to boldly and efficiently contribute to the search of new sources of growth, offering a long-term partnership to enterprises and making an effort to create additional value.

Financial results

EUR million	2012*	2013*	2014*	2015	2016
Volume of deposits and loans received	**279**	**352**	**457**	**633**	**778**
Volume of net loans	**106**	**207**	**316**	**410**	**538**
Volume of funds	**252**	**374**	**504**	**570**	**974**
Net interest income	6.1	11.8	20.3	23.2	30.0
Net fee income	6.5	9.5	12.8	14.7	19.2
Net financial income	0.8	2.7	0.5	0.4	1.3
Net income	13.4	24.0	33.6	38.3	50.5
Expenses	14.0	16.7	21.7	24.1	28.9
Operating profit	-0.7	7.3	11.9	14.3	21.7
Loan provisions	1.1	2.9	2.6	1.4	1.5
Income tax expense	0.0	0.1	-0.4	-0.3	-0.3
Profit from discontinued operations	0.0	0.0	0.0	2.2	0.0
Profit	**-1.8**	**4.3**	**9.7**	**14.8**	**19.9**
including attributable to owners of the parent	**-1.8**	**4.2**	**9.2**	**13.7**	**17.8**

**The summary table of financial results does not separately show income and expenses of the Finnish business operations. In the annual report they are presented separately as a discontinued operations.*

The Group's pre-tax profit for 2016 amounted to EUR 20.2 million and net profit totalled EUR 19.9 million. Pre-tax profit is 60% more than a year before (EUR 12.6 million from continued operations). Net interest income grew 29% and net fee income increased 31%. Financial income grew 198%.

By the end of December, the total volume of the Group's loan portfolio less impairments amounted to EUR 538 million (December 2015: EUR 410 million). The volume of portfolio increased 31% in a year. In the loan portfolio, the majority is corporate loans that increased 31% in a year to EUR 377 million (2015: EUR 286 million). The portfolio of retail loans increased 30% in a year, amounting to EUR 166 million (2015: EUR 128 million).

The volume of Group's deposits increased 26% in a year and totalled EUR 777 million by the year-end (2015: EUR 617 million). The share of demand deposits of all deposits increased and reached 80% (31.12.2015: 68%).

Operating expenses increased 20% in a year.

By business units, in consolidated figures in 2016, AS LHV Pank earned profit of EUR 13.2 million, LHV Varahaldus earned EUR 6.1 million and UAB Mokilizingas earned a profit of EUR 1.9 million. LHV Group itself ended the year with a loss of EUR 1.3 million due to the fact that it does not engage in operating business and the main expense in the Group is the interest expense from issued subordinated debt.

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the Group, calculated according to the definitions of the Basel Committee, was 222.2% at the end of December (31.12.2015: 271.6%). The Group includes cash and bond portfolios into a liquidity buffer, accounting for 40% of the balance sheet total, among its liquidity buffer (31.12.2015: 44%). The Group's loan-to-deposit ratio at the end of 2016 was 70% (31.12.2015: 66%).

The Group's level of own funds as at 31.12.2016 was EUR 123.9 million (31.12.2015: 100.5 million). The Group is well-capitalised as at the end of the reporting period with a capital adequacy level of 22.3% (31.12.2015: 24.0%) and Tier 1 capital ratio of 16.8% (31.12.2015: 16.7%).

The Group uses the standard method for the calculation of credit risk and market risk capital requirements and the basic indicator approach for the calculation of operational risk capital requirements. The Group has complied with all capital requirements during the financial year and in previous year.

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.

Leverage ratio, calculated according to Basel Committee on Banking Supervision requirements, as at 31.12.2016 was 9.5% (31.12.2015: 7.5%). Leverage ratio is calculated as Group's total Tier 1 own funds divided by Group 's total risk exposure measure (incl risk position on assets and off the balance sheet liabilities). As at the end of the reporting period, the leverage ratio is arithmetic mean of the monthly leverage ratios over the last quarter.

Key figures

EUR million	2016	2015	change	2014	change	2013	change
Net profit	19.9	14.8	34%	9.7	53%	4.3	126%
Net profit attributable to owners of the parent	17.8	13.7	30%	9.2	49%	4.2	119%
Average equity	86.2	62.9	37%	43.1	44%	25.7	68%
Return on equity (roe) % *	20.7	21.8	-1.1	21.4	-0.4	16.5	4.9
Average assets	846	656	29%	485	35%	366	33%
Return on assets (roa) %	2.4	2.3	0.1	2.0	0.3	1.2	0.8
Net interest income	30.0	23.2	29%	16.5	41%	9.1	81%
Average interest earning assets	832	641	30%	471	36%	360	31%
Net interest margin (nim) %	3.60	3.62	-0.02	3.50	0.14	2.53	0.97
Spread %	3.52	3.55	-0.03	3.44	0.11	2.48	0.96
Cost to income ratio %	57.2	62.8	-5.6	67.5	-4.7	71.6	-4.1

* Return on equity is calculated based on LHV Group net profit and equity attributable to owners of the parent and does not include non-controlling interest.

Explanations

average equity (attributable to owners of the parent) = (equity of current year end + equity of previous year end) / 2

return on equity (ROE) = net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100

average assets = (assets of current year end + assets of previous year end) / 2

return on assets (ROA) = net profit / average assets * 100

net interest margin (NIM) = net interest income/average interest earning assets * 100

spread = yield on interest earning assets – cost of interest bearing liabilities

yield on interest earning assets = interest income/average interest earning assets * 100

cost of interest bearing liabilities = interest expenses/average interest bearing liabilities * 100

cost to income ratio = total operating expenses / total income * 100

Risk Management

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. The principles of identification, measuring, reporting and control of risks at the Group are set out in the policies and procedures approved by the supervisory board and daily risk management is organised by risk management unit. In the Group, risk management is based on three lines of defence. Business units as the first line of defence are 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, internal audit function, carries out independent control over processes, operations and control functions 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 is presented in Note 3 of the annual report.

Capital base (in EUR thousands)	31.12.2016*	31.12.2016	31.12.2015
Paid-in share capital	25 356	25 356	23 356
Share premium	45 892	45 892	33 992
Statutory reserves transferred from net profit	1 580	1 580	895
Other reserves	-40	-40	-23
Accumulated profit/(deficit)	10 517	10 517	-2 503
Intangible assets (subtracted)	-8 114	-8 114	-1 734
Net profit for accounting period	17 816	17 816	13 705
Dividend offer (including income tax)	-4 754	0	0
Non-controlling interests	0	0	1 945
Total Tier 1 capital	**88 253**	**93 007**	**69 633**
Subordinated debt	30 900	30 900	30 900
Total Tier 2 capital	**30 900**	**30 900**	**30 900**
Exceeding limitations of subordinated debts and preference shares	0	0	0
Net own funds for capital adequacy calculation	**119 153**	**123 907**	**100 533**
Capital requirements			
Central governments and central bank under standard method	1 498	1 498	0
Credit institutions and investment companies under standard method	7 415	7 415	5 949
Companies under standard method	334 314	334 314	232 779
Retail claims under standard method	114 689	114 689	106 445
Public sector under standard method	216	216	0
Housing real estate under standard method	7 079	7 079	0
Overdue claims under standard method	2 313	2 313	7 758
Investment funds' shares under standard method	10 886	10 886	6 369
Other assets under standard method	7 610	7 610	5 712
Total capital requirements for covering the credit risk and counterparty credit risk	**486 020**	**486 020**	**365 012**
Capital requirement against foreign currency risk under standard method	5 032	5 032	6 527
Capital requirement against interest position risk under standard method	1 709	1 709	2 342
Capital requirement against equity portfolio risks under standard method	601	601	87
Capital requirement against credit valuation adjustment risks under standard method	24	24	0
Capital requirement for operational risk under base method	61 812	61 812	44 367
Total capital requirements for adequacy calculation	**555 198**	**555 198**	**418 334**
Capital adequacy (%)	**21.46**	**22.32**	**24.03**
Tier 1 Capital Ratio (%)	**15.90**	**16.75**	**16.65**

*audited numbers which include the dividend offer

Overview of the Group's subsidiaries in 2016

AS LHV Pank consolidation group

AS LHV Pank is based on Estonian capital. The Bank's clients include private individuals, small and medium-sized companies and institutional investors. The branch offices of the Bank are located in Tallinn, Tartu and Vilnius (will be closed 31.03.2017) (Riga office was closed 31.03.2016). AS LHV Pank employs over 250 people. More than 110 000 clients use the Bank's services. AS 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. The Bank owns 65% of the subsidiary AS LHV Finance that provides hire-purchase and consumer finance services.

Business activities

2016 has been year of growth in all business segments. Growth of loans was according to expectation and deposits transaction volumes exceeded the budget.

The volume of deposits grew by 25% year-on-year and reached 785 million euros by year-end (2015: 629 million euros). As a result of the overall low interest rate environment, a change has occurred in the deposit structure. As the deployment of money in term deposits is no longer as attractive, the Bank has used the liquidity account concept to attract more active customers. During the 2016 we have significantly managed to reduce deposits concentration. At the end of year, there were only five depositors exceeding 1% of total deposits. In total their share was 8% of total deposits. We have managed significantly to increase the share of retail deposits. The proportion of demand deposits has increased, accounting for 81% of all deposits as at the end of December (71% one year ago).

The loan portfolio volume grew by 31% year-on-year and amounted to EUR 532 million at the end of December (2015: EUR 405 million). The majority of the loan portfolio is made up of corporate loans to legal entities, which grew by 31% year-on-year to EUR 377 million (31.12.2015: EUR 286 million). The loan portfolio given to private individuals grew by 65% year-on-year to EUR 86 million (31.12.2015: EUR 52 million). AS LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was EUR 31 million (31.12.2015: EUR 33 million).

In autumn Bank started offering mortgage loans. Clients have shown very high interest from the very first days. Approximately 50% of applicants have been LHV clients and another half new clients.

As new developments LHV Connect and new functionality in mobile were launched. LHV Connect offers corporate customers a possibility to link their bank account information directly to their accounting system. LHV Connect allows making payments, receive notifications and import account statements.

Bank's organizational structure is divided into three larger business lines: retail banking, private banking and corporate banking; and three larger support functions: IT, Finance and support and Risk management. Marketing and communication; and Human resource department are across the group.

During the year, corporate loan portfolio was divided into two. Credits below 250 thousand euros were given over to retail banking and all credits exceeding 250 thousand euros remained in corporate banking. Shifting smaller loans to retail banking was important to keep corporate banking and credit analyses focus on larger and more individual approach requiring credit clients. Credits below 250 thousand euros are analysed more cost-efficient scoring process.

At the end of first quarter Latvian branch was closed. The Bank's operations in Latvia were small-scale. In its business pursuits, the Bank has been governed, above all, by the business interests of its customers and endeavours to keep pace with the customers. Estonian enterprises currently need more services and support on the Western European front.

At the end of year new office was opened in Tartu. In second half of year the internal personnel satisfaction survey was carried out. The respondent percentage and also the marks have been all-time high.

Bank received several awards. We rec eived Member of the Year award by NASDAQ; research agency Dive nominated us Bank with Best Service in Baltics. According to yearly poll made by CV-Keskus, LHV Pank raised to eight spot.

Financial results

The net profit of the Bank in 2016 amounted to 13.2 million euros, up 33% compared to the previous year (9.9 million euros). Net interest income grew by 36% and net fee and commission income increased by 18%. Financial income was higher by 711% compared to the previous year.

The large increase in net interest income is attributable to a growth in lending and deposit volumes.

Among fee and commission income, the greatest contribution continues to come from security brokerage income. Income on cards and settlements are also showing a growth trend.

Operating expenses grew by 15% year-on-year, which was expected given the current phase of high growth and new business development.

Loan losses were 164% higher compared to the previous year.

Organisation

The organisational structure of the Bank continues to be divided in six major areas: Retail Banking, Private Banking, Business Banking, Information Technology, Finance and Operations, and Risk Management (incl compliance).

Statement of profit or loss and other comprehensive income

EUR million	2016	2015	change
Net interest income	25.55	18.76	36%
Net fee and commission income	5.72	4.85	18%
Net gains from financial assets	1.00	0.12	711%
Total net operating revenues	32.27	23.73	36%
Other income	0.38	0.09	331%
Operating expenses	-17.64	-15.38	15%
Loan losses	-1.77	-0.67	164%
Discontinued operations	0.00	2.18	-100%
Net income	13.24	9.94	33%

Volumes

EUR million	31.12.2016	31.12.2015	change
Loan portfolio	531.8	405.4	31%
Bond portfolio	64.9	103.0	-37%
Deposits	785.0	629.0	25%
Equity	80.2	61.4	31%
Number of customers			
Holding assets in bank	112 998	83 081	36%

AS LHV Varahaldus

AS LHV Varahaldus (hereinafter: LHV Asset Management) is involved in the management of investment funds. The principal units of LHV Asset Management are the investment unit, risk management unit, operations unit and sales and customer service unit.

For LHV Asset Management, the highlight of the year 2016 was the acquisition of and merger with AS Danske Capital. The contract of purchase and sale was entered into with Danske Bank A/S and Danske Bank A/S Estonia Branch on January 29. Upon entry into the contract, LHV started applying for the permits required for the purchase of Danske Capital. The permits were issued in April. Immediately after conclusion of the transaction of purchase and sale of shares on May 2, LHV launched the merger of the two management companies. The merger took effect on July 28, with the balance sheet date of May 1. LHV Asset Management served as the acquiring company in the merger. As a result of the merger, Danske Capital was dissolved, with LHV Asset Management becoming its legal successor.

Three funds with no customers were dissolved upon the merger. In August, LHV World Equities Fund, as the acquiring fund, merged with Danske Invest New Europe Fund. LHV Asset Management's business plan also includes merger of pension funds with a similar strategy. Similar 2nd pillar funds will be merged on 3 May 2017. In 2016, LHV Asset Management set up new, passively managed 2nd pillar and 3rd pillar pension funds, with their operations launched on November 10. As at the end of the year, LHV Asset Management managed 9 mandatory pension funds (the figure will drop to 6 after the planned fund mergers), 4 voluntary pension funds (3 after the planned merger) and 1 UCITS, and offered investment consulting to one UCITS (SEF-LHV Persian Gulf Fund, which merged with the LHV Persian Gulf Fund in 2015).

In order to finance the purchase of Danske Capital, the share capital of LHV Asset Management was increased by EUR 8.2 million to EUR 12.0 million in February. In view of the current profit and lowering of the capital requirements as a result of merger of the management companies, LHV Asset Management decreased its share capital by EUR 2.7 million before the end of the year.

LHV Asset Management posted a net profit of EUR 6.1 million in 2016 - EUR 1.5 million more than the year before. Net fee and commission income increased by EUR 3.7 million to EUR 12.9 million. EUR 3.0 million of the increase in revenue can be attributed to business volumes added as a result of merger with Danske Capital. Operating expenses increased by EUR 2.1 million to EUR 6.9 million. The acquisition of and merger with Danske Capital generated EUR 6.6 million in intangible assets, with the client agreements to be depreciated over a period of several years. Depreciation of client agreements added EUR 0.4 million to expenses in 2016. As the volume goes up, the management fees for 2nd pillar funds will be lowered. The management fees of LHV's actively managed pension funds will thus be lowered from February 2017 (when the new rates will take effect) by an average of 19%. The lowering of the management fees is a benefit gained by 2nd pillar fund customers from the Danske Capital transaction.

The number of LHV Asset Management's mandatory pension fund customers grew by 46.0 thousand, year-on-year, amounting to 173.1 thousand. The pension funds acquired through the purchase of Danske Capital had a total of 33.3 thousand customers as at the end of the year. The volume of funds managed by LHV grew by EUR 404 million to EUR 974 million, of which EUR 253 million can be attributed to the transaction-related pension funds as at the end of the year. LHV Asset Management's 2nd pillar market share grew from 21.0% to 30.5% in terms of volume and from 19.8% to 26.6% in terms of active customer numbers in 2016.

We witnessed several stock market declines during the year, but the markets rebounded quickly. Actively managed pension funds avoided major investment risks, with the funds smoothly navigating all market fluctuations. Our flagship LHV Pension Fund L - ended the year by ranking second in its category (+3.6%). Among conservative funds, LHV Pension Fund S generated the highest yield for the year (+2.1%).

In Q4, the parliament adopted the long-awaited Investment Funds Act, regulating the functioning of management companies and funds. With the entry into force of the Act on January 10 2017, the capital requirements applied for LHV Asset Management will be lowered and the exit fees of 2nd pillar funds will be abolished (revenue generated in 2016: EUR 0.45 million).

Financial results

EUR million	2016	2015	change
Net fee income	12.9	9.2	40%
Other financial income	0.2	0.3	-33%
Total net operating revenues	13.1	9.5	38%
Operating expenses	-6.9	-4.8	44%
Net profit	6.1	4.7	30%
Assets under management	974	570	71%
Number of clients in pension funds (thousands)	204	147	39%

UAB Mokilizingas

Hire purchase

In Hire Purchase (HP) segment Mokilizingas continues to work in a strong collaboration with main partners - Bite Lietuva and Kesko Senukai, launching seasonal campaigns and supporting the sales. 2016 HP sales amounted to EUR 36.9 million (2015: EUR 38.6 million). The number of contracts signed decreased by 4% compared to 2015, average contract amount remained stable. Margins remained at similar levels with a slight decrease compared to 2015 due to increased year end campaigns.

Consumer loan

Consumer Loan (CL) sales amounted to EUR 8.0 million and decreased by 16% compared to 2015. The number of contracts signed remained stable, however average contract amount decreased by 16%. Margins are stable with a slight increase compared to 2015.

After the successful launch of Credit Card Pilot, the second phase started in Q4 2016. Total number of cards issued reached 4 thousand by the end of 2016 with a total EUR 5.5 million credit limit. Average credit limit is 1400 EUR/card, which is 40% above the expectation. Average spending per month is also higher than expected. However, usage is quite low – 25% of activated cards have at least one transaction. Objectives of Q1 2017 will be dedicated to the enhancement of card usage rate and product knowledge allocation to the customers. Especially concentrating on the existing card owners, to get in line and exploit high revolving balance perspectives.

The main event for non-bank consumer credit segment in Lithuania was a change of regulation in Q2 2016, which tightened the evaluation of clients, eg. more conservative limits to evaluation of income and liabilities of married clients. This also brought turbulence in the market and had a significant impact for sales, especially CL.

In HP side, Mokilizingas and Bite, developed an invoice consolidation project. The clients now have an option to receive single invoice from Bite and Mokilizingas for telco services and hired handsets, respectively. This allows more flexibility for both companies to promote additional sales, as well as use telco input for management of late payments.

As planned, Mokilizingas has launched a renewed self-service website. This is a major step towards unifying all customer related processes since all the following projects will be designed in the same manner. The new process allows customers to take consumer loans without compulsory registration. The consent ratification and general admission process is quicker and more user friendly.

Senukai Credit Card sales were launched in December, though the sales campaign will start in Q1 2017. Mokilizingas also implemented new integration with compulsory credit database provided by Bank of Lithuania.

2017 Q1 will be dedicated to further optimizing internal processes and developing more effective financing solutions to maximize sales in relation to tightened regulation of Bank of Lithuania. Further developments will include new services aimed to improve customer experience at all POS and e-commerce platforms.

Governance of the LHV Group

Supervisory board

Rain Lõhmus is a founder of LHV and the chairman of the supervisory board. 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 2 628 367 and his related parties own 3 939 639 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 490 190 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 951 978 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 and other companies. Tiina Mõis graduated from Tallinn University of Technology. Tiina Mõis does not own any shares of AS LHV Group. AS Genteel owns 999 456 shares of AS LHV Group.

Sten Tamkivi is the CEO of Teleport. Prior to co-founding Teleport as an Entrepreneur in Residence at Andreessen Horowitz, Sten served as an early executive at Skype. He holds a number of management and advisory board seats. Sten Tamkivi owns 355 shares and Seikatsu OÜ owns 1 825 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 1 595 620 shares of AS LHV Group.

Management board

Andres Viisemann is the founder of LHV and the manager of LHV 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 does not own shares of AS LHV Group. His related parties own 2 487 269 shares of AS LHV Group.

Madis Toomsalu is the chairman of the supervisory boards of AS LHV Pank and AS LHV Varahaldus. Madis Toomsalu owns 13 775 shares of AS LHV Group.

Supervisory and management boards of the subsidiaries

AS LHV Pank

Supervisory board: Madis Toomsalu (chairman), Raivo Hein, Heldur Meerits, Tiina Mõis, Rain Lõhmus, Sten Tamkivi, Andres Viisemann

Management board: Erki Kilu (chairman), Jüri Heero, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi

AS LHV Finance

Supervisory board: Erki Kilu (chairman), Rain Lõhmus, Veiko Poolgas, Jaan Koppel

Management board: Nele Roostalu

AS LHV Varahaldus

Supervisory board: Madis Toomsalu (chairman), Erki Kilu, Andres Viisemann

Management board: Mihkel Oja (chairman), Joel Kukemelk

Cuber Tehnology OÜ

Management board: Jüri Laur

UAB Mokilizingas

Supervisory board: AS LHV Group, AS LHV Pank, KŪB "RAZFin", UAB "K2Z"

Management board: Erki Kilu, Mantas Jonuška, Benas Pavlauskas, Jurgis Rubaževičius

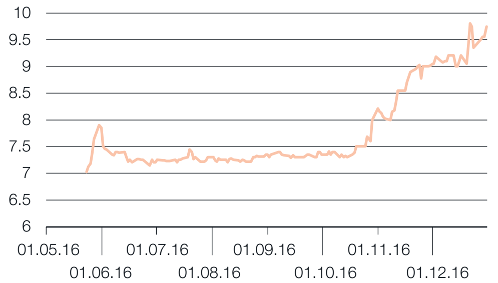
CEO: Benas Pavlauskas

LHV listed shares and subordinated bonds

LHV Group redeemed a promise given to shareholders 5 years ago by issuing 2 million new shares and by listing all shares on Tallinn NASDAQ Stock Exchange on May 23rd, 2016. It was the first listing in more than five years.

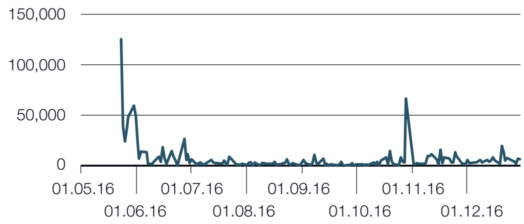
The share was well received to the stock and by the end of the year the share price had increased 37.5% and reached the value of EUR 9.74.

Last price adjusted



During the year 2016 1.1 million shares in the amount of EUR 8.65 million changed the owner on stock exchange.

Volume



At the end of the year 2016 LHV Group had over 5,100 shareholders, from whom 86.7% were also customers of LHV Pank. They were followed by Swedbank customers 9.3% and SEB customers 3.7%. 78% of the investors were companies and 22% were private individuals.

LHV has issued two subordinated debt issues on NASDAQ Tallinn Stock Exchange. The first of them will end in 2024 and the second in 2025. In 2016 no new bonds were issued, nor redeemed. Bonds were traded in 2016 in the total amount of EUR 1.3 million.

At the end of the year 2016 LHV Group had almost 1000 bondholders, 70.3% of them were also customers of LHV Pank. They were followed by the customers of Swedbank 14.7% and SEB 11.39%. 68% of the investor base were companies and 32% were private individuals.

Share options

In 2014, the general meeting of shareholders of AS LHV Group approved the criteria for the granting of share options to the management board members and key employees and department managers and key employees of group companies that are part of AS LHV Group. The aim of issuing share options is to align the interests of management board members and employees more effectively with the interests of shareholders and customers. Another objective is to offer a system of compensation on the labour market that is equal to competitors and comprehensive. The compensation system in LHV consists only from two pillars: base salary and share options. There are no other hidden bonuses in form of additional payments, free-of-charge services or company cars. Similarly to 2014, the share options were issued also in 2015 and in 2016. Most likely the similar share options will be issued in 2017.

The granting and size of share options was dependent upon the successful achievement of operational targets of the overall company and the targets of individual management board members and employees. In the beginning of 2016 the share options were granted to 49 people in the amount of 826 thousand euros (2015: 48 people in the amount of 681 thousand euros; 2014: 35 people in the amount of 645 thousand euros). The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options issued in 2014 can be exercised between the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share. Share options issued in 2015 can be exercised between the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro can be acquired for 2.4 euros per share. Share options issued in 2016 can be exercised between the period of 01.05.2019-31.07.2019 and shares with nominal value of 1 euro can be acquired for 3 euros per share.

Members of the management board and employees were unable to opt for the determined amount in cash instead of share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The share option agreement will become void upon premature termination of the employment contract at the employee's initiative, exemptions to which can be made by the supervisory board of AS LHV Group, and due to termination of employment contract on an extraordinary basis by the employer for a cause related to the employee. Pursuant to the Credit Institutions Act, the supervisory board of AS LHV Group may reduce the number of share options issued or cancel share options if the overall financial results of the company have materially deteriorated compared to the previous period, a member of the management board or employee of the company no longer meets award criteria, the company no longer meets the prudential ratios, the risks of the company are not adequately covered with own funds or determination of the performance pay was based on information which was inaccurate or incorrect to a material extent.

Corporate Governance report

This report is presented in accordance with the Accounting Act of the Republic of Estonia and provides an overview of the governance of AS LHV Group (LHV) and compliance of governance with the Corporate Governance Recommendations of NASDAQ OMX Tallinn Stock Exchange and the Financial Supervision Authority. LHV adheres to the Corporate Governance Recommendations, unless otherwise specified in this report.

1. General meeting

LHV is a public limited company, with its governing bodies being the general meeting of shareholders, the Supervisory Board and the Management Board.

The general meeting, where shareholders can exercise their rights, is the highest governing body of LHV. The primary duties of the general meeting include amendment of the Articles of Association, increase and decrease of share capital, decisions on issuance of convertible bonds, election of and extension of the powers of Supervisory Board members, premature removal of Supervisory Board members, approval of the annual report and profit allocation, approval of the share option programme, determination of the number of auditors, appointment and recall of auditors and other decisions within the competence of the general meeting, as provided by law and the Articles of Association.

A resolution on amendment of the Articles of Association shall be adopted if at least two-thirds of the votes who participate in the meeting are in favour. A resolution on amendment of the Articles of Association shall enter into force as of the making of a corresponding entry in the commercial register. The resolution of the general meeting on the amendment of the Articles of Association, minutes of the general meeting and the new text of the Articles of Association shall be attached to the application filed to the commercial register.

A shareholder has the right to participate in the general meeting, address the general meeting with regard to items on the agenda, ask relevant questions and make proposals.

The general meeting is called by the Management Board. The annual general meeting, with the approval of the annual report on the agenda, is held at least once a year. The Management Board calls the annual general meeting within six months after the end of the financial year at the latest. The Management Board gives at least three weeks' notice of the annual or special general meeting.

The agenda of the general meeting, proposals of the Management Board and Supervisory Board, draft resolutions and other relevant materials are made available to the shareholders prior to the general meeting. Materials are made available on LHV's website. Shareholders are given the opportunity to ask questions about items on the agenda before the general meeting, with the questions and responses published on LHV's website.

The list of shareholders entitled to participate in the general meeting is established based on the share register seven days before the general meeting.

One annual general meeting of shareholders was held in 2016. No special general meetings were held. The annual general meeting of shareholders held on 21 April 2016 resolved to list all shares of LHV on the NASDAQ Tallinn Stock Exchange Baltic Main List, with the share capital of LHV conditionally increased. The meeting also approved the Annual Report 2015, distributed the profit for the financial year 2015, gave an overview of the economic results for Q1 2016 and approved the dividend policy. The general meeting was held in the Estonian language.

The annual general meeting of 2016 was chaired by Daniel Haab, Head of Legal Department of AS LHV Pank, who introduced the procedure of the general meeting and the procedure for asking questions regarding the company's activities from the Management Board.

In 2016, member of the Management Board Erkki Raasuke, Chairman of the Supervisory Board Rain Lõhmus, members of the Supervisory Board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Sten Tamkivi and Tauno Tats, and auditor Verner Uibo attended the annual general meeting.

None of the shareholders hold any shares which would grant 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 influence include Rain Lõhmus and parties related to him (25.9%) and Andres Viisemann and parties related to him (9.81%).

2. Management board

2.1. Duties of the Management Board

The Management Board is a governing body of LHV, charged with the task of representing and managing LHV. Members of the Management Board are elected and removed by the Supervisory Board. The consent of the candidate is required for the election of a member of the management board. Pursuant to the Articles of Association, the Management Board has one to five members. A member of the Management Board is appointed for a term of five years, unless otherwise decided by the Supervisory Board. Extension of the term of office of a member of the Management Board shall not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the law or the Articles of Association If the Management Board of LHV has more than two members, the Supervisory Board must appoint the Chairman of the Management Board. The Chairman of the Management Board organises the work of the Management Board.

The Supervisory Board may remove a member of the Management Board for any reason. A member of the Management Board may resign for any reason, by informing the Supervisory Board thereof. The rights and obligations arising from the contract entered into with a member of the Management Board shall expire in accordance with the contract.

Erkki Raasuke served as the member of the Management Board of LHV until 5 December 2016. Madis Toomsalu was elected the new member of the Management Board on the same day. The Supervisory Board has entered into a management board member contract with Madis Toomsalu. The Supervisory Board establishes the remuneration principles for Management Board members and sets the severance compensation policy for premature termination of the management board member contract.

The Management Board makes everyday management decisions at its own discretion, governed by the best interests of LHV and its shareholders, and not his or her personal interests or the interests of the controlling shareholder. The duties of the Management Board member include day-to-day management of LHV, representation of the company, management of LHV's operations in foreign markets and investor communication, coordination of the development of LHV's strategy and its implementation by serving as an active chairman of the supervisory boards of the major subsidiaries of LHV.

The Management Board shall ensure the functioning of risk management and internal control within LHV, depending on the business area pursued by LHV. LHV's internal control system covers all activities carried out by the Supervisory Board, management and staff members of LHV with the aim of ensuring efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting, unconditional compliance with all legal acts. The internal audit system covers all business, support and control units.

The objective of risk management within LHV is to recognise, correctly measure and manage the risks. On a wider horizon, the objective of risk management is to enhance corporate value by minimising damage and reducing volatility of results.

Risk management is based on a strong risk culture and built on the principle of three lines of defence, with the first line of defence, i.e. business areas, being responsible for risk-taking and day-to-day management of risks. The second line of defence, i.e. the risk management area, is responsible for developing risk management methods and reporting on risks. The third line of defence, i.e. internal audit, exercises independent supervision over the entire organisation.

2.2. Management remuneration principles

The purpose of establishing remuneration principles within LHV is the organisation of fair, motivating and transparent remuneration in accordance with the law.

Competence for the establishment of remuneration for members of the Management Board shall lie with the Supervisory Board. The Remuneration Committee shall review the basis of management remuneration on an annual basis. In assessing the activities of the members of the Management Board, the Remuneration Committee shall, above all, consider the professional duties of the Management Board member, his or her activities, the activities of the entire Management Board as well as LHV's financial position, the current status of and outlook for business operations in comparison with companies operating in the same sector of economy.

The remuneration payable to a member of the Management Board, including the options programme, must motivate the individual to operate within the best interests of LHV. The basic salaries of members of the Management Board shall be set forth in the employment contract, and the basic salary of the Chairman of the Management Board in the Management Board member contract. The principles of remuneration of management or staff members engaged in internal control and risk management shall ensure their independence and objectivity in the performance of their risk management/internal control duties. The remuneration of this staff shall not depend on the results posted by the units supervised. The objectives shall be described on the level of individual staff members.

When measuring the key quantitative and qualitative results and assessing the risk, LHV shall be governed by the following principles:

- The performance criteria established by LHV must not stimulate excessive risk-taking or sale of unsuitable products.
- The performance criteria must not merely contain performance efficiency indicators (e.g. profit, revenue, profitability, expenditure and volume indicators) or market-based indicators (e.g. stock price or bond yield) but must also be adjusted with risk-based indicators (e.g. capital adequacy, liquidity).
- The criteria used for measuring risks and results shall be as closely related to the decisions of the staff member, whose results are being appraised, as possible, and should ensure that the process of the establishment of the remuneration would have an appropriate impact on the staff member's professional behaviour.
- A good balance of both quantitative and qualitative as well as absolute and relative criteria shall be used in the specification of the performance criteria.
- Quantitative criteria shall cover a sufficient period of time, so as to consider the risks taken by the staff members or business units. The criteria shall be risk-adjusted and contain economic efficiency indicators.
- Examples of qualitative criteria include achievement of strategic objectives, customer satisfaction, adherence to the risk management policy, adherence to internal or external rules of procedure, management skills, creativity, motivation and co-operation with other business units and the internal control function.

LHV applies the long-term performance pay programme, i.e. the options programme. An annual performance pay shall be added to the basic salaries of Management Board members, top managers and key persons included in the options programme (including staff members equivalent to management members), the amount and disbursement of which corresponds to the achievement or non-achievement of individual targets or LHV's targets. The basis for establishment of performance pay in the options programme shall be objective and justifiable, with the time period for which performance pay shall be paid previously determined. The performance pay instruments consist fully of stock options.

Severance compensation payable to a member of the Management Board shall correspond to his or her previous work results. No severance compensation shall be paid, if this is liable to damage the interests of LHV. The size of the severance compensation shall correspond to the results achieved over time, and to the remuneration received.

2.3. Conflicts of interests

Management Board members submit an annual declaration of economic interests and conflicts of economic interests. No transactions approved by the Supervisory Board were concluded between LHV and its Management Board members, their close relatives or related parties in 2016.

During his term of service, Erkki Raasuke did not serve as a management board member in any other issuer. Erkki Raasuke served as the Chairman of the Supervisory Board of AS Eesti Energia. Madis Toomsalu is not a management board member or supervisory board member in any other issuer.

Management Board members have not been granted authority to issue or buy back shares.

3. Supervisory Board

The Supervisory Board is a governing body of LHV, charged with the task of planning the activities of LHV, organising the management of LHV and conducting supervision over the activities of the Management Board. The Supervisory Board determines and regularly reviews LHV's strategy, the general plan of action, risk management principles and the annual budget. The Supervisory Board has five to seven members. The members of the Supervisory Board are appointed for a term of three years. The members of the Supervisory Board elect amongst themselves the Chairman of the Supervisory Board, charged with the task of organising the activities of the Supervisory Board.

Rain Lõhmus (Chairman), Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi serve as members of the Supervisory Board. The term of office of Supervisory Board members is set to expire on 21 May 2017. The general meeting of shareholders has resolved to establish for the Supervisory Board members a gross remuneration of 500 euros per each meeting of the Supervisory Board, where the member participates.

Supervisory Board members submit an annual declaration of economic interests and conflicts of economic interests. No significant transactions were concluded between LHV and its Supervisory Board members, their close relatives or related parties in 2016.

A total of eleven ordinary meetings and one extraordinary meeting of the Supervisory Board was held in 2016. Rain Lõhmus, Andres Viisemann and Raivo Hein participated in all meetings of the Supervisory Board in 2016. Tiina Mõis, Tauno Tats and Sten Tamkivi were absent on one occasion and Heldur Meerits on two occasions. All members of the Supervisory Board participated in more than half of the meetings of the Supervisory Board.

The Supervisory Board has formed three committees, charged with the task of advising the Supervisory Board in issues related to audit, remuneration and risk, as described below.

Within the framework of Supervisory Board meetings, the Supervisory Board was regularly briefed on the operating and financial results of LHV and its subsidiaries in 2016. The Supervisory Board approved the conditional increase of share capital, public offering of shares, issue of new shares and the listing of all shares on the NASDAQ Tallinn Stock Exchange Baltic Main List. The Supervisory Board authorised and approved the results of the subscription of shares and the allocation of shares. The strategy of LHV was the principal topic of discussion at the meeting held in August.

The Supervisory Board approved the dividend payment principles and dividend policy, the acquisition of the shares of Danske Capital AS by AS LHV Varahaldus, and the change in the share capital of AS LHV Varahaldus. The Supervisory Board approved the Annual Report 2015, the report of the Supervisory Board and the issue of share options for the results posted in 2015. The share capital of AS LHV Pank was increased, Erkki Raasuke was removed from the position of the Management Board member and Madis Toomsalu was appointed the new member of the Management Board.

3.1. Audit committee

The Audit Committee serves, above all, as an advisory body for the Supervisory Board with regard to accounting, audit, Risk and Capital Committee, internal control and internal audit, supervision, budgeting and compliance. The Audit Committee is governed, in its activities, by the Auditors' Activities Act and the rules of procedure established by the Supervisory Board of LHV.

The Audit Committee has been charged with the task of monitoring and analysing the processing of financial information in the extent necessary for preparing quarterly and annual financial statements, efficiency of risk management and internal control, the procedure for audit of the financial statements or consolidated financial statements, as well as the independence of the audit firm or a sworn auditor representing the audit firm on the basis of the law and compliance of their activities with the requirements of the Auditors' Activities Act.

The Audit Committee is responsible for making proposals to the Supervisory Board and providing recommendations for appointment or removal of the audit firm, appointment or removal of the internal auditor, prevention or elimination of problems or inefficiencies within the organisation, and compliance with legal acts and good professional practice.

Pursuant to the rules of procedure, the Audit Committee gathers for meetings at least on a quarterly basis. In 2016, the Audit Committee gathered on six occasions. At five meetings, the internal auditor gave an overview of the audits conducted and the audit findings. The last meeting of the year discussed the findings of the external auditor on the basis of the interim audit for 2016. The last two meetings of the year discussed the internal audit work plan for 2017.

The Audit Committee consists of a minimum of two members. Members of the Audit Committee have been appointed by the Supervisory Board for a term of one year, with the aim of ensuring diversity of competences and independence of committee members. Gerli Kilusk (Chairman), Marilin Hein and Tauno Tats serve as members of the Audit Committee.

Gerli Kilusk is a partner, management board member and attorney-at-law with Law Firm Primus. Gerli Kilusk does not hold any shares in LHV. Marilin Hein is the cofounder and CFO of EfTEN Capital AS. Marilin Hein does not hold any shares in LHV. Astrum OÜ, a company owned by Marilin Hein, holds 250 shares of AS LHV Group. Tauno Tats is a member of the Supervisory Board of LHV and the Management Board of Ambient Sound Investments OÜ. Tauno Tats does not hold any shares in LHV. Ambient Sound Investments OÜ holds 1 595 620 shares of AS LHV Group.

The remuneration payable to members of the Audit Committee shall be determined by the Supervisory Board of LHV. Members of the Audit Committee are paid a monthly net remuneration of 100 euros.

The internal audit unit is governed, in its activities, by the Auditors' Activities Act, Credit Institutions Act, other regulations and the rules of procedure for internal audit, as approved by the Supervisory Board of LHV. The internal audit unit presents the Supervisory Board with an overview of the audits conducted and audit findings on a quarterly basis. An overview of the audits carried out during the year and significant findings as well as performance of the annual plan is given once a year.

The annual internal audit plan is prepared on the basis of the requirements set forth by law or contract, as well as the internal audit unit's assessment of the risks evident in the business areas and products, aimed at covering all major areas and products with sufficient risk-based regularity. The internal auditor discusses all audit findings with the heads of the corresponding areas (as well as the management board of the company) and agrees upon the action plan for elimination of deficiencies. The internal audit unit conducts quarterly follow-up audits in order to monitor adherence to the agreed action plan. To ensure efficiency, the internal audit unit closely co-operates with the risk control and compliance units as well as the external auditor, while maintaining its independence. The internal auditor is invited to all supervisory board meetings of LHV, AS LHV Pank and AS LHV Varahaldus, other important meetings of committees established within group companies (if possible and necessary), and all management board meetings of AS LHV Pank and AS LHV Varahaldus. In the reporting period, the internal audit unit had two employees in Estonia and one employee in Lithuania.

3.2. Remuneration committee

The Remuneration Committee has been charged with the task of evaluating the principles of remuneration within LHV's subsidiary, the credit institution AS LHV Pank, and the impact of any remuneration-related decision on adherence to the requirements established for the management of risks, own funds and liquidity. The Remuneration Committee consists of a minimum of three members.

The Remuneration Committee conducts supervision of the remuneration of Management Board members and staff members, evaluates implementation of the remuneration policy at least on an annual basis and, where necessary, proposes to update the remuneration principles and prepares the related draft resolutions for the Supervisory Board.

The Remuneration Committee held one meeting in 2016 (in January). The committee discussed and made a proposal to the Supervisory Board with regard to the recipients of share options and the related amounts for the results posted in 2015, as well as with regard to the pricing of share options, the share options of resigning staff members and the remuneration of Management Board members.

Rain Lõhmus, Andres Viisemann and, until 5 December 2016, Erkki Raasuke (Chairman) served as members of the Remuneration Committee. Madis Toomsalu has been serving as a member and the Chairman of the Remuneration Committee from 5 December 2016 onwards.

Rain Lõhmus is the founder of LHV and the Chairman of the Supervisory Board of LHV. Rain Lõhmus holds 2 628 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 581 718 shares of AS LHV Group. Andres Viisemann is the founder of LHV, member of the Supervisory Board of LHV and manager of the pension funds of AS LHV Varahaldus. Andres Viisemann does not hold any shares of AS LHV Group. Viisemann Investments AG holds 2 052 344 shares and Viisemann Holdings OÜ 434 925 share of AS LHV Group. Madis Toomsalu is a member of the Management Board of LHV. Madis Toomsalu holds 13 775 shares of LHV.

No remuneration is paid to members of the Remuneration Committee.

3.3. Risk and capital committee

The Risk and Capital Committee has been charged with the task of advising the Supervisory Board and Management Board of LHV with regard to risk management principles and risk tolerance, assessing the risks taken by LHV and monitoring implementation of the risk policy within LHV Group companies. The Risk and Capital Committee also carries out supervision of the implementation of risk management principles by the Management Board in accordance with the instructions given by the Supervisory Board, checks that the probability and timing of risk, capital, liquidity and revenue is taken into account in remuneration principles, and that the business model and risk management principles are taken into account in the fees established for customers.

Pursuant to the Rules of Procedure of the Risk and Capital Committee, the meetings of the Risk and Capital Committee shall be held, as a rule, on a quarterly basis. The Chairman of the Risk and Capital Committee shall give an overview of the activities of the Risk and Capital Committee, the resolutions adopted and their implementation at least on an annual basis.

Four ordinary meetings of the Risk and Capital Committee were held in 2016, reviewing regular risk reports, ICAAP work processes and capital plans, key customers under monitoring, changes in provisions, current IRB and the SREP report. The Supervisory Board was advised in issues related to risk management and capital management policies, with the key principles of credit policy and loan portfolio management and the planned changes reviewed.

Rain Lõhmus (Chairman), Andres Viisemann and Tiina Mõis serve as members of the Risk and Capital Committee.

Rain Lõhmus is the founder of LHV and the Chairman of the Supervisory Board of LHV. Rain Lõhmus holds 2 628 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 581 718 shares of AS LHV Group. Andres Viisemann is the founder of LHV, member of the Supervisory Board of LHV and manager of the pension funds of AS LHV Varahaldus. Andres Viisemann does not hold any shares of AS LHV Group. Viisemann Investments AG holds 2 052 344 shares and Viisemann Holdings OÜ 434 925 share of AS LHV Group. Tiina Mõis is a member of the Supervisory Board of LHV, and the owner and managing director of AS Genteel. Tiina Mõis does not hold any shares of AS LHV Group. AS Genteel holds 999 456 shares of AS LHV Group.

No remuneration is paid to members of the Risk and Capital committee.

4. Cooperation of the management and supervisory boards

The Management Board and Supervisory Board work in close co-operation to best protect the interests of LHV. The co-operation is, above all, based on an open exchange of views between as well as within the Management Board and the Supervisory Board.

The Management Board and the Supervisory Board joint their efforts to lay out the objectives and strategy of LHV. In the management of LHV, the Management Board is governed by the strategic instructions given by the Supervisory Board. The Management Board regularly discusses strategic management issues with the Supervisory Board within the framework of an open dialogue.

The Management Board regularly informs the Supervisory Board of the key circumstances regarding the activity plans and business activities of LHV, the risks involved and management of such risks.

No conflicts of interests occurred in the financial year 2016.

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of material developments accordingly. Information is disclosed in accordance with the rules set forth for publicly traded companies.

LHV has set up an investor relations website, making available all documents and information in accordance with the Corporate Governance Recommendations. 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. The published information is also made available in English and Russian. In 2017, LHV will start disclosing its annual plans and monthly results via the stock exchange announcements.

LHV's dividend policy is available on LHV's website, stipulating the dividend payment principles, according to which the key precondition for payment of dividends includes external and internal regulatory capital standards, which have to be met in a sustainable manner. LHV may decide to waive dividend payment under the corresponding growth and/or investment plans. Where the preconditions are met, LHV shall pay a minimum of 25 per cent of the shareholders' profit before taxes in dividends, income tax included.

In 2016, meetings and webinars with investors were held as needed and based on investor requests. The relevant presentations are available on LHV's website.

6. Financial reporting and auditing

LHV publishes its annual report on an annual basis. The annual report is audited, and approved by the Supervisory Board.

The number of auditors is determined and the auditors appointed by the general meeting of shareholders. The general meeting also establishes the procedure for remuneration of auditors. Auditors are appointed for a single audit or for a specified term.

In 2015, the Management Board, in cooperation with the Audit Committee, organised a tender for the appointment of an auditor. As part of the tender, LHV met with and requested bids from four major internationally recognised companies. As a result of the tender, AS PricewaterhouseCoopers was chosen and appointed the company's auditor at the annual general meeting of shareholders held on 29 April 2015. A three-year contract was entered into with AS PricewaterhouseCoopers for the audit of the financial years 2015-2017.

The auditor has rendered contractual services to LHV consolidation group companies in 2016, including audits on the financial statements of group companies and reviews of the profits disclosed in quarterly financial statements, consulting in connection with the performance of contractual obligations to the US tax authority, audits of the AS Danske Capital purchase analysis and other current matters.

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

Statement of conformity

LHV adheres to the Corporate Governance Recommendations, with the exception of the following instructions and recommendations for the reasons stated below:

> *"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 participation thereof has not been made possible by means of communication equipment. There has been no need, no corresponding requests and no suitable solution for such a facility. Nonetheless, from 2017 onwards, LHV stands ready to ensure participation of shareholders at the general meeting via secure electronic means (without being physically present at the general meeting), with the corresponding option added to the Articles of Association of LHV.

> *"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."*

The Management Board of LHV has one member. LHV is a holding company without any day-to-day operational business activities. Thus, a single member of the Management Board ensures sufficient and comprehensive management of LHV. The major subsidiaries of LHV have management boards consisting of several members.

> *"2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer."*

Erkki Raasuke served as the Chairman of the Supervisory Board of AS Eesti Energia in 2016. AS Eesti Energia has not issued any securities on the Tallinn Stock Exchange but has issued bonds on the London Stock Exchange. Madis Toomsalu is not a management board member or supervisory board member in any other issuer.

> *"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 remuneration paid to Management Board members in the notes to the financial statements. LHV does not disclose the remuneration of individual members of the Management Board because this constitutes personal data, the disclosure of which is not unavoidably necessary for 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."

Independent members of the Supervisory Board of LHV are Sten Tamkivi and Tauno Tats. Other members of the Supervisory Board of LHV are not independent in the meaning of the Corporate Governance Recommendations, as they have served in their current position for more than three (3) consecutive years. LHV has been in the stage of active development and growth, where it has preferred people of long-term management skills and banking experience as members of the Supervisory Board. These people are also the largest shareholders of LHV. LHV believes that, as members of the Supervisory Board, the largest shareholders are best motivated to contribute to the management of LHV and its development in the long-term horizon.

"6.2.1. /…/ The Supervisory Board shall describe in its evaluation report to judgment of the auditors work inter alia the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or shall provide during the next year. Also the remuneration the Issuer has paid or shall pay to the auditor shall be published. /…/"

LHV has agreed with its foreign auditor not to disclose the contractual fees paid or payable to the auditor, since this constitutes the parties' confidential information the disclosure of which is not unavoidably necessary for assessing the activities of LHV. Once a year, LHV's Audit Committee shall review the services rendered by the foreign auditor, the relevant volumes and fees.

"Pursuant to subsection 24² (4) of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report."

LHV has not deemed it necessary to implement a diversity policy, as LHV is governed in the recruitment of staff and management members by the best interests of LHV - the education, skills and previous experience of the person on a gender neutral on non-discriminatory basis.

Tiina Mõis serves as a member of the Supervisory Board of LHV and a member of the Risk and Capital Committee, and Gerli Kilusk and Marilin Hein as members of the Audit Committee. Together with the management members, LHV's subsidiaries engage a total of 40 middle-level managers of whom 15 are women.

Social responsibility in LHV

LHV strives to do business in a sustainable and socially responsible manner. Our greatest social contribution and responsibility is to provide a domestic alternative on the financial service market.

LHV's mission is to help raise Estonian capital. LHV's vision is focused on Estonia where people and businesses dare to think big, engage in enterprise and invest in the future. LHV's values: simple, supportive, effective.

LHV Group's credit policy stipulates that, in addition to potential obligations set forth by law, corporate social responsibility also means voluntary consideration of the social factors in business processes.

Social responsibility in LHV is a purposeful, consistent, voluntary contribution which extends beyond the obligations required by law and serves the interests of the society.

Even though social responsibility constitutes a limitation in the pursuit of profit, LHV has set its sights on enhancing social benefits without seeking profit.

The purpose of adherence to the principle of social responsibility is to create long-term value for LHV's counterparties.

Social responsibility in LHV's operations is manifested in three ways, as described below.

1. Social responsibility in business operations

Responsible lending

LHV cares about the business and living environment and makes an effort to minimise any negative environmental impact of its activities and processes.

The Group's credit policy stipulates that LHV strives to operate in a socially responsible manner, setting an example to both its staff members and the general public. Thus, any credit decision, for example, must be governed by the principle that LHV will not finance counterparties whose activities are liable to cause disproportionate damage to the environment or do not comply with the principles of social responsibility.

LHV takes special caution in financing tax transactions, so as not to violate the spirit and meaning of the laws on tax.

Private customers are financed based on the principle of responsible lending. This is also evident in the Group's high credit quality. The positive register project has been launched on the initiative of LHV Bank and LHV Finance.

Supporting Estonian business environment

The better the Estonian economy is doing, the higher the quality of life. Banking is the lifeblood of global economy. As a local financial group, we acknowledge our role in supporting and advancing the economy. We engage capital from Estonian depositors, directing it into Estonian enterprises.

We contribute to the development of Estonian capital markets. We made an effort to set an example with the initial public offering of LHV's shares on the Tallinn Stock Exchange. Our institutional brokerage helps Baltic companies to engage funds from investors. LHV's pension funds are among the largest local institutional investors.

Pension funds investing in local economy

LHV's pension funds have invested a considerable portion of the customers' pension assets in Estonia and the Baltic States. We have invested in Estonian real estate, enterprises, forest. In 2016, every seventh euro in pension fund assets contributed to the growth of Estonian economy. LHV's funds have invested an average of 14 % of their assets in Estonian securities. For example, pension fund L (LHV's greatest pension fund in terms of customer numbers) has made a quarter of its investments exposed to the stock market risk in Estonia. 100% of investments exposed to the real estate and forest land risk has been made in funds investing predominantly in Estonia. We are always searching for and analysing local invest options. We also stand ready to create such options ourselves.

LHV is the best market participant on Baltic stock exchanges

Our everyday brokerage activities as well as our strive to set an example contribute to the functioning of the Estonian capital markets. In 2017, LHV Bank received the "Member of the Year" award of NASDAQ Baltic stock exchanges. LHV has been honoured with the same title on four previous occasions.

We make an effort to be a kind and understanding employer

We would like LHV to serve as the best possible employer for our staff members. LHV respects the occupational safety requirements established by law and considers the needs of the staff members, facilitating study leaves, paid health days, etc. The staff satisfaction survey conducted in 2016 revealed record-high level of satisfaction among the group's employees.

Open banking

We create and develop our services based on the principles of open banking. We aim at developing the Estonian business environment and B2B co-operation by enhancing partnership, innovation and transparency.

2. Sharing money wisdom and educating the investor base

As a leader of the investor community, LHV takes responsibility for sharing money wisdom and advancing investor education. We contribute via the following activities:

- We organise regular, free-of-charge “Investor school” seminars for those interested in investing. The “Investor school” seminars had a total of 2,927 participants in 2016. We have also started organising “Investor meets” seminars, allowing heads of publicly traded companies to meet investors.
- We co-operate with other Estonian financial institutions and participate in the money wisdom month organised by the Estonian Banking Association as well as other money wisdom projects initiated by Estonian banks. LHV’s staff members gave lectures to school children on the Money Wisdom Day.
- We have set up a library of investment and economic literature. Our libraries in Tallinn and Tartu hold a total of more than 900 different publications, which are available for lending to our customers. In addition to those interested in investing, our library is also available to students of economy. We continue to update the library.
- We operate the LHV financial portal and the forum set up for discussing investing-related subjects and sharing information. LHV regularly contributes to creating content which could be of interest to Estonian investors.
- Ever since 2007, we have published the free-of-charge economic journal “Investeeri”, addressing various subjects related to entrepreneurship and investing. Four issues were published in 2016. The journal had a printrun of 42 000 - 60 000.

3. Sponsorship

Within the limits of our available resources, we support enterprises and initiatives that contribute to the development of the Estonian society. When it comes to sponsorship projects, we prefer a long-term, substantial partnership. We stand ready to contribute to the community and the pursuit of innovative ideas which help to advance Estonian life.

Estonian culture

Estonian Music Days – in 2016, we started supporting the music festival with the longest history in Estonia, by giving out the contemporary music award. LHV’s new music award went to Liisa Hirsch.

Enn Soosaar Foundation – with the support of LHV, the annual Enn Soosaar award (the Ethical Essayistics Award) tradition was started in 2012. In 2016, the award went to Margus Laidre.

Books on Estonian art – we support publication of the books of Estonian artists. The latest project supported by LHV was painter Kristi Kongi’s author’s book „Ma ei ole oma pead padjal liigutanud“.

Music events – in 2016, LHV supported the Intsikurmu Festival in Põlva and the Acoussion Live Festival in Central Estonia.

Education

Information Technology Foundation for Education – LHV partnered with the foundation to provide an LHV scholarship for the best diploma papers in the field of information and communication technology. In 2016, the scholarship was awarded to graduates of the Tallinn University of Technology: Liisi Soots and Viktor Reinok.

Sports, healthy way of life

Estonian Football Association – LHV Bank has been the main sponsor of the Estonian Football Association and the Estonian national team since 2010. We have also established the LHV Football Card support system, which allowed to support Estonian football clubs with a record amount in 2016.

Estonian Cyclists’ Union – we have been the union’s sponsor since 2015 and also supported the cyclists in 2016.

Estonian Optimist Class Association – we have helped to ensure sustainability of Estonian sailing for the last 10 years. After the LHV-supported revival of the association in 2007, the association has been actively engaged in promoting sailing among children and youngsters.

Running competitions – in 2016, LHV supported the organisation of the Peetri and Rapla running competitions.

Estonian economy and entrepreneurship

Estonian Entrepreneur of the Year – we have been among the main sponsors of the Estonian Entrepreneur of the Year competition organised by EY since 2012.

Gazelle movement – LHV is a sponsor of the gazelle movement. The movement promotes and recognises rapidly growing Estonian companies.

Tallinn Restaurant Week – we have supported the initiative of the Estonian Restaurant Association since 2011. The initiative aims at promoting the restaurant culture and introducing companies involved in the catering industry.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income

(in thousands of euros)	Note	2016	2015
Continuing operations			
Interest income		35 160	27 544
Interest expense		-5 184	-4 311
Net interest income	5,7	**29 976**	**23 233**
Fee and commission income		23 290	16 801
Fee and commission expense		-4 104	-2 136
Net fee and commission income	5,8	**19 186**	**14 665**
Net gains from financial assets measured at fair value	11,12	1 414	366
Foreign exchange rate gains/losses		-105	64
Other financial income		0	1
Net gains from financial assets	5	**1 309**	**431**
Other income		156	96
Other expense		-69	-39
Staff costs	9	-12 976	-10 977
Administrative and other operating expenses	9	-15 940	-13 130
Profit before impairment losses on loans and advances	5	**21 642**	**14 279**
Share of result of associates	5	1	-36
Impairment losses on loans and advances	5,14	-1 480	-1 367
Profit before taxes		**20 163**	**12 876**
Income tax expense	5,6	-270	-269
Net profit for the year from continuing operations		**19 893**	**12 067**
Profit from discontinued operations	13	**0**	**2 181**
Net profit for the year	5	**19 893**	**14 788**
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	11	-17	-17
Total profit and other comprehensive income for the year		**19 876**	**14 771**
Total profit attributable to:			
Owners of the parent		**17 815**	**13 706**
Non-controlling interest		**2 078**	**1 082**
Total profit for the year	5	**19 893**	**14 788**
Total profit and other comprehensive income attributable to:			
Owners of the parent		17 798	13 689
Incl. continuing operations		*17 798*	*11 508*
Incl. discontinued operations		*0*	*2 181*
Non-controlling interest		2 078	1 082
Total profit and other comprehensive income for the year		**19 876**	**14 771**
Basic earnings per share (in euros)	26	0.72	0.59
Diluted earnings per share (in euros)	26	0.70	0.57
Basic earnings per share (in euros) from continuing operations	26	0.72	0.49
Diluted earnings per share (in euros) from continuing operations	26	0.70	0.48

Notes on pages 33 to 89 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in thousands of euros)	Note	31.12.2016	31.12.2015
Assets			
Due from central bank	10	265 127	199 844
Due from credit institutions	10	33 300	14 735
Due from investment companies	10	8 073	15 922
Available-for-sale financial assets	11	799	3 508
Financial assets at fair value through profit or loss	12	75 391	106 608
Loans and advances to customers	14	537 641	409 997
Receivables from customers	15	3 479	2 026
Other financial assets	16	941	940
Other assets	16	1 391	1 128
Tangible assets	17	1 191	685
Intangible assets	17	4 500	689
Goodwill	6	3 614	1 044
Total assets	**5**	**935 447**	**757 126**
Liabilities			
Deposits from customers and loans received	18	777 581	632 760
Financial liabilities at fair value through profit or loss	12	209	89
Accounts payable and other liabilities	19	19 031	20 137
Subordinated debt	21	30 900	30 900
Total liabilities	**5**	**827 721**	**683 886**
Equity			
Share capital	22	25 356	23 356
Share premium	22	45 892	33 992
Statutory reserve capital	22	1 580	895
Other reserves	11,22	1 244	551
Retained earnings		28 335	11 205
Total equity attributable to owners of the parent		**102 407**	**69 999**
Non-controlling interest	6	5 319	3 241
Total equity		**107 726**	**73 240**
Total liabilities and equity		**935 447**	**757 126**

Notes on pages 33 to 89 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

(in thousands of euros)	Note	2016	2015
Cash flows from operating activities			
Interest received		34 731	27 936
Interest paid		-5 354	-4 075
Fees and commissions received		23 291	16 803
Fees and commissions paid		-4 105	-2 138
Other income received		86	71
Staff costs paid		-12 956	-10 880
Administrative and other operating expenses paid		-14 898	-12 607
Cash flows from operating activities before change in operating assets and liabilities		**20 795**	**15 110**
Net increase/(decrease) in operating assets:			
Net increase/(decrease) in financial assets held for trading at fair value through profit or loss		-287	-16
Loans and advances to customers		-129 439	-96 787
Mandatory reserve at central bank		-1 598	-1 640
Security deposits		-1	-157
Other assets		-546	386
Net increase/(decrease) in operating liabilities:			
Demand deposits of customers		191 312	160 153
Term deposits of customers		-31 506	-999
Loans received		0	5 645
Repayments of loans received		-14 731	-7 221
Financial liabilities held for trading at fair value through profit or loss		120	-213
Other liabilities		-918	14 883
Net cash from/(used in) operating activities from continuing operations		**33 201**	**89 144**
Cash generated from/(used in) operating activities from discontinued operations		0	2 781
Net cash from/(used in) operating activities		**33 201**	**91 925**
Cash flows from investing activities			
Purchase of tangible and intangible assets	17	-1 603	-1 327
Disposal of tangible and intangible assets	17	10	0
Acquisition of subsidiaries, net of cash acquired	6	-9 902	0
Proceeds from disposal and redemption of investment securities available for sale	11	3 608	784
Net changes of investment securities at fair value through profit or loss	12	35 292	38 974
Cash from investment activities of discontinued operations	13	0	61
Net cash from/(used in) investing activities		**27 405**	**38 492**
Cash flows from financing activities			
Paid in share capital (incl. share premium)	22	13 900	0
Proceeds from subordinated debt	21	0	15 000
Repayment of subordinated debt	21	0	-750
Net cash from financing activities		**13 900**	**14 250**
Effect of exchange rate changes on cash and cash equivalents		**-105**	**65**
Net increase/(decrease) in cash and cash equivalents		**74 401**	**144 732**
Cash and cash equivalents at the beginning of the year	10	224 363	79 631
Cash and cash equivalents at the end of the year	10	**298 764**	**224 363**

Notes on pages 33 to 89 are an integral part of the consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials R.T.
Kuupäev/date 28.02.2017
PricewaterhouseCoopers, Tallinn

Consolidated statement of changes in equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit/ retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of LHV Group							
Balance as at 01.01.2015	**23 356**	**33 992**	**435**	**132**	**-2 041**	**55 874**	**2 159**	**58 033**
Transfer to statutory reserve capital (Note 22)	0	0	460	0	-460	0	0	**0**
Share options (Note 22)	0	0	0	436	0	436	0	**436**
Profit for the year	0	0	0	0	13 706	13 706	1 082	**14 788**
Other comprehensive loss	0	0	0	-17	0	-17	0	**-17**
Total profit and other comprehensive income for 2015	0	0	0	-17	13 706	13 689	1 082	**14 771**
Balance as at 31.12.2015	**23 356**	**33 992**	**895**	**551**	**11 205**	**69 999**	**3 241**	**73 240**
Balance as at 01.01.2016	**23 356**	**33 992**	**895**	**551**	**11 205**	**69 999**	**3 241**	**73 240**
Paid in share capital (Note 22)	2 000	11 900	0	0	0	13 900	0	**13 900**
Transfer to statutory reserve capital (Note 22)	0	0	685	0	-685	0	0	**0**
Share options (Note 22)	0	0	0	710	0	710	0	**710**
Profit for the year	0	0	0	0	17 815	17 815	2 078	**19 893**
Other comprehensive loss	0	0	0	-17	0	-17	0	**-17**
Total profit and other comprehensive income for 2016	0	0	0	-17	17 815	17 798	2 078	**19 876**
Balance as at 31.12.2016	**25 356**	**45 892**	**1 580**	**1 244**	**28 335**	**102 407**	**5 319**	**107 726**

Notes on pages 33 to 89 are an integral part of the consolidated financial statements.

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 2016 for AS LHV Group and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of AS LHV Pank), AS LHV Varahaldus, OÜ Cuber Technology and UAB Mokilizingas (hereinafter referred together as "the Group"). AS LHV Group holds 50% + 1 share interest in UAB Mokilizingas and 65% interest in LHV Finance through AS LHV Pank. AS LHV Finance was incorporated 23 January 2013.

AS LHV Group is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu mnt 2, Tallinn. AS LHV Group is a holding company whose subsidiary AS LHV Pank (hereinafter: the Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia and in Lithuania. There are offices for client servicing in Tallinn, Tartu and Vilnius (will be closed at March 31st, 2017). AS LHV Finance (the subsidiary of AS LHV Pank) offers hire-purchase services to merchants and consumer finance. AS LHV Varahaldus offers fund management services for pension funds and other funds to clients in Estonia. UAB Mokilizingas offers consumer finance and hire-purchase services in Lithuania. As at 31.12.2016 the Group employed 348 full-time employees, incl 14 non-active (31.12.2015: 318 employees, incl 20 non-active).

The consolidated annual report (incl. financial statements) was approved by the management board on 22nd of February 2017. Rain Lõhmus, who owns 25.9% of the voting rights and Andres Viisemann, who owns 9.81% 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 authorised for approval by the supervisory board and shareholders. The shareholders have the right not to approve the consolidated annual report 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 consolidated group entities, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by 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 accordance 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 2016 and ended at 31 December 2016. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

Certain new IFRS 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 reporting periods beginning on or after 1 January 2016. The overview of these standards and the potential impact of applying the new standards and interpretations are stated below.

(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 2016.

Annual Improvements to IFRSs 2012 (effective in the EU for annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards:

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. Group uses segmentation in everyday management from year 2014. All the internal measurement including forecasting, profitability measurement and following key performance indicators is done based on segments. The segmentation is done in principle that there is no double accounting of incomes/costs – sum of segments has to be equal to reporting entity results.

Disclosure initiative - Amendments to IAS 1 (effective in the EU for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

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 2016 that have a material impact on 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 2017, and which the Group has not early adopted.

IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018). The standard is endorsed by the EU-commission. Earlier application is permitted but the Group does not intend to early adopt the standard. The Group intends to use relief of not restating comparative figures for 2017 in the annual report 2018 when first adopting IFRS 9. Key features of the new standard are as follows:

Financial assets are required to be classified into three measurement categories:

- assets to be measured subsequently at amortised cost
- assets to be measured subsequently at fair value through other comprehensive income (FVOCI)
- assets to be measured subsequently at fair value through profit or loss (FVPL).

The classification and measurement requirements in IFRS 9 state that financial assets should be classified as and measured at, amortized cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest. In order to assess the business model, the Group has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

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.

The analysis of the business model, described above is still ongoing, current results have not indicated significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on the Group's financial position, financial performance or equity in the period of initial application. These conclusions are tentative and may be affected by the actual financial positions at the transition.

The impairment requirements in IFRS 9 are based on an expected credit loss (ECL) model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39, IFRS 9 requires all assets measured at amortized cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the provisions should equal the 12 month ECL. In stage 2 and 3, the provisions should equal the lifetime ECL.

One important driver for size of provisions under IFRS 9 is the trigger for transforming an asset from stage 1 to stage 2. The Group is in process of deciding what parameters to use for identifying the increase in credit risk and how much these parameters need to change in order to constitute a "significant increase". The analyses and decisions should be finalized latest in June 2017. For assets to be recognized going forward, changes to the lifetime Probability of Default (PD) will be used as the trigger. In addition customers with forbearance measures and customers with payments more than thirty days past due will also be transferred to stage 2.

The Group's current model for calculating collective provisions defines a loss event as a deterioration in rating/scoring, but it is not expected that the loss event in the current model will equal the triggering event for moving items from stage 1 to stage 2 under IFRS 9. The provisions under IFRS 9 will be calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation will only be based on the coming 12 months, while it for assets in stage 2 will be based on the expected lifetime of the asset.

For assets where there has been a significant increase in credit risk, the Group currently holds provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, while IFRS 9 will require provisions equal to the lifetime expected loss. When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation should be based on probability weighted forward looking information. It is expected the newer requirements will increase the volatility in loan loss provisions and have negative effect in equity in the period of initial application. It is not expected to have any material impact on large exposures. The impact on capital adequacy is not possible to determine as it is expected the Basel committee will issue new rules for the transiton to IFRS 9, but these are not yet final. It is furthermore expected that the long term effects, once the transitional rules become obsolete, will be negative on capital adequacy, as the reduction in equity is expected to reduce CET 1 capital.

Impairment calculations under IFRS 9 will require more experienced credit judgement by the reporting entities than required by IAS 39 today and a higher subjectivity is thus introduced. The inclusion of forward looking information adds complexity and makes provisions more dependent on management's view of the future economic outlook. It is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios.

The main change to the general hedge accounting requirements is that the standard aligns hedge accounting more closely with the risk management activities, these changes will not have direct effect on the Group, as the Group is currently not using hedge accounting. Same time we see that the regulation changes will generate some new possibilities to the Group to start using hedge accounting for reducing volatility in financial statements for positions which are hedged with ones treated differently in accounting.

Group has set up a project developing the needed changes both in risk management and in IT systems. The final outcome of the impact of the new standard on its financial statements is not clear yet and will be clear in second quarter 2017. Still Group is clear that there will be added new volatility to provisioning, the provisions models will be more complex and visibility will somewhat lower. We have calculated the impact to the cost of development and it's around 500 thousand.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

IFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The largest impact will be positive to the AS LHV Varahaldus, where we need to capitalize sales costs from previous years and amortize over the lifetime of the customer, which in pension fund case is above 20 years. This effect will significantly increase LHV Varahaldus own funds at the moment of adoption of this IFRS standard.The Group is currently assessing the exact impact of the new standard on its financial statements.

Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group is currently assessing the impact of the new standard on its financial statements.

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 2016 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of AS LHV Pank), AS LHV Varahaldus, UAB Mokilizingas and OÜ Cuber Technology. AS LHV Group holds 50% + 1 share interest in UAB Mokilizingas and 65% interest in LHV Finance through AS LHV Pank.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 transaction provides evidence of an impairment of the asset transferred.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the Group's statement of profit or loss and other 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 are consolidated into Group's statement of profit or loss and other 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 accounting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27 "Separate Financial Statements".

In the parent separate primary financial statements, disclosed in these consolidated financial statements (see Note 27), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

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 separate component of the Group's equity. Non-controlling interest in the consolidated statement of financial position is disclosed separately from the equity attributable to the shareholders of the parent company. In consolidated statement of profit or loss and other comprehensive income, non-controlling interest share of profit is disclosed separately from owner's of the parent.

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. The Group does not have any associate as at 31.12.2016. At 31.12.2015 Group had one associate Svipe OÜ, in which thw Group hold 33% of 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 investor's share of the investee's 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 statement of financial position. Other receivables from the associate are recorded at amortised cost less a provision for impairment.

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 statement of financial position 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 2.10 are used.

2.4 Foreign currency translation

(a) Functional and presentation currency

The functional and presentation currency of 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 prevailing at the dates of the transactions. Monetary assets and liabilities 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. 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 fair value measurement date. Gains and losses on translation from monetary assets and liabilities are recorded in the statement of profit or loss 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 profit or loss 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 and investment companies, term deposits with original maturities of three months or less, that are available for use without any 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 receivables

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.

Financial assets

(in thousands of euros)

IAS 39 category	Class (applied by the Group)		31.12.2016	31.12.2015
Loans and receivables	Loans and advances to banks and investment companies		306 500	230 501
	Loans and advances to customers	Loans to legal entities	415 637	320 890
		Loans to individuals	122 004	89 107
	Other receivables		3 479	2 026
	Other financial assets		941	940
Financial assets at fair value through profit or loss	Securities held for trading	Equity securities	408	352
		Listed debt securities	63 817	99 907
		Derivatives	250	0
	Designated as at fair value through profit or loss upon initial recognition	Equity securities and fund units	10 916	6 349
Available-for-sale financial assets	Investment securities	Listed debt securities	799	3 508

(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 or incurred principally for the purpose of selling or repurchasing it in the near 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 trade date in the statement of financial position. During the year 2015 the above mentioned transactions were recognised at the settlement date in the statement of financial postion. This change in the accounting policies did not have any effect on the statement of financial position as there were no transactions as at 31.12.2015 which trade date was before balance sheet date and settlement date after the balance sheet date. 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 profit or loss. Changes in fair values of these financial assets are recognised consistently, either as a profit or loss in the statement of profit or loss of the reporting 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 profit or loss 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 estimate 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 statement of financial position at fair value 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 estimate the fair value. Gains and losses from derivatives are recognised as income or expense of the period in the statement of profit or loss under "Net gains/losses from financial assets measured at fair value". Derivatives are carried in statement of financial position as assets, if their fair value is positive and as liabilities, if their fair value is negative. The fair values of derivative assets and liabilities recorded in the statement of financial position 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 profit or loss.

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 Group has an intention and opportunity to hold until their maturity. They do not include:

- investments designated as fair value through profit or loss upon their initial recognition;
- investments classified as available-for-sale assets;
- 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 acquisitions 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 profit or loss. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the statement of profit or loss.

(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 receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables 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 receivables 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 receivables 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 method. In case of credit cards the borrower's actual use of limit is recorded in the statement of financial position.

Finance lease transactions are lease transactions under which all significant risks and rewards 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 and initial direct costs 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 reduces the respective asset category in the statement of financial position.

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 do not qualify for derecognition.

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 method (less repayments and a provision for incurred impairment losses).

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 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, overdrafts and leases are assessed individually, primarily based on the overdue status of loan and realisable 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 and repo 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, mortgage 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 profit or loss 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 profit or loss.

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 profit or loss under "Interest income".

2.8 Discontinued operations

A discontinued operation is a component of the Group that is classified as held for sale, and represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Non-current asset or disposal group is classified as held for sale when their carrying amount is to be covered principally through a sale transaction rather than through continuing use, and the sale is considered highly probable within 12 months. The disposal group is recognized at carrying amount or fair value less costs to sell, depending on which is lower. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented. Intragroup transactions between discontinued and continuing operations are eliminated depending on whether the transactions will continue after the sale transaction.

2.9 Tangible fixed assets

Tangible fixed 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 fixed 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 reporting period in which they are incurred.

An item of tangible fixed assets is carried in the statement of financial position 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 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 or its value in use), it is written down immediately to its recoverable amount recognising an impairment loss in the statement of profit or loss for the reporting period.

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

2.10 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%. The amortisation method for client agreements is dimishing balance method. The annual amortisation rate for purchased client agreements is 12% of the residual value of those assets. 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.

2.11 Financial guarantees and performance 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.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees 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 contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

2.12 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 method. Transaction 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 profit or loss during the term of the instrument, using the effective interest rate. Interest costs are included in the statement of profit or loss line "Interest expenses".

Deposits from customers are initially recorded on their settlement date at their fair value less transaction costs and are subsequently measured at amortised cost using effective interest method in the statement of financial position line "Deposits from customers and loans received", accrued interest liabilities are included in the same line. Interest expense is recognised in the statement of profit or loss line "Interest expense" on the accrual basis.

Loans received, debt securities issued and similar subordinated debts are initially recognised at fair value, less transaction costs (cash received less transaction costs). The subordinated debts are those liabilities, which in case of a liquidation 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 and are subsequently carried at amortised cost.

2.13 Payables to employees

Payables to employees include unpaid salary accruals and a vacation pay accrual calculated in accordance with employment contracts and the laws in force in employee residential country 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 statement of financial position and as staff costs in the statement of profit or loss.

Social security tax includes payments to the state pension fund. Group has neither existing legal nor constructive obligations to make pension or similar payments supplementary to social security tax.

2.14 Share-based payments

AS LHV Group operates a share-based compensation plan, under which the company receives services from group employees as consideration for equity instruments (options) of LHV Group. The fair value of the employee services received in exchange for the grant of the options is recognised during the shared-based compensation program as group's staff expense and as an increase in the equity (other reserves). The total amount to be expensed is determined by the fair value at the time of issuing the options. The fair value of the options granted:

- including any market performance conditions influencing the share price (e.g. LHV Group share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions (other than market conditions). It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, LHV Group issues new shares.

The grant by LHV Group of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. According to the contractual conditions of the share options there are no social security tax charges when exercising the options after the 3-year period.

2.15 Provisions and contingent liabilities

Liabilities arising from an obligating event before the balance sheet date that have either a legal basis or that have arisen from the Group's current operating practice (legal or constructive obligation) that require probable 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 statement of financial position. 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 statement of financial position 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 reporting 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, except 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. 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).

2.16 Distinction between short- and long-term 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 (see Note 3.4).

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 received 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 received that the lender has the right to recall at the balance sheet date due to breaches of contractual terms are also classified as current.

For all long-term assets and liabilities the long-term portion is separately disclosed in respective disclosure to these financial statements (see Note 3.4).

2.17 Revenues 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 will be received by the Group, the amount of the revenue can be measured reliably and services were rendered by the Group. Revenue earned 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 receivableCommissions 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-off 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 profit or loss for all financial instruments carried at amortised cost using the effective interest method or for debt securities measured at fair value through profit or loss. Transaction costs of debt securities measured at fair value through profit or loss is recognised as part of effective interest method. 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 interest income during the period when draw down is available.

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 and inflow of economic benefits are probable.

2.18 Asset management services

The Group is engaged in providing asset management services (Note 23). Such assets have been given to the Group to be managed by third parties and these assets are recorded off-balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.19 Leases - Group as the lessee

Leases of tangible fixed 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 profit or loss 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 profit or loss as “Administrative and other operating expenses”.

2.20 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 from 01.01.2015 is 20/80 (21/79 until 31.12.2014) 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	2016	2015
Latvia	15%	15%
Lithuania	15%	15%
Finland	20%	20%

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 statement of financial position. 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 statement of financial position. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in the Note 22 to the financial statements.

2.21 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. More detailed information in Note 3.8.

2.22 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 the 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

Risk is defined as a potential negative deviation from expected financial results. The Group encounters several risks in its day-to-day operations. The objective of risk management at the Group is to recognise these risks, to measure them appropriately and to manage them. More broadly, the aim of risk management is to increase the value of the Group by minimising losses and reducing the volatility of results. Risk management at the Group is based on a strong risk culture and is built on the principle of three lines of defence where the first line of defence, the business units, are responsible for taking risk and for day-to-day management. The second line of defence, the risk management division, is responsible for the development of risk management methodologies and for the reporting of risks. The third line of defence, the internal audit, conducts independent supervision over the entire group. Risk management principles, requirements and areas of responsibility are described in policies and procedures. In accordance with the capital management principles that the Group has adopted, it must have adequate capital to support risks.

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 31.12.2016 was EUR 123 907 thousand (31.12.2015: EUR 100 533 thousand). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

- The Group must be adequately capitalized at all times, having necessary capital to ensure economic preservation and enabling financing of new profitable growth opportunities;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorb losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided into: 1) regulated minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowering of the regulated minimum capital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will ensure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires maintaining higher capital buffer.

Own funds

(in thousands of euros)	31.12.2016	31.12.2015
Paid-in share capital	25 356	23 356
Share premium	45 892	33 992
Statutory reserves transferred from net profit	1 580	895
Other reserves	-40	-23
Accumulated profit/(deficit)	10 517	-2 503
Intangible assets (subtracted)	-8 114	-1 734
Net profit for accounting period	17 816	13 705
Non-controlling interests	0	1 945
Total Tier 1 own funds	**93 007**	**69 633**
Subordinated debt	30 900	30 900
Total Tier 2 own funds	**30 900**	**30 900**
Total net own funds	**123 907**	**100 533**

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). In 2014, the capital of banks and investment firms in the European Union became subject to a new legal framework (CRD IV/CRR), largely based on the Basel III framework that was agreed in the Basel Committee on Banking Supervision. The objective of the new legal framework is to strengthen the resilience of the financial sector to adverse economic shocks and thereby ensure an adequate and sustainable financing of the economy. Significant changes implemented by the new requirements include the requirement for credit institutions to maintain a higher level and quality of capital than before and a unified framework for designing liquidity buffers. The new capital requirements directive also define measures for macro-financial supervision that member states can use to control the behaviour of credit institutions in amplifying the cycles and to alleviate risks arising from market structure.

The regulation, which is directly applicable in the member states, obligates all credit institutions operating in the European Union (including their consolidating holding companies) and investment firms to maintain 4.5% of Common Equity Tier 1 (CET 1) and 6.0% of Tier 1 Capital against risk assets. The overall Capital Adequacy Requirement (CAD), including both Tier 1 and Tier 2 capital, remains at the existing 8.0% level.

In addition to the main requirements based on uniform rules, the directive defines the principles for forming capital buffers.

In Estonia, in addition to the baseline capital requirements, credit institutions have been subjected to capital maintenance and systemic risk buffers, which are 2.5% (imposed by the Financial Supervisory Authority) and 1.0% (imposed by Estonian Central Bank), respectively. As the aforementioned buffers are incremental to the Tier 1 and the total baseline capital requirements, the minimum Tier 1 requirement in Estonia is 9.5% and the total capital requirement is 11.5%. The latter is also subject to the specific supplementary Pillar 2 requirement applicable to credit institutions. An overview of capital requirements is provided in the table below:

Capital requirements	CET1	Tier1	CAD
Base capital requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	1.00%	1.00%	1.00%
Capital requirements total	**8.00%**	**9.50%**	**11.50%**

Capital reqirements valid till August 2016 are provided in the table below:

Capital requirements	CET1	Tier1	CAD
Base capital requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	2.00%	2.00%	2.00%
Capital requirements total	**9.00%**	**10.50%**	**12.50%**

Each year, the Group'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. Internal capital adequacy targets for 2017 are next:

- Tier 1 capital adequacy 13.29%
- Total capital adequacy 16.19%

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. LHV 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 (EUR 3 million). The net own funds of a fund manager, who managed pension funds with the market value of over EUR 125 million, had to be till January 10th 2017 at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million. In addition, the fund manager had to maintain additional own funds equal to 0.02% of the portion of the market value of all managed funds, which exceeds EUR 250 million. Starting from January 10th, the net own funds of a fund manager have to be 0,5% of the market value of managed pension funds with the market value less than EUR 1 000 million and 0,02% of the market value of managed pension funds with the market value more than EUR 1 000 million.

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

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, debt securities, 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 and derivatives

b) loans and advances to central bank and credit institutions (referred to as "banks" in the tables) and investment companies

c) leveraged loans (loans secured by debt or equity securities), incl. repo loans

d) corporate loans and overdraft

e) retail loans

f) consumer loans without collateral

g) credit cards and overdraft to individuals

h) leasing

i) hire-purchase

j) mortgage loans

k) financial guarantees

l) unused loan commitments

Maximum exposure to credit risk

(in thousands of euros)	31.12.2016	31.12.2015
Loans and advances to banks and investment companies (Note 10)	306 500	230 501
Available for sale financial assets (Note 11)	579	3 508
Financial assets at fair value (debt securities) (Note 12)	64 067	99 907
Loans and advances to customers (Note 14)	537 641	409 997
Receivables from customers (Note 15)	3 479	2 026
Other financial assets (Note 16)	941	940
Total assets	**913 207**	**746 879**
Exposures related to off-balance sheet items (Note 24), excluding performance guarantees	137 962	124 065
Total maximum exposure to credit risk	**1 051 169**	**870 944**

a) Debt securities and derivatives

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

No principal and accrued interest receivables arising from debt securities are overdue.

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

Ratings distribution	FVTPL					
(in thousands of euros)	Investment portfolio	Liquidity portfolio	Trading portfolio	Foreign exchange forwards	AFS	Total 31.12.2016
AAA	5 209	33 904	0	0	0	39 113
A- to A+	19 558	1 942	1 104	0	579	23 183
BBB- to BBB+	1 050	0	1 050	0	0	2 100
Non-rated	0	0	0	250	0	250
Total (Note 11,12)	**25 817**	**35 846**	**2 154**	**250**	**579**	**64 646**

Ratings distribution *(in thousands of euros)*	FVTPL Investment portfolio	FVTPL Liquidity portfolio	FVTPL Trading portfolio	AFS	Total 31.12.2015
AAA	43 041	44 208	0	2 910	90 159
AA- to AA+	0	2 078	225	0	2 303
A- to A+	6 948	0	51	598	7 597
BBB- to BBB+	0	0	2 362	0	2 362
B- to BB+	994	0	0	0	994
Total (Note 11,12)	**50 983**	**46 286**	**2 638**	**3 508**	**103 415**

b) Loans and advances to banks 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. No loans and advances to central bank, credit institutions and investments companies are overdue. The funds of the Group according to ratings given by Standard & Poor's or equivalent (central bank without a rating). In case there are ratings available from more than one rating agency, the most conservative rating is used. The positions are held as follows:

Rating *(in thousands of euros)*	Credit institutions	Investment companies	Total 31.12.2016	Credit institutions	Investment companies	Total 31.12.2015
Central bank (The Bank of Estonia)	265 127	0	265 127	199 844	0	199 844
AA- to AA+	9 470	0	9 470	0	0	0
A- to A+	7 195	0	7 195	7 678	15 785	23 463
BBB to BBB+	11 454	7 919	19 373	233	0	233
Non-rated	5 181	154	5 335	6 824	137	6 961
Total (Note 10)	**298 427**	**8 073**	**306 500**	**214 579**	**15 922**	**230 501**

c) Leveraged loans

The Bank issues 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 the Bank which is currently EUR 100 thousand (or an equivalent in a foreign currency) per customer. Granting loans above the threshold 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 the Bank'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, the Bank 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.

The Bank had no impaired leveraged loans as at 31.12.2016 and 31.12.2015.

d) Corporate loans and overdraft

Corporate loans are evaluated on individual basis. Each customer is assigned a credit rating between 1-13, where 1 means the lowest probability of default and 13 indicates insolvency. Credit rating is assigned to a customer considering combination of financial status and business risk.

Financial status is the basis for financial rating focusing on the company's assets and liabilities structure, profitability, cash-flows and estimated results. The emphasis of financial analysis is focused on the following period to the loan issuance. In parallel with financial analysis the company's business risk, including management and owners, market situation and competition, diversification and history of activities, the quality of information and previous payment behaviour is analysed. Where there is consolidation group involved, credit risk for the whole group is evaluated. Credit rating is assigned by credit analyst and confirmed by Head of Credit, but final decision of risk taking is the unanimous decision by the Credit Committee.

The requirements for loan collateral are established in the Credit Policy of Group and specified in Credit Risk management rules of the Bank. The preferred collateral is where there is no strong correlation between the clients default risk and value of the collateral. 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.

In addition to individual impairment assessment, corporate loans' provisions for potential credit loss is calculated based on historical performance of these 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 and past due time. 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 method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). 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).

After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. All client ratings are reviewed at least once a year. See Note 3.2.2. for more detailed information on the credit quality of loans. As at 31.12.2016, the group-based impairment reserve makes up 0.5% of corporate loans and overdraft and the related interest receivables (31.12.2015: 0.6%).

e) Retail loans

In 2016 Group started offering micro loans. The loan is aimed to micro-enterprices in growth stage and the maximum loan amount is up to EUR 25 000. During the year, the existing corporate loan portfolio was divided into two. Credits below 250 thousand euros were given over to retail banking and all credits exceeding 250 thousand euros remained in corporate banking. Shifting smaller loans to retail banking was important to keep corporate banking and credit analyses focus on larger and more individual approach requiring credit clients. Credits below 250 thousand euros are analysed with more cost-efficient scoring process. The scoring is carried out at the request of the loan and it is one of the criterias for issuing the loan. Financial data and information on payment behaviour of the company is used when calculating the probability of default (PD). The structure of assets and liabilities are taken into account, also the profitability and cash flow ratios. Regarding the guarantees the same principles apply as for business loans and overdrafts. Thus, the essence of it does not constitute a new product, but only retail loans separation from corporate loans in 2016 distinction, then there is no comparative information as at 31 December 2015. The retail loans are included inside Loans to legal entities and Overdrafts to legal entities lines in the report.

f) Consumer loans without 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. In Estonia, the Group has entered into agreements where overdue consumer loans are sold – usually when loans reaching overdue of 70 days. Similar contract was signed also in Mokilizingas in Lithuania in third quarter. 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 method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). 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).

Consumer loans are 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. In Lithuania due to default rate volatility and uncertain data quality a conservative buffer of 20% shall be imposed'. For portfolio as at 31.12.2016 buffer of 20% was imposed, in the new methodology valid since 31.01.2017 buffer for Lithuanian branch will be 10% and only for Latvian branch and credit cards buffer will remain 20%.

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 statement of financial position. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

As at 31.12.2016, the group-based impairment reserve makes up 5.8% of consumer loans and the related interest receivables (31.12.2015: 6.3%).

g) Credit cards

The Bank issues credit cards and 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 2016, the group-based impairment reserve amounted to 2.4% of credit card loans and related receivables (31.12.2015: 3.1%).

h) Leasing

The Bank offers leasing products for individuals and legal entities. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. The leasing provisioning is done based on Leasing scoring models. As of 31 December 2016, the group-based impairment reserve amounted to 0.5% of leasing portfolio (31.12.2015: 0.9%).

Also in Lithuania leasing products are offered to individuals as well as legal entities. 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 problematic loans are assessed individually based on the market/distressed sale value of the underlying assets.

As of 31 December 2016, the group-based impairment reserve amounted to 6.5% of leasing portfolio (31.12.2015: 3.0%).

i) Hire-purchase

Group offers hire-purchase service for merchants through its subsidiary LHV Finance in Estonia. 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 December 2016, the group-based impairment reserve amounted to 1.0% of hire-purchase portfolio (31.12.2015: 1.4%).

The Group offers hire-purchase to private individuals in Lithuania. The creditworthiness of customers is assessed and provisions are made based on the same framework as for Lithuanian consumer loans. As of 31 December 2016, the group-based impairment reserve amounted to 3.7% of hire-purchase portfolio (31.12.2015: 5.3%).

j) Mortgage loans

In 2013 Group started to offer on a limited basis mortgage loans to customers in the Tallinn and Tartu region only. In autumn 2016 Group started offering the mortgage loan to a large scale of retail clients.

The creditworthiness of customers is assessed by using scoring models and maximum loan amount is in line with the regulations set by Central Bank of Estonia. The provisions are made based on the same framework as for consumer loans.

As of 31 December 2016, the group-based impairment reserve amounted to 0.4% of mortgage portfolio (31.12.2015: 0.5%).

3.2.2 Credit quality of loans and advances to customers and off-balance sheet liabilities

Loans and advances to customers 31.12.2016 *(in thousands of euros)*	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to legal entities							
Corporate loans	339 030	1 024	1 304	**341 358**	-1 758	-297	**339 303**
Retail loans	6 917	171	0	**7 088**	-101	0	**6 987**
Overdraft	31 248	0	85	**31 333**	-246	-37	**31 050**
Hire-purchase	264	0	1	**265**	-2	-1	**262**
Leveraged loans	4 383	0	0	**4 383**	0	0	**4 383**
Leasing	31 832	1 771	97	**33 700**	-143	-29	**33 528**
Credit card loans	130	0	0	**130**	-6	0	**124**
Loans to individuals							
Consumer loans	23 469	0	3 825	**27 294**	-1 568	-31	**25 695**
Hire-purchase	41 770	4 273	769	**46 812**	-1 187	-33	**45 592**
Leveraged loans	3 004	0	0	**3 004**	0	0	**3 004**
Leasing	7 394	294	6	**7 694**	-45	-2	**7 647**
Mortgage loans	35 451	0	0	**35 451**	-143	0	**35 308**
Credit card loans	4 773	0	15	**4 788**	-107	-5	**4 676**
Overdraft	82	0	0	**82**	0	0	**82**
Total (Note 14)	**529 747**	**7 533**	**6 102**	**543 382**	**-5 306**	**-435**	**537 641**

Loans and advances to customers 31.12.2015 *(in thousands of euros)*	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to legal entities							
Corporate loans	254 238	572	2 330	**257 140**	-1 101	-456	**255 583**
Overdraft	29 380	0	168	**29 548**	-114	-15	**29 419**
Hire-purchase	211	0	9	**220**	-1	-4	**215**
Leveraged loans	4 733	0	0	**4 733**	0	0	**4 733**
Leasing	29 245	1 859	20	**31 124**	-292	-5	**30 827**
Credit card loans	118	0	0	**118**	-5	0	**113**
Loans to individuals							
Consumer loans	14 440	0	3 551	**17 991**	-792	-301	**16 898**
Hire-purchase	40 023	5 368	1 189	**46 580**	-1 252	-107	**45 221**
Leveraged loans	2 712	0	0	**2 712**	0	0	**2 712**
Leasing	5 386	156	2	**5 544**	-51	-2	**5 491**
Mortgage loans	15 395	0	0	**15 395**	-77	0	**15 318**
Credit card loans	3 451	0	52	**3 503**	-77	-28	**3 398**
Overdraft	69	0	0	**69**	0	0	**69**
Total (Note 14)	**399 401**	**7 955**	**7 321**	**414 677**	**-3 762**	**-918**	**409 997**

There are several criteria for the loan to be considered individually impaired. Group's internal default definition is in line with the generally accepted definition of default criteria, such as payment delay more than 90 days on any material credit obligation, distressed restructuring of the credit obligation, specific credit adjustment due to significant perceived decline in credit quality since inception, significant financial difficulties of the obligor or likely bankruptcy process, etc.

As part of risk analysis, the Group is regularly performing stress tests and sensitivity analysis regarding credit risk and its components (such as PD, LGD). Collective impairment credit assessment of the Group is based on historical loss rate and credit rating. The Group has performed stress test scenarios when PD and LGD estimations will both increase by 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. The table includes loans which have collective impairment (therefore excluding leveraged loans) and which have material balances and potential impact.

Impact to impairment as at 31.12.2016
(in case PD and LGD levels will increase by 10%)
(in thousands of euros)

	Balance as at 31.12.2016	Impairment with increased PDs and LGDs	Impact to impairment booked
Loans to legal entities			
Corporate loans (incl. overdraft)	372 691	-2 829	-491
Leasing	33 700	-206	-34
Loans to individuals			
Consumer loans	27 294	-1 923	-334
Hire-purchase	46 812	-1 488	-258
Mortgage loan	35 451	-173	-30
Leasing	7 694	-57	-10
Credit card loans	4 788	-135	-23
Total	**528 430**	**-6 811**	**-1 180**

Impact to impairment as at 31.12.2015
(in case PD and LGD levels will increase by 10%)
(in thousands of euros)

	Balance as at 31.12.2016	Impairment with increased PDs and LGDs	Impact to impairment booked
Loans to legal entities			
Corporate loans (incl. overdraft)	286 688	-1 936	-379
Leasing	31 124	-356	-59
Loans to individuals			
Consumer loans	17 991	-1 308	-215
Hire-purchase	46 580	-1 534	-175
Mortgage loan	15 395	-93	-16
Leasing	5 544	-64	-11
Credit card loans	3 503	-128	-23
Total	**406 825**	**-5 419**	**-878**

The rating scale used for evaluating the PD 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. The rating is only assigned on the basis of the ratings of rating agencies. The average of the ratings assigned by rating agencies must be the equivalent of at least AAA (Moody's Aaa).
- 2 – minimum credit risk. The rating is only assigned on the basis of the ratings of rating agencies. The average of the ratings assigned by rating agencies must be the equivalent of at least AA+ (Moody's Aa1).
- 3 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least AA- (Moody's Aa3).
- 4 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least A- (Moody's A3).
- 5 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB+ (Moody's Baa1).
- 6 – low credit risk. The rating is assigned on the

basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB (Moody's Baa2).

- 7 – average credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB- (Moody's Baa3).
- 8 – average credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BB (Moody's Ba2).
- 9 – heightened credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BB- (Moody's Ba3).
- 10 – high credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least B+ (Moody's B1).
- 11 – high credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least B- (Moody's B3).
- 12 – non-satisfactory rating. The rating is assigned on the basis of the assessments of rating agencies or LHV. The Credit Analyst deems the company's financial position to be sufficiently weak indicating a very high probability of default. The average rating of rating agencies must be the equivalent of at least C (Moody's Caa3).
- 13 – the obligor is in default.

Distribution of corporate loans and overdraft by internal ratings 31.12.2016
(in thousands of euros)

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
4 low credit risk	915	0	0	915
5 low credit risk	2 585	0	0	2 585
6 low credit risk	68 909	0	0	68 909
7 medium credit risk	103 073	0	0	103 073
8 medium credit risk	113 961	0	0	113 961
9 heightened credit risk	38 844	417	0	39 261
10 high credit risk	22 609	68	0	22 677
11 high credit risk	18 377	0	0	18 377
12 non-satisfactory rating	1 005	530	0	1 535
13 insolvent	0	9	1 389	1 398
Total	**370 278**	**1 024**	**1 389**	**372 691**

Distribution of corporate loans and overdraft by internal ratings 31.12.2015
(in thousands of euros)

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
4 low credit risk	1 041	0	0	1 041
5 low credit risk	3 460	0	0	3 460
6 low credit risk	44 205	0	0	44 205
7 medium credit risk	83 089	0	0	83 089
8 medium credit risk	58 680	0	0	58 680
9 heightened credit risk	69 775	0	0	69 775
10 high credit risk	15 736	0	0	15 736
11 high credit risk	6 825	0	0	6 825
12 non-satisfactory rating	751	3	0	754
13 insolvent	56	569	2 498	3 123
Total	**283 618**	**572**	**2 498**	**286 688**

The Group considers the loan as non-performing and assesses impairment when the loan payments have not been collected by the due date and/or the expected cash flows from the realization 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 carrying value of the receivable and expected cash flows discounted at the effective interest rate. In 2016, the Group provisioned corporate loans in the total amount of EUR 932 thousand (2015: EUR 424 thousand).

Loan customers with ratings of 10-13 are subject to more frequent monitoring during which the solvency of the borrower is evaluated. In case of a deterioration of payment behaviour, the requirement for individual provisioning is evaluated, considering, among other factors, the collateral of the loan, therefore some loans are not individually impaired. The ratings-based rate of the collective provisioning is applied to those loans.

In addition to loans issued, loan agreements have been concluded and signed for the unused loan commitment amount of 132 520 thousand euros at 31.12.2016 (31.12.2015: 118 696 thousand euros), see Note 24.

In the following table there are presented unused portions of corporate loans and financial guarantee limits. No provisions have been made for off-balance sheet liabilities because the value of collateral exceeds the value of potential liabilities. In addition to that as at 31.12.2016 the Group has also committed to grant mortgage loans, hire-purchase loans, consumer loans, overdraft loans and credit card loans to individuals in total amount of EUR 31 288 thousand (31.12.2015: EUR 27 564 thousand). All uncommissioned loans available to individuals have at least “Good” internal rating as at the end of each reporting period.

Credit quality of off-balance sheet liabilities (unused loan commitments for corporate loans and financial guarantees)

(in thousands of euros)	31.12.2016	31.12.2015
5 low credit risk	793	722
6 low credit risk	8 569	10 896
7 medium credit risk	30 336	31 133
8 medium credit risk	52 354	47 669
9 heightened credit risk	10 440	5 959
10 high credit risk	3 980	122
11 high credit risk	202	0
Total	**106 674**	**96 501**

Distribution of internal ratings for other loan products:

- Excellent – leveraged 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.

As of 31.12.2016

(in thousands of euros)	Retail loans	Leveraged loans	Credit cards	Leasing	Consumer loans	Hire-purchase	Overdraft	Mortgage loans	Total
Neither past due nor impaired									
Excellent	0	7 387	0	0	0	0	0		7 387
Good and very good	6 917	0	4 903	39 226	23 469	42 034	82	35 451	152 082
Past due but not impaired									
Good	171	0	0	1 193	0	4 075	0	0	5 439
Satisfactory	0	0	0	731	0	139	0	0	870
Weak or doubtful	0	0	0	141	0	59	0	0	200
Individually impaired									
Good	0	0	0	0	2 413	0	0	0	2 413
Satisfactory	0	0	0	0	210	0	0	0	210
Weak or doubtful	0	0	15	103	1 202	770	0	0	2 090
Total	**7 088**	**7 387**	**4 918**	**41 394**	**27 294**	**47 077**	**82**	**35 451**	**170 691**

As of 31.12.2015 *(in thousands of euros)*	Leveraged loans	Credit cards	Leasing	Consumer loans	Hire-purchase	Overdraft	Mortgage loans	Total
Neither past due nor impaired								
Excellent	7 445	0	0	0	0	0	0	7 445
Good and very good	0	3 569	34 631	14 440	40 234	69	15 395	108 338
Past due but not impaired								
Good	0	0	1 798	0	4 181	0	0	5 979
Satisfactory	0	0	188	0	1 018	0	0	1 206
Weak or doubtful	0	0	29	0	169	0	0	198
Individually impaired								
Good	0	0	7	1 839	133	0	0	1 979
Satisfactory	0	0	0	580	109	0	0	689
Weak or doubtful	0	52	15	1 132	956	0	0	2 155
Total	**7 445**	**3 621**	**36 668**	**17 991**	**46 800**	**69**	**15 395**	**127 989**

In the table below, collateral information of loans and advances to customers are disclosed based on the collateral type and the fair value of collateral held. The under-collateralised amount is presented as "Unsecured loans".

Loans against collateral as at 31.12.2016 *(in thousands of euros)*	Corporate and retail loans (including overdraft)	Leveraged loans	Credit cards, consumer loans, overdraft to private individuals	Leasing	Hire-purchase	Mortgage loans	Total
Listed securities	0	7 387	0	0	0	0	7 387
Unlisted equity securities	70 354	0	0	0	0	0	70 354
Mortgages, real estate	214 121	0	0	0	0	35 451	249 572
Guarantee of KredEx and Rural Development Foundation	10 293	0	0	0	0	0	10 293
Pledges of rights of claim	8 182	0	0	0	0	0	8 182
Deposits	3 376	0	0	0	0	0	3 376
Leased assets	0	0	0	41 394	47 077	0	88 471
Others	34 451	0	82	0	0	0	34 533
Unsecured loans	39 002	0	32 212	0	0	0	71 214
Total	**379 779**	**7 387**	**32 294**	**41 394**	**47 077**	**35 451**	**543 382**

Loans against collateral as at 31.12.2015 *(in thousands of euros)*	Corporate loans (including overdraft)	Leveraged loans	Credit cards, consumer loans, overdraft to private individuals	Leasing	Hire-purchase	Mortgage loans	Total
Listed securities	0	7 445	0	0	0	0	7 445
Unlisted equity securities	55 984	0	0	0	0	0	55 984
Mortgages, real estate	165 548	0	0	0	0	15 395	180 943
Guarantee of KredEx and Rural Development Foundation	12 271	0	0	0	0	0	12 271
Pledges of rights of claim	5 746	0	0	0	0	0	5 746
Deposits	4 534	0	0	0	0	0	4 534
Leased assets	0	0	0	36 668	46 800	0	83 468
Others	8 362	0	69	0	0	0	8 431
Unsecured loans	34 243	0	21 612	0	0	0	55 855
Total	**286 688**	**7 445**	**21 681**	**36 668**	**46 800**	**15 395**	**414 677**

Unsecured loans in the years of 2016 and 2015 include credit card loans and Lithuanian consumer loans.

Collaterals for leveraged loans are monitored on daily basis and, if collateral value is falling, immediate measures are taken to avoid credit losses. As of 31 December 2016 and as of 31 December 2015, all leveraged loans and repurchase loans are over-collateralized. Consumer loans and credit card loans are issued without collateral and risk mitigation is done by regular monitoring of clients payment behaviour. Leasing, hire-purchase, mortgage loans and overdraft to private individuals are all over-collateralized. The Group monitors customers in arrears of leasing, hire-purchase, mortgage loans and overdraft to private individuals on regular basis.

In relation to under-collateralized corporate loans, it should be taken into consideration, that the Group has assessed the market value of certain collaterals conservatively (personal sureties, commercial pledges). Under-collateralized loans are mainly considered to bear higher risk, for which the Group carries out monthly monitoring in credit committee, in order to mitigate potential credit losses. Under-collateralized loans include contracts more than 90 days overdue totalling EUR 399 thousand (2015: EUR 2 211 thousand) euros with a collateral value of 316 thousand (2015: EUR 1 926 thousand) euros.

Corporate loans and corporate credit lines *(in thousands of euros)*	Over-collateralized loans		Under-collateralized loans	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
As at 31.12.2016	314 139	731 661	65 640	26 638
As at 31.12.2015	223 903	766 558	62 785	28 542

Structure of past due but not impaired loans according to past due time (loans which have overdue interest or principal payments as at the balance sheet date, are divided in past due categories according to the past due time from the earliest outstanding payment):

As at 31.12.2016 *(in thousands of euros)*	Corporate loans (incl. overdraft)	Retail loans	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables								
1-30 days	494	171	0	0	1 193	3 297	0	5 155
31-60 days	530	0	0	0	731	794	0	2 055
61-90 days	0	0	0	0	141	182	0	323
91-180 days	0	0	0	0	0	0	0	0
181-360 days	0	0	0	0	0	0	0	0
more than 360 days	0	0	0	0	0	0	0	0
Total	**1 024**	**171**	**0**	**0**	**2 065**	**4 273**	**0**	**7 533**

As at 31.12.2015 *(in thousands of euros)*	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables							
1-30 days	3	0	0	1 798	4 181	0	5 982
31-60 days	49	0	0	188	1 018	0	1 255
61-90 days	7	0	0	1	169	0	177
91-180 days	170	0	0	28	0	0	198
181-360 days	343	0	0	0	0	0	343
more than 360 days	0	0	0	0	0	0	0
Total	**572**	**0**	**0**	**2 015**	**5 368**	**0**	**7 955**

Structure of individually impaired loans according to past due time (loans which have overdue interest or principal payments as at the balance sheet date, are divided in past due categories according to the past due time from the earliest outstanding payment):

As at 31.12.2016 *(in thousands of euros)*	Corporate loans (incl. overdraft)	Retail loans	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
No past due payments	0		0	0	0	58	97	155
Past due receivables								
1-30 days	0	0	0	0	0	75	2 045	2 120
31-60 days	0	0	0	0	0	57	647	704
61-90 days	990	0	0	0	0	50	296	1 336
91-180 days	0	0	0	1	61	157	184	403
181-360 days	0	0	0	1	36	172	355	564
more than 360 days	399	0	0	13	6	201	201	820
Total	**1 389**	**0**	**0**	**15**	**103**	**770**	**3 825**	**6 102**

As at 31.12.2015 *(in thousands of euros)*	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
No past due payments	0	0	0	0	55	73	128
Past due receivables							
1-30 days	0	0	0	7	78	1 766	1 851
31-60 days	0	0	0	0	109	580	689
61-90 days	353	0	1	11	113	235	713
91-180 days	0	0	13	0	290	314	617
181-360 days	2 038	0	18	4	452	446	2 958
more than 360 days	107	0	20	0	101	137	365
Total	**2 498**	**0**	**52**	**22**	**1 198**	**3 551**	**7 321**

Credit quality of other receivables

(in thousands of euros)	31.12.2016	31.12.2015
Receivables neither past due nor impaired	3 182	1 735
Receivables past due but not impaired	297	291
incl. receivables from individuals	7	252
incl. receivables from legal entities	290	39
Total (Note 15)	**3 479**	**2 026**

As of 23 February 2017, other receivables of EUR 17 thousand euros are uncollected and in previous years, the Group has not written off any receivables. Other financial assets (see Note 16) in amount EUR 941 thousand (31.12.2015: EUR 940 thousand) are guarantee deposits on the Baltic stock exchanges held to guarantee securities trading activity on the stock exchanges of Tallinn, Riga and Vilnius and the deposits of VISA and MasterCard to guarantee credit card transactions. The Group considers the counterparties credit risk as very low.

3.3 Market risk

Market risk arises from the 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 collecting 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 most of its available resources into his own managed pension funds. The management of LHV Varahaldus is responsible for 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 the Bank is responsible for daily monitoring of open foreign currency positions. The Group's 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).

A sensitivity analysis has been performed for the effect of possible reasonable changes attributable to open currency positions on statement of profit or loss, with the assumption of other conditions remaining constant.

Impact on statement of profit or loss

(in thousands of euros)	2016	2015
USD exchange rate +/- 10%	+/-2	+/-4
SEK exchange rate +/- 10%	+/-2	+/-1
GBP exchange rate +/- 10%	+/-2	+/-1
CHF exchange rate +/- 10%	+/-2	+/-1

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 euro equivalent in respective columns, according to the exchange rate prevailing at the balance sheet date. Derivatives reported at fair value in the statement of financial position have been included at contractual amounts under off-balance sheet assets and liabilities. 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. The balances of total assets and total liabilities bearing currency risk do not include currency futures at their fair value, but they are shown here at their full contractual cash flow amounts as off-balance sheet assets and liabilities; also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

31.12.2016

(in thousands of euros)	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 10)	278 929	1 994	13 061	3 942	6 668	1 906	**306 500**
Financial assets at fair value (Note 11, 12)	34 505	0	0	1	41 243	441	**76 190**
Loans and advances to customers (Note 14)	535 747	4	4	2	1 873	11	**537 641**
Receivables from customers (Note 15)	3 255	1	43	6	171	3	**3 479**
Other financial assets (Note 16)	211	0	0	0	730	0	**941**
Total assets bearing currency risk	**852 647**	**1 999**	**13 108**	**3 951**	**50 685**	**2 361**	924 751
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 18)	700 874	1 983	13 264	3 869	55 924	1 667	**777 581**
Financial liabilities at fair value (Note 12)	0	0	0	0	72	137	**209**
Accounts payable and other financial liabilities (Note 19)	8 116	2	1 226	65	5 341	1 227	**15 977**
Subordinated debt (Note 21)	30 900	0	0	0	0	0	**30 900**
Total liabilities bearing currency risk	**739 890**	**1 985**	**14 490**	**3 934**	**61 337**	**3 031**	824 667
Open gross position derivative assets at contractual value	1 675	0	1 398	0	11 548	1 263	**15 884**
Open gross position derivative liabilities at contractual value	13 440	0	0	0	876	1 568	**15 884**
Open foreign currency position	**100 992**	**14**	**16**	**17**	**21**	**-975**	100 084

31.12.2015 *(in thousands of euros)*	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 10)	218 849	1 638	1 101	587	7 338	988	**230 501**
Financial assets at fair value (Note 11, 12)	71 894	0	0	1	38 213	8	**110 116**
Loans and advances to customers (Note 14)	408 804	0	0	79	1 070	44	**409 997**
Receivables from customers (Note 15)	1 945	0	0	0	81	0	**2 026**
Other financial assets (Note 16)	233	0	0	0	707	0	**940**
Total assets bearing currency risk	**701 725**	**1 638**	**1 101**	**667**	**47 409**	**1 040**	**753 580**
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 18)	579 117	1 605	2 549	353	48 279	857	**632 760**
Financial liabilities at fair value (Note 12)	89	0	0	0	0	0	**89**
Accounts payable and other financial liabilities (Note 19)	4 015	45	2 902	308	9 219	799	**17 288**
Subordinated debt (Note 21)	30 900	0	0	0	0	0	**30 900**
Total liabilities bearing currency risk	**614 121**	**1 650**	**5 451**	**661**	**57 498**	**1 656**	**681 037**
Open gross position derivative assets at contractual value	0	0	4 360	0	10 127	0	**14 487**
Open gross position derivative liabilities at contractual value	14 487	0	0	0	0	0	**14 487**
Open foreign currency position	**73 117**	**-12**	**10**	**6**	**38**	**-616**	**72 543**

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 debt securities in the investment portfolio. The risk management unit monitors the compliance with limits.

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. Based on historical performance and volatility of the pension fund unit NAV changes, the price changes should remain +/- 10% in the next 12 month period with the most likely change +/-5% and the impact to statement of profit or loss is presented in the next table.

LHV Varahaldus invests the remaining available assets in euros, to ensure liquidity and to not bear investment risk.

Bank does not hold significant amounts of equity securities in its position (see Note 12), due to which the sensitivity to change in the market value of these positions is marginal.

Bank'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 1.0% (2015: 1.0%).

Sensitivity analysis of the impact to net result from the risk exposures of the Group's largest entity AS LHV Pank against reasonable possible change (in thousands euros):

Impact on statement of profit or loss *(in thousands of euros)*	2016	2015
Equity securities +/-10%	+/-27	+/-2
Mandatory pension fund units +/-5%	+/-543	+/-317
Debt securities (FVTPL) +/-1.0% (+/-1.0%)	+/-636	+/-995
Impact on other comprehensive income	2016	2015
Debt securities (AFS) +/-1.0% (+/-1.0%)	+/-6	+/-35

3.3.3 Interest rate risk

Interest rate risk reflects the mismatch in the statement of financial position 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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials R.T.
Kuupäev/date 28.02.2017
PricewaterhouseCoopers, Tallinn

a decrease of interest rates to measure the effect on the Group's net interest income for a 12 month period. Internal limits for interest rate risk management are set by AS 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 three 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 statement of financial position;
- 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 deposits interest rates did not change in 2016 remaining at the level of up to 1.0% (up to 1.0% in 2015).

The interest rates for leveraged loans granted are changed at most once a month according to fluctuations in market interest rates. In 2016, the interest rate on loans received for specific purposes was 1.4% (2015: 1.4%). The effective interest rate of subordinated debts entered into in 2014 was 7.44% and the effective interest rate of subordinated debts entered into in 2015 and entered into in 2016 was 6.5%. The information about subordinated debt contractual interest rates is provided in Note 21.

As at 31.12.2016, stress tests were performed to the biggest interest sensitive subsidiary of the group: AS LHV Pank. An increase of 1 percentage point in interest rates would affect the Bank's annual net interest income and profit by EUR +2 473 thousand (2015: EUR +4 003 thousand). In the same time, a decrease of 1 percentage point in interest rates would affect the Bank's annual net interest income (profit) by EUR -1 119 thousand (2015: EUR -2 361 thousand). A 1 percentage point increase in market interest rates would raise the Bank's economic value, i.e. equity, by EUR +7 599 thousand (2015: EUR +463 thousand). A 1 percentage point decrease in market interest rates would decrease the Bank's economic value (equity) by EUR -8 207 thousand (2015: EUR -655 thousand). Effect on the Bank's economic value is positive due to the fact that the Bank has majorly invested in current assets and because of the prolonged nature of demand deposits, hence the average duration of assets exposures to interest rate risk is shorter than the average duration of liabilities exposures to interest rate risk.

The table below shows the structure of the financial assets and liabilities exposures to interest rate risk 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.

Demand deposits are divided as follows: liquidity accounts with the duration of 3-12 months and other demand deposits with the duration of 2 years based on their behavioural nature. The interest rate of demand deposits is not sensitive to market rate fluctuations. The prices of derivative contracts on the market are the bases for the assumption that the interest rates of the time deposits will not change drastically during the next 2 years, which would cause a significant amount of the demand deposits to transfer to term deposits.

Exposures to interest rate risk 31.12.2016 *(in thousands of euros)*	Up to 3 months	3-12 months	1-5 years	Over 5 year	Subtotal	Accrued interest	Impairments	Total
Financial assets								
Due from banks and investment companies (Note 10)	306 500	0	0	0	306 500	0	0	306 500
Financial assets at fair value (debt securities) (Note 11, 12)	6 947	34 789	16 560	3 332	61 628	2 768	0	64 396
Loans and advances to customers (Note 14)	243 015	245 086	52 792	461	541 354	2 028	-5 741	537 641
Total	**556 462**	**279 875**	**69 352**	**3 793**	**909 482**	**4 796**	**-5 741**	**908 537**
Financial liabilities								
Deposits from customers and loans received (Note 18)	58 760	82 914	635 393	0	777 067	514	0	777 581
Subordinated debt * (Note 21)	0	0	0	30 900	30 900	210	0	31 110
Total	**58 760**	**82 914**	**635 393**	**30 900**	**807 967**	**724**	**0**	**808 691**
Net interest sensitivity gap	**497 702**	**196 961**	**-566 041**	**-27 107**	**101 515**			

Exposures to interest rate risk 31.12.2015

(in thousands of euros)	Up to 3 months	3-12 months	1-5 years	Over 5 year	Subtotal	Accrued interest	Impair-ments	Total
Financial assets								
Due from banks and investment companies (Note 10)	230 501	0	0	0	230 501	0	0	230 501
Financial assets at fair value (debt securities) (Note 11, 12)	27 023	60 281	11 246	2 792	101 342	2 073	0	103 415
Loans and advances to customers (Note 14)	191 923	171 828	45 810	3 412	412 973	1 704	-4 680	409 997
Total	**449 447**	**232 109**	**57 056**	**6 204**	**744 816**	**3 777**	**-4 680**	**743 913**
Financial liabilities								
Deposits from customers and loans received (Note 18)	54 032	208 943	367 190	1 824	631 989	780	0	632 769
Subordinated debt * (Note 21)	0	0	0	30 900	30 900	205	0	31 105
Total	**54 032**	**208 943**	**367 190**	**32 724**	**662 889**	**985**	**0**	**663 874**
Net interest sensitivity gap	**395 415**	**23 166**	**-310 134**	**-26 520**	**81 927**			

* The contractual term of subordinated debts received in 2015 and in 2016 is 10 years and the interest rate is fixed at 6.5%. The contractual term of subordinated debts received in 2014 is 10 years and the interest rate is fixed at 7.25%.

3.4 Liquidity risk

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Group's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Group's 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 is fully compliant with as of 31.12.2016 and 31.12.2015. The aim of the LCR standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 31.12.2016 was 222% (2015: 271%).

The objective of the NSFR is to ensure that the Group has adequate stable funding sources to finance longer-term assets. According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the Group's NSFR level as at 31.12.2016 was 152% (2015: 157%). The net stable funding ratio will be imposed as minimum requirement from the year 2018.

The Treasury of the Bank 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, also the concentration of the Group's liabilities by maturities is monitored. To enable covering unexpected monetary outflows, the Group 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 a collateral in funding operations with the central bank. The Group has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2016 and 31.12.2015, the Group does not have any debts past due.

Short-term loans can be obtained from the central bank, secured by the majority of instruments from the debt securities portfolio.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and in a separate column the statement of financial position balance is disclosed. 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.

31.12.2016

(in thousands of euros)	On demand	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 18)	624 219	67 007	83 814	3 357	0	778 397	777 581
Subordinated debt (Note 21)	0	532	1 596	8 511	37 682	48 321	30 900
Accounts payable and other financial liabilities (Note 19)	0	15 977	0	0	0	15 977	15 977
Unused loan commitments (Note 24)	0	132 520	0	0	0	132 520	0
Financial guarantees by contractual amounts (Note 24)	0	5 442	0	0	0	5 442	0
Foreign exchange derivatives (gross settled)	0	15 156	0	728	0	15 884	0
Financial liabilities at fair value (Note 12)	0	209	0	0	0	209	209
Total liabilities	**624 219**	**236 843**	**85 410**	**12 596**	**37 682**	**996 750**	**824 667**
Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 10)	306 427	73	0	0	0	306 500	306 500
Financial assets at fair value (debt securities) (Note 11, 12)	0	7 666	36 123	18 474	3 613	65 876	64 396
Loans and advances to customers (Note 14)	0	42 969	140 761	381 350	40 710	605 790	537 641
Receivables from customers (Note 15)	0	3 479	0	0	0	3 479	3 479
Other financial assets (Note 16)	941	0	0	0	0	941	941
Foreign exchange derivatives (gross settled)	0	15 156	0	728	0	15 884	0
Total assets held for managing liquidity risk	**307 368**	**69 343**	**176 884**	**400 552**	**44 323**	**998 470**	**912 957**
Maturity gap from assets and liabilities	**-316 851**	**-167 500**	**91 474**	**387 956**	**6 641**	**1 720**	

31.12.2015

(in thousands of euros)	On demand	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 18)	433 027	66 578	110 230	23 284	716	633 835	632 760
Subordinated debt (Note 21)	0	532	1 596	8 511	39 810	50 449	30 900
Accounts payable and other financial liabilities (Note 19)	0	17 288	0	0	0	17 288	17 288
Unused loan commitments (Note 24)	0	118 696	0	0	0	118 696	0
Financial guarantees by contractual amounts (Note 24)	0	5 369	0	0	0	5 369	0
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	14 487	0
Financial liabilities at fair value (Note 12)	0	26	63	0	0	89	89
Total liabilities	**433 027**	**222 976**	**111 889**	**31 795**	**40 526**	**840 213**	**681 037**
Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 10)	230 501	0	0	0	0	230 501	230 501
Financial assets at fair value (debt securities) (Note 11, 12)	0	19 250	69 590	12 136	2 977	103 953	103 415
Loans and advances to customers (Note 14)	0	43 364	114 515	280 732	19 297	457 908	409 997
Receivables from customers (Note 15)	0	2 026	0	0	0	2 026	2 026
Other financial assets (Note 16)	940	0	0	0	0	940	940
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	14 487	0
Total assets held for managing liquidity risk	**231 441**	**79 127**	**184 105**	**292 868**	**22 274**	**809 815**	**746 879**
Maturity gap from assets and liabilities	**-201 586**	**-143 849**	**72 216**	**261 073**	**-18 252**	**-30 398**	

The following table presents the distribution of assets and liabilities by classification of current and non-current.

(in thousands of euros)	31.12.2016	31.12.2015
Current assets		
Due from central bank (Note 10)	265 127	199 844
Due from credit institutions (Note 10)	33 300	14 735
Due from investment companies (Note 10)	8 073	15 922
Available-for-sale financial assets (Note 11)	579	3 508
Financial assets at fair value through profit or loss (Note 12)	43 559	84 892
Loans and advances to customers (Note 14)	183 684	123 380
Receivables from customers (Note 15)	3 479	2 026
Other assets (Note 16)	1 391	1 128
Total current assets	**539 192**	**445 435**
Non-current assets		
Available-for-sale financial assets (Note 11)	220	0
Financial assets at fair value through profit or loss (Note 12)	31 832	21 716
Loans and advances to customers (Note 14)	353 957	286 617
Other financial assets (Note 16)	941	940
Tangible assets (Note 17)	1 191	685
Intangible assets (Note 17)	4 500	689
Goodwill (Note 6)	3 614	1 044
Total non-current assets	**396 255**	**311 691**
Total assets (Note 5)	**935 447**	**757 126**
Liabilities		
Current liabilities		
Deposits from customers and loans received (Note 18)	773 608	609 771
Financial liabilities at fair value through profit or loss (Note 12)	209	89
Accounts payable and other liabilities (Note 19)	19 031	20 137
Total current liabilities	**792 848**	**629 997**
Non-current liabilities		
Deposits from customers and loans received (Note 18)	3 973	22 989
Subordinated debt (Note 21)	30 900	30 900
Total non-current liabilities	**34 873**	**53 889**
Total liabilities (Note 5)	**827 721**	**683 886**

Distribution of assets and liabilities by geographic region is presented below. As at 31.12.2016, the loans issued to 7 customers (2015: total 9) 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 87% of NOF (2015: 84%). The Group has invested in the debt securities of 3 issuers (2015: 3) with a large risk exposure, totalling 74% of NOF (2015: 80%). Unused loan commitments in amount of EUR 127 285 thousand are for Estonian residents and in the amount of EUR 5 235 thousand for Lithuanian residents (2015: EUR 118 696 thousand for Estonian residents).

31.12.2016 *(in thousands of euros)*	Estonia	Latvia	Lithuania	Finland	The Nether-lands	Germany	Other EU	USA	Other	Total
Due from banks and investment companies (Note 10)	287 878	326	2 392	0	0	0	5 100	7 919	2 885	306 500
Financial assets at fair value (Note 11, 12)	12 316	2 737	18 788	0	0	33 660	8 657	2	30	76 190
Loans and advances to customers (Note 14)	484 578	1 880	35 383	512	7	46	14 508	51	676	537 641
Receivables from customers (Note 15)	3 110	14	352	0	0	0	3	0	0	3 479
Other financial assets (Note 16)	108	0	0	0	0	0	0	833	0	941
Total financial assets	**787 990**	**4 957**	**56 915**	**512**	**7**	**33 706**	**28 268**	**8 805**	**3 591**	**924 751**
Deposits from customers and loans received (Note 18)	666 870	1 617	2 024	1 072	1	201	71 983	746	33 067	777 581
Subordinated debt (Note 21)	30 900	0	0	0	0	0	0	0	0	30 900
Accounts payable and other financial liabilities (Note 19)	14 941	65	928	27	0	0	13	3	0	15 977
Financial liabilities at fair value (Note 12)	209	0	0	0	0	0	0	0	0	209
Total financial liabilities	**712 920**	**1 682**	**2 952**	**1 099**	**1**	**201**	**71 996**	**749**	**33 067**	**824 667**

31.12.2015 *(in thousands of euros)*	Estonia	Latvia	Lithuania	Finland	The Nether-lands	Germany	Other EU	USA	Other	Total
Due from banks and investment companies (Note 10)	209 268	0	1 784	0	874	0	1 081	15 786	1 708	230 501
Financial assets at fair value (Note 11, 12)	7 501	3 838	3 327	0	0	36 944	47 454	11 051	1	110 116
Loans and advances to customers (Note 14)	362 002	585	38 223	20	7	1	9 139	0	20	409 997
Receivables from customers (Note 15)	1 784	2	240	0	0	0	0	0	0	2 026
Other financial assets (Note 16)	108	0	0	0	0	0	0	832	0	940
Total financial assets	**580 663**	**4 425**	**43 574**	**20**	**881**	**36 945**	**57 674**	**27 669**	**1 729**	**753 580**
Deposits from customers and loans received (Note 18)	539 478	2 406	1 776	625	29	302	40 024	2 211	45 909	632 760
Subordinated debt (Note 21)	30 900	0	0	0	0	0	0	0	0	30 900
Accounts payable and other financial liabilities (Note 19)	16 606	0	639	27	0	0	13	3	0	17 288
Financial liabilities at fair value (Note 12)	89	0	0	0	0	0	0	0	0	89
Total financial liabilities	**587 073**	**2 406**	**2 415**	**652**	**29**	**302**	**40 037**	**2 214**	**45 909**	**681 037**

Distribution of loans granted by industry (gross):

(in thousands of euros)	31.12.2016	%	31.12.2015	%
Individuals	125 125	23.0%	91 793	22.1%
Real estate	149 145	27.4%	106 836	25.8%
Manufacturing	43 541	8.0%	36 919	8.9%
Art and entertainment	29 143	5.4%	25 724	6.2%
Financial services	68 985	12.7%	46 887	11.3%
Wholesale and retail	14 721	2.7%	16 563	4.0%
Administrative activities	11 953	2.2%	11 355	2.7%
Transport and logistics	12 835	2.4%	14 706	3.6%
Agriculture	8 341	1.5%	8 836	2.1%
Other servicing activities	15 021	2.8%	23 184	5.6%
Construction	11 688	2.2%	6 637	1.6%
Information and communication	9 611	1.8%	4 791	1.2%
Professional, scientific and technical activities	12 451	2.3%	2 482	0.6%
Education	1 297	0.2%	1 618	0.4%
Other areas at activities	29 525	5.4%	16 346	3.9%
Total (Note 14)	**543 382**	**100%**	**414 677**	**100%**

3.6 Fair value of financial assets and financial liabilities

(in thousands of euros)	Level 1	Level 2	Level 3	31.12.2016
Financial assets at fair value through profit or loss				
Shares and fund units* (Note 12)	408	10 866	50	11 324
Available-for-sale debt securities (Note 11)	799	0	0	799
Debt securities at fair value through profit or loss (Note 12)	63 817	0	0	63 817
Interest rate swaps and foreign exchange forwards (Note 12)	0	250	0	250
Total financial assets	**65 024**	**11 116**	**50**	**76 190**
Financial liabilities at fair value through profit or loss				
Interest rate swaps and foreign exchange forwards (Note 12)	0	209	0	209
Total financial liabilities	**0**	**209**	**0**	**209**

(in thousands of euros)	Level 1	Level 2	Level 3	31.12.2015
Financial assets at fair value through profit or loss				
Shares and fund units* (Note 12)	352	6 349	0	6 701
Available-for-sale debt securities (Note 11)	3 508	0	0	3 508
Debt securities at fair value through profit or loss (Note 12)	99 907	0	0	99 907
Total financial assets	**103 767**	**6 349**	**0**	**110 116**
Financial liabilities at fair value through profit or loss				
Interest rate swaps and foreign exchange forwards (Note 12)	0	89	0	89
Total financial liabilities	**0**	**89**	**0**	**89**

*Shares and fund units include the Group's subsidiary AS LHV Varahaldus investment into pension fund units in the amount of EUR 10 866 thousand (31.12.2015: EUR 6 349 thousand) euros. 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 management board of the Group has assessed the fair value of assets and liabilities carried at amortised cost in the statement of financial position. For estimating fair value, the future cash flows are discounted on the basis of the market interest yield curve.

Levels used in hierarchy:

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

Interest rate swaps and foreign exchange forwards 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 over-the-counter 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 LHV Varahaldus' investments into pension fund units have quoted prices from the market, however the market is inactive and therefore disclosed as level 2.

As at 31.12.2016 the fair value of corporate loans is EUR 2 063 thousand (0.51%) lower than their carrying amount (31.12.2015: EUR 297 thousand, 0.2% higher). 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 31.12.2016 and 31.12.2015. The fair value level of corporate loans and overdraft is 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest). Interest rate used is the average interest rate of corporate loans issued in last 6 months of the reporting period (2016: 4.54% and 2015: 4.52%).

EUR thousand	Carrying value	Fair value	Difference	Level
31.12.2016	343 994	342 227	-0.51%	3
31.12.2015	256 354	256 651	+0.2%	3

Lease interest rates offered to customers generally correspond to interest rates prevailing in the market for such products. Considering that the interest rate environment has been relatively stable since the Group started to provide leasing, consequently the fair value of lease agreements does not materially differ from their carrying amount. As significant management judgment is required to determine fair value, leases are classified as level 3 in the fair value hierarchy.

Mortgage loans interest rates offered to customers correspond to interest rates prevailing in the market for such products. As mortgage product is long-term product, then bank has set up separate process monitoring the rates offeref by competitiors. Considering that bank has actively started offering the product only in October 2016, the interest rate environment has not changed, consequently the fair value of mortgage agreements does not differ from their carrying amount. As significant management judgment is required to determine fair value, mortgage loans are classified as level 3 in the fair value hierarchy

Leveraged loans, hire-purchase and credit cards 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. The fair value level of leveraged loans, hire-purchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Trade receivables (other than the receivables related to loans and advances to customers) and accrued expenses and other financial 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 financial liabilities is 3.

Customer deposits and loans received 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.

The majority of subordinated debts were received in 2015 and in 2014 and the remainder in 2012 which was redeemed in 2015. These loans carry approximately equal interest rates (6.5% and 7.25%) and considering the short term between the loan received in October 2015 and the balance sheet date, it can be concluded that no material changes have occurred in interest rates as of the balance sheet date. Therefore, the fair value of loans does not differ significantly from their carrying amount. As significant management judgment is required to determine fair value, loans are classified as level 3 in the fair value hierarchy.

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 segregation of duties principle 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 Group is responsible for collecting information.

Compliance control and internal audit department 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 Supervision 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 function, 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.

3.8 Offsetting assets and liabilities

The group has offset the following assets and liabilities.

				Related arrangements not set off in the statement of financial position		
31.12.2016	Gross amounts before offsetting in the statement of financial position	Offsetting	Net amount of exposure presented in the statement of financial position	Financial instruments	Cash collateral received	Net amounts
Assets						
Prepayments to merchants for registered customer contacts	3 292	-3 119	173	0	0	173
Client receivables (leveraged loans, incl. repo loans) (Note 14)	7 387	0	7 387	-7 387	0	0
Liabilities						
Payables to merchants	3 738	-3 119	619	0	0	619
31.12.2015						
Assets						
Prepayments to merchants for registered customer contacts	3 126	-2 987	139	0	0	139
Client receivables (leveraged loans, incl. repo loans) (Note 14)	7 445	0	7 445	-7 445	0	0
Liabilities						
Payables to merchants	3 416	-2 987	429	0	0	429

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 income 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 10, 11, 12, 14 and 15).

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.

NOTE 5 Business segments

Bank divides its business activities by 3 main business segments: retail banking, private banking and corporate banking. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating result by the Group's decision-maker. The full planning and KPI setting is done on segments level. For each of the segment full balance sheet and profit and loss statement is prepared. In addition to these high level segments, Group has planning/measurement on department level. Grouping is done based on the client/product base, where similar departments are grouped under one segment. Private banking covers high net worth customers, who main product is investments. Retail banking segment covers all private individuals and small legal entities with credit exposure under EUR 250 thousand. This is the regular universal banking segment offering payments, cards, credits etc. Corporate banking segment covers all large corporates and other legal entities with credit exposure over EUR 250 thousand. The main products are credits and payments. Asset management is the pension managemet segment covering pension second and third pillar. Hire-purchase units both in Estonia and in Lithuania are separate legal entities covering small loan business to private individuals. These portfolio are relatively small, but due to clients different payment history these segments have to be looked separately. The management board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

The revenue of a reported segment includes gains from transactions between the segments, i.e. loans granted by AS LHV Pank to other group companies. The division of interest income and fee and commission income by customer location has been presented in Notes 7 and 8. The Group does not have any customers, whose income would account for more than 10% of the corresponding type of revenue.

31.12.2016 *(in thousands of euros)*	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Other activities	Intra-segment eliminations	Total
Interest income	5 005	974	17 405	16	7 066	6 474	3 697	-5 477	35 160
Interest expense	0	0	-3 844	-162	-1 130	-1 168	-4 357	5 477	-5 184
Net interest income	**5 005**	**974**	**13 561**	**-146**	**5 936**	**5 306**	**-660**	**0**	**29 976**
Fee and commission income	8 187	850	377	12 905	25	626	320	0	23 290
Fee and commission expense	-3 353	0	-98	0	-394	-61	-198	0	-4 104
Net fee and commission income	**4 834**	**850**	**279**	**12 905**	**-369**	**565**	**122**	**0**	**19 186**
Net income	**9 839**	**1 824**	**13 840**	**12 759**	**5 567**	**5 871**	**-538**	**0**	**49 162**
Net gains from financial assets	887	0	0	310	0	0	112	0	1 309
Administrative and other operating expenses, staff costs	-8 865	-889	-4 229	-6 941	-1 458	-4 034	-2 413	0	-28 829
Operating profit	**1 861**	**935**	**9 611**	**6 128**	**4 109**	**1 837**	**-2 839**	**0**	**21 642**
Income/loss from associates	0	0	0	0	0	0	1	0	1
Impairment losses on loans and advances	-119	0	-828	0	-820	287	0	0	-1 480
Income tax	0	0	0	0	0	-270	0	0	-270
Net profit	**1 742**	**935**	**8 783**	**6 128**	**3 289**	**1 854**	**-2 838**	**0**	**19 893**
Total assets	**303 898**	**98 680**	**492 642**	**23 543**	**35 520**	**39 393**	**97 441**	**-155 670**	**935 447**
Total liabilities	**454 155**	**213 620**	**152 449**	**2 586**	**30 023**	**32 592**	**31 181**	**-88 885**	**827 721**

31.12.2015 *(in thousands of euros)*	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Other activities	Intra-segment eliminations	Total
Interest income	4 556	650	14 298	44	3 926	6 055	3 134	-5 295	27 368
Interest expense	-982	0	-4 802	-100	-672	-1 171	-1 703	5 295	-4 135
Net interest income	**3 574**	**650**	**9 496**	**-56**	**3 254**	**4 884**	**1 431**	**0**	**23 233**
Fee and commission income	5 250	709	568	9 195	35	666	380	-2	16 801
Fee and commission expense	-1 670	0	-128	0	-6	-48	-286	2	-2 136
Net fee and commission income	**3 580**	**709**	**440**	**9 195**	**29**	**618**	**94**	**0**	**14 665**
Net income	**7 154**	**1 359**	**9 936**	**9 139**	**3 283**	**5 502**	**1 525**	**0**	**37 898**
Net gains from financial assets	-10	0	0	316	0	0	125	0	431
Administrative and other operating expenses, staff costs	-7 547	-956	-3 852	-4 803	-1 475	-3 441	-1 976	0	-24 050
Operating profit	**-403**	**403**	**6 084**	**4 652**	**1 808**	**2 061**	**-326**	**0**	**14 279**
Income/loss from associates	0	0	0	0	0	0	-36	0	-36
Impairment losses on loans and advances	-236	0	-149	0	-280	-697	-5	0	-1 367
Income tax	0	0	0	0	0	-269	0	0	-269
Discontinued operations	2 181	0	0	0	0	0	0	0	2 181
Net profit	**1 542**	**403**	**5 935**	**4 652**	**1 528**	**1 095**	**-367**	**0**	**14 788**
Total assets	**251 487**	**105 923**	**378 081**	**11 038**	**25 366**	**39 558**	**84 246**	**-138 573**	**757 126**
Total liabilities	**326 715**	**210 255**	**139 030**	**1 891**	**23 164**	**34 611**	**31 232**	**-83 012**	**683 886**

NOTE 6 Subsidiaries and associated companies, goodwill

As at 31.12.2016, 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%)
- Cuber Technology OÜ
  (Estonia, ownership interest 100%)
- UAB Mokilizingas
  (Lithuania, ownership interest 50% + 1 share)
- AS LHV Finance
  (Estonia, ownership interest 65% through AS LHV Pank)

AS LHV Pank paid EUR 325 thousand euros of monetary contribution for 65% of ownership in LHV Finance and a non-controlling interest paid EUR 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 financial position on the line "Non-controlling interest".

As at 31.12.2016, the Group does not have any associates. As at 31.12.2015, the Group had 33% ownership interest in OÜ Svipe which was sold in the beginning of the 2016 for EUR 1 thousand.

Total book value of associates as of 31.12.2015 was EUR 0 thousand as in 2015 investment of OÜ Svipe was impaired by EUR 36 thousand.

In January 2015, subsidiary AS LHV Pank disposed its Finnish branch for the amount of 3 000 thousand euros. The transfer included all assets and rights connected with the business and all obligations, liabilities and undertakings.

Dormant subsidiary LHV Finance Oy was liquidated in 2015.

As at 31.12.2016, goodwill in amount EUR 3 614 thousand in the consolidated financial statements 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 of AS LHV Varahaldus entered into in 2009 in the amount of EUR 562 thousand;
- positive goodwill which had arisen on the acquisition of the ownership interests in Danske Capital AS by AS LHV Varahaldus in the amount of EUR 2 570 thousand.

Impairment tests were performed as at 31.12.2016 and as at 31.12.2015. 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 19% per annum (2015: 17%)
- increase of income of fund manager is expected to be average of 6% per annum (2015: 6%);
- due to the economic environment, growth of 4% in indirect costs is expected per annum (2015: 4%);
- the discount rate used is 15% (2015: 15%).

When using the main assumptions, the management used previous years' experience and its best estimate in respect of probable expectations. Expectations are more conservative due to the changes in the market situation and legislation. Based on the results of the impairment test performed as at 31.12.2016 and 31.12.2015, the recoverable amount of cash generating unit is higher than its carrying amount, as a result of which no impairment losses have been recognized.

On May 2 2016 AS LHV Varahaldus acquired 100% shares of Danske Capital AS and its managed funds. This purchase enabled LHV Varahaldus to increase significantly market share and also profitability. Immediately after conclusion of the transaction of purchase and sale of shares on May 2, LHV Varahaldus launched the merger of the two management companies. The merger took effect on July 28, with the balance sheet date of May 1. The impact of revenue in 2016 is EUR 2 814 thousand and the impact of profit and loss is EUR 1 016 thousand.

AS LHV Varahaldus recognised the acquisition of Danske Capital AS 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 Danske Capital AS was assessed and the assets were recognised in fair value on the transaction date (02.05.2016). Date of the financial information used for the purchase price allocation was 30.04.2016, which is the date closest to the transaction date with reliable financial information available. No significant transactions occurred between the financial information date and transaction date that had a significant impact on the value of net assets acquired. The goodwill is related with the expected synergies of managing acquired pension funds.

Acquisition-related costs of EUR 17 thousand have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

The total fair value of assets (cash, clients agreements, pension fund units and other receivables) was 8 782 thousand euros. The total fair value of payables (payables to employees, tax payables and other payables) was 427 thousand euros.

(in thousands of euros)	Fair values recorded on acquisition
Cash and cash equivalents	1 027
Pension fund units	3 300
Other financial assets	425
Client agreements	4 030
Other financial liabilities	-427
Total net assets identified	**8 355**
Amount paid by LHV Varahaldus AS	**10 925**
Goodwill acquired by the Group	**2 570**
Outflow of cash and cash equivalents on acquisition	**-9 898**

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The information disclosed is the amount before inter-company eliminations.

	UAB Mokilizingas		AS LHV Finance	
Summarised statement of Financial Position	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans and advances to customers and other current assets	39 140	39 429	35 454	25 233
Non-current assets	253	129	66	132
Current liabilities	2 092	1 611	1 982	2 041
Non-current liabilities	30 500	33 000	28 041	21 123
Total net assets	**6 801**	**4 947**	**5 497**	**2 201**

	UAB Mokilizingas		AS LHV Finance	
Summarised statement of Profit or Loss and Other Comprehensive Income	2016	2015	2016	2015
Total net interest and fee income	5 871	5 502	5 566	3 283
Profit before income tax	2 124	1 364	3 289	1 528
Income tax expense	-270	-269	0	0
Net profit	**1 854**	**1 095**	**3 289**	**1 528**
Total comprehensive income	1 854	1 095	3 289	1 528
Profit and other comprehensive income allocated to non-controlling interests	927	547	1 151	535

	UAB Mokilizingas		AS LHV Finance	
Summarised statement of Cash Flows	2016	2015	2016	2015
Cash generated from operations	4 916	-4 607	-5 790	-9 957
Interest paid	-1 168	-1 171	-1 109	-633
Income tax paid	-270	-269	0	0
Net cash generated from/(used in) operating activities	3 478	-6 047	-6 899	-10 590
Net cash generated from/(used in) investing activities	-211	-41	-18	-62
Net cash generated from/(used in) financing activities	-2 511	6 017	6 917	10 652
Net increase/(decrease) in cash and cash equivalents	**756**	**-71**	**0**	**0**
Cash and cash equivalents at beginning of year	1 103	1 174	0	0
Cash and cash equivalents at end of year	1 859	1 103	0	0

NOTE 7 Net interest income

Interest income	2016	2015
Corporate loans (incl. retail loans)	17 606	14 251
incl. loans to related parties (Note 25)	36	47
Hire purchase	7 797	6 835
Consumer loans	5 296	2 707
Leasing	1 603	1 388
incl. loans to related parties (Note 25)	4	7
Leveraged loans and lending of securities	505	715
From debt securities	380	395
incl. debt securities available-for-sale	27	36
incl. debt securities at fair value through profit or loss	353	359
Credit card loans	553	408
Mortgage loans	885	327
From balances with credit institutions and investment companies	74	94
Other loans	461	424
Total	**35 160**	**27 544**
Interest expense		
Deposits from customers and loans received	-2 248	-2 763
incl. loans from related parties (Note 25)	46	87
From balances with central bank	-811	-176
Subordinated debt (Note 21)	-2 125	-1 372
incl.loans from related parties (Note 25)	-386	-411
Total	**-5 184**	**-4 311**
Net interest income	**29 976**	**23 233**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	2016	2015
Estonia	28 136	20 868
Latvia	102	31
Lithuania	6 468	6 156
Total	**34 706**	**27 055**

Interests calculated on impaired loans in 2016 is EUR 137 (2015: EUR 88) thousand.

NOTE 8 Net fee and commission income

Fee and commission income	**2016**	**2015**
Security brokerage and commission fees	3 086	2 572
Asset management and related fees	14 344	10 227
Incl. funds managed by the Group*	12 367	8 719
Currency exchange fees	1 109	731
Fees from cards and settlements	3 584	2 128
Fee for Snoras portfolio administration**	45	276
Other fee and commission income	1 122	867
Total	**23 290**	**16 801**
Fee and commission expense		
Security brokerage and commission fees paid	-828	-707
Expenses related to cards	-1 059	-619
Expenses related to acquiring	-1 280	-441
Other fee expense	-937	-369
Total	**-4 104**	**-2 136**
Net fee and commission income	**19 186**	**14 665**

* Commission fees from pension and investment funds are calculated as a fixed percentage of total assets of the fund and varies between 0.39% -2% p.a.

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

Fee and commission income by customer location:	**2016**	**2015**
Estonia	22 156	15 441
Latvia	23	84
Lithuania	902	1 008
Sweden	0	96
Other	209	172
Total	**23 290**	**16 801**

NOTE 9 Operating expenses

(in thousands of euros)	**2016**	**2015**
Wages, salaries and bonuses	9 788	8 297
Social security and other taxes*	3 188	2 680
Total staff costs	**12 976**	**10 977**
IT expenses	1 807	1 371
Information services and banking services	751	702
Marketing expenses	4 653	3 896
Office expenses	541	447
Transportation and communication costs	277	246
Training and travelling expenses of employees	429	312
Other outsourced services	3 225	2 909
Other administrative expenses	1 602	1 331
Depreciation	1 419	791
Operating lease payments	973	911
Other operating expenses	263	214
Total other operating expenses	**15 940**	**13 130**
Total operating expenses	**28 916**	**24 107**

* lump-sum payment of social, health and other insurances

The average number of employees working for LHV Group in 2016 was 337 (2015: 303).

NOTE 10 Due from central bank, credit institutions and investment companies

(in thousands of euros)	2016	2015
Demand and term deposits with maturity less than 3 months *	41 373	30 657
Statutory reserve capital at central bank	7 736	6 138
Demand deposit from central bank *	257 391	193 706
Total	**306 500**	**230 501**
* cash and cash equivalents in the statement of cash flows	298 764	224 363

Distribution of receivables by countries is presented in Note 3.5. Mandatory banking reserve as at 31.12.2016 was 1% (2015: 1%) of all financial resources collected (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 debt and equity securities portfolio. The balance of other reserve in equity as of 31.12.2016 is EUR -40 thousand (31.12.2015: EUR -23 thousand), see also Note 22.

In 2016 and 2015, no gains or losses arose from the sales of debt securities. In 2016, VISA share was revalued to EUR 889 thousand, which profit on disposal was recycled to profit and loss statement during 2016.

Available-for-sale financial assets 31.12.2014	**4 273**
Proceeds from disposal and maturities of assets available-for-sale	-784
Interest income (Note 7)	36
Revaluation of available-for-sale assets	-17
Available-for-sale financial assets 31.12.2015	**3 508**
Proceeds from disposal and maturities of assets available-for-sale	-3 608
Interest income (Note 7)	27
Revaluation of available-for-sale assets	-17
Revaluation reclassified through profit or loss	889
Available-for-sale financial assets 31.12.2016	**799**

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

	31.12.2016	31.12.2015
Securities held for trading:		
Shares and fund units	458	352
Debt securities	63 817	99 907
Designated as at fair value through profit or loss upon initial recognition:		
Fund units	10 866	6 349
incl. investments in managed pension funds	10 866	6 349
Foreign exchange forwards	250	0
Total financial assets	**75 391**	**106 608**
Interest rate swaps and foreign exchange forwards	209	89
Total financial liabilities	**209**	**89**

Financial assets at fair value through profit or loss 31.12.2014	**145 252**
Net changes of investment securities at fair value through profit or loss	-38 974
Interest income (Note 7)	359
Revaluation	-29
Financial assets at fair value through profit or loss 31.12.2015	**106 608**
Net changes of investment securities at fair value through profit or loss	-32 140
Interest income (Note 7)	353
Revaluation	570
Financial assets at fair value through profit or loss 31.12.2016	**75 391**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2016, a gain of EUR 213 thousand was recognised on the revaluation of debt securities (2015: EUR 124 thousand). No profit or loss arose on the revaluation of interest rate swaps in 2016 (2015: loss EUR -12 thousand).

The volume of pension and investment fund assets managed by the Group as at 31.12.2016 was EUR 974 million (31.12.2015: EUR 570 million).

NOTE 13 Discontinued operations

Discontiniued operations presents the Group's disposed business of the branch in Finland, which was sold on January 9, 2015.

Net income from discontinued operations:	2016	2015
Other financial income	0	2 936
Total expenses	0	-755
Net profit for the year from discontinued operations	**0**	**2 181**

NOTE 14 Loans and advances to customers

(in thousands of euros)	31.12.2016	31.12.2015
Loans to legal entities	**418 257**	**322 883**
incl. corporate loans	341 358	257 140
Incl retail loans	7 088	0
incl. leasing	33 700	31 124
incl. overdraft	31 333	29 548
incl. leveraged loans	4 383	4 733
incl. hire-purchase	265	220
incl. credit card loans	130	118
Loans to individuals	**125 125**	**91 794**
incl. hire-purchase	46 812	46 580
incl. mortgage loans	35 451	15 395
incl. consumer loans	27 294	17 991
incl. leasing	7 694	5 544
incl. leveraged loans	3 004	2 712
incl. credit card loans	4 788	3 503
incl. overdraft	82	69
Total	**543 382**	**414 677**
incl. related parties (note 25)	1 774	2 458
Impairment provisions	-5 741	-4 680
Total	**537 641**	**409 997**

Changes in impairments in 2016	Corporate loans incl overdraft	Retail loans	Consumer loans	Credit cards	Hire-purchase	Leasing	Leveraged loans	Other loans incl mortgage	Total
Balance as at 1 January	**-1 686**	**0**	**-1 092**	**-110**	**-1 366**	**-349**	**0**	**-77**	**-4 680**
Impairment provisions set up during the year	-847	-101	-1 169	-42	-449	93	0	-66	-2 581
Written off during the year	195	0	662	34	592	37	0	0	1 520
Balance as at December 31	**-2 338**	**-101**	**-1 599**	**-118**	**-1 223**	**-219**	**0**	**-143**	**-5 741**

Changes in impairments in 2015	Corporate loans incl overdraft	Consumer loans	Credit cards	Hire-purchase	Leasing	Leveraged loans	Other loans incl mortgage	Total
Balance as at 1 January	**-1 541**	**-1 056**	**-91**	**-670**	**-85**	**-18**	**0**	**-3 461**
Impairment provisions set up during the year	-149	-53	-63	-2 015	-264	0	-77	-2 621
Written off during the year	4	17	44	1 319	0	18	0	1 402
Balance as at December 31	**-1 686**	**-1 092**	**-110**	**-1 366**	**-349**	**0**	**-77**	**-4 680**

Net and gross investments on finance leases according to remaining maturity	Gross investment	Unearned future interest income	Impairment loss provision	Present value of lease payments receivable
up to 1 year	13 413	-1 379	-67	11 967
1-5 years	30 862	-1 837	-149	28 876
over 5 years	573	-19	-3	551
Total as at 31.12.2016	**44 848**	**-3 235**	**-219**	**41 394**
up to 1 year	11 446	-1 078	-102	10 266
1-5 years	27 960	-1 487	-245	26 228
over 5 years	180	-4	-2	174
Total as at 31.12.2015	**39 586**	**-2 569**	**-349**	**36 668**

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 maturity is disclosed in Note 3.4.

The geographical distribution of loans granted is disclosed in Note 3.5.

For interest income on loans granted, see Note 7

NOTE 15 Receivables from customers

	31.12.2016	31.12.2015
Asset management fees from customers	1 238	708
incl. related parties (Note 25)	1 238	703
Other fees for providing services to customers	1 890	1 076
Payments in transit	15	8
Other receivables	336	234
Total	**3 479**	**2 026**

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

NOTE 16 Other assets

	31.12.2016	31.12.2015
Financial assets		
Guarantee deposits of Baltic stock exchanges	8	8
Guarantee deposits of VISA and MasterCard	933	932
Subtotal	**941**	**940**
Non-financial assets		
Prepayments to Financial Supervision Authority	272	216
Tax prepayments	112	125
Repossessed assets	22	19
Prepayments to merchants for registered customer contracts	67	62
Other prepayments *	918	706
Subtotal	**1 391**	**1 128**
Total	**2 332**	**2 068**

* 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 deposits of VISA and 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 31.12.2014			
Cost	2 008	1 548	3 556
Accumulated depreciation and amortisation	-1 640	-1 018	-2 658
Assets of discontinued operations (Note 13)	-60	0	-60
Carrying amount	**308**	**530**	**838**
Changes in 2015:			
Purchase of non-current assets	584	743	1 327
Depreciation/amortisation charge	-207	-584	-791
Write-off of non-current assets	-60	0	-60
Balance as at 31.12.2015			
Cost	2 592	2 291	4 883
Accumulated depreciation and amortisation	-1 907	-1 602	-3 509
Carrying amount	**685**	**689**	**1 374**
Purchase of non-current assets	959	923	1 882
Assets acquired on business combination	0	4 030	4 030
Disposal of non-current assets	-13	0	-13
Depreciation/amortisation charge	-423	-1 108	-1 531
Write-off of non-current assets	-17	-34	-51
Balance as at 31.12.2016			
Cost	3 521	7 210	10 731
Accumulated depreciation and amortisation	-2 330	-2 710	-5 040
Carrying amount	**1 191**	**4 500**	**5 691**

Tangible assets include computer technology and office equipment, furniture, capitalized costs of office renovation. Intangible assets include licences and development costs.

In 2016 and 2015, there was no indication of impairment of tangible and intangible assets.

NOTE 18 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	31.12.2016 total
Demand deposits	202 725	413 141	8 260	624 126
Term deposits	63 749	81 945	6 469	152 163
Loans received	0	0	778	778
Accrued interest liability	209	285	20	514
Total	**266 683**	**495 371**	**15 527**	**777 581**
incl. related parties (Note 25)	1 165	6 265	0	7 430

	Individuals	Legal entities	Public sector	31.12.2015 total
Demand deposits	127 084	303 153	2 573	432 810
Term deposits	81 949	98 242	3 478	183 669
Loans received	0	13 000	2 510	15 510
Accrued interest liability	322	424	25	771
Total	**209 355**	**414 819**	**8 586**	**632 760**
incl. related parties (Note 25)	828	12 587	0	13 415

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of EUR 778 thousand (31.12.2015: EUR 2 510 thousand) with an intended purpose to finance loans to small enterprises operating in rural areas. In 2015 loans received included also loan from the European Central Bank, secured with the debt securities portfolio, in the amount of EUR 13 028 thousand and interest rate 0,15%. 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.

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.

NOTE 19 Accounts payable and other liabilities

Financial liabilities	31.12.2016	31.12.2015
Trade payables	2 686	2 812
Payables to merchants	330	210
Other short-term financial liabilities	1 551	473
Accrued interest on subordinated loans (Note 21)	210	205
Payments in transit	11 063	13 455
Financial guarantee contracts issued	137	133
Subtotal	**15 977**	**17 288**
Non-financial liabilities		
Performance guarantee contracts issued	228	158
Tax liabilities	886	933
Payables to employees	1 020	1 083
incl. related parties (Note 25)	92	100
Other short-term liabilities	920	675
Subtotal	**3 054**	**2 849**
Total	**19 031**	**20 137**

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, for which the customer's current account have been debited. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

NOTE 20 Operating lease

The Group leases office premises 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 are disclosed in the table below. In 2016, the operating lease payments for office premises in the amount of EUR 971 thousand (2015: EUR 736 thousand

	Up to 1 year	1 to 5 year	Total
Non-cancellable lease payables as of **31.12.2015**	842	3 241	**4 083**
Non-cancellable lease payables as of **31.12.2016**	1 132	3 718	**4 850**

NOTE 21 Subordinated debts

The Group has received subordinated debts in order to increase long-term capital. In the case of default of the Group, the subordinated debts are repayable after all other debts have been paid, but before debts to shareholders are paid. The balances of subordinated debt as at the end of each reporting period is disclosed in the table below.

In October 2015, subordinated bonds were issued totalling EUR 15 000 thousand carrying a rate of interest at 6.5%. The due date of the bonds is 29 October 2025. After five years, the issuer has the right to prematurely redeem the bonds.

In June 2014, subordinated bonds were issued totalling EUR 15 900 thousand carrying a rate of interest at 7.25%. The due date of the bonds is 20 June 2024.

In December 2012, subordinated bonds were issued totalling EUR 4 500 thousand. Most of these bonds have been converted to share capital (refer to Note 22) and the remaining bonds of EUR 750 thousand were redeemed in October 2015.

Interest expenses on subordinated bonds for each reporting period and accrued interest liabilities as at the end of each reporting period is disclosed in the table below. Interest liabilities are accounted in the statement of financial position using the effective interest rate.

Subordinated debt

(in thousands of euros)

Subordinated debt as at 31.12.2014	**16 650**
Subordinated bonds redeemed	-750
Subordinated bonds issued	15 000
Subordinated debt as at 31.12.2015	**30 900**
Subordinated debt as at 31.12.2016	**30 900**

Accrued interest on subordinated debt

(in thousands of euros)

Accrued interest on subordinated debts as at 31.12.2014 (Note 19)	**38**
Interest calculated for 2015 (Note 7)	1 372
Paid out during 2015	-1 205
Accrued interest on subordinated debts as at 31.12.2015 (Note 19)	**205**
Interest calculated for 2016 (Note 7)	2 125
Paid out during 2016	-2 120
Accrued interest on subordinated debts as at 31.12.2016 (Note 19)	**210**

NOTE 22 Shareholders' equity in the public limited company

			Number of shares	Share premium	
Share capital as at 31.12.2014			**23 356**	**33 992**	
Share capital as at 31.12.2015			**23 356**	**33 992**	
Paid in share capital	May 2016	6.95	2 000	11 900	13 900
Share capital as at 31.12.2016			**25 356**	**45 892**	

Share capital is paid in in full through cash contributions. The nominal value of the shares is 1 euro and as at 31.12.2016 the number of shares amounted to 25 356 005 (31.12.2015: 23 356 005).

According to AS LHV Group's articles of association, the minimum share capital is EUR 15 million and the maximum share capital is EUR 60 million (31.12.2015: EUR 15 and EUR 60 million).

Rain Lõhmus who owns 25.9% of the voting rights and Andres Viisemann who owns 9.81% of the voting rights in AS LHV Group have significant influence over the company (31.12.2015: 28.0% and 8.9%).

As at 31.12.2016, the retained earnings of the Group totalled EUR 28 335 thousand (31.12.2015: EUR 11 205 thousand). As of 31.12.2016 it is possible to pay out dividends in amount 22 668 (2015: 8 964) thousand euros and the related income tax charge would be 5 667 (2015: 2 241) thousand euros.

Statutory reserve capital in equity is as follows:

(in thousands of euros)	
Statutory reserve as at 31.12.2014	**435**
Transferred from 2014 net profit	460
Statutory reserve as at 31.12.2015	**895**
Transferred from 2015 net profit	685
Statutory reserve as at 31.12.2016	**1 580**

Other reserves in the consolidated statement of Changes in Equity consist of:

(in thousands of euros)	31.12.2016	31.12.2015
Revaluation reserve of available-for-sale securities	-40	-23
Reserve of share options granted to staff	1 284	574
Total	**1 244**	**551**

The Group is granting share options to the management board members and equivalent employees and department managers and equivalent employees of group companies that are part of AS LHV Group.

	Number of shares	Strike price per share (EUR)	Exercise period	Number of people to whom the share options were granted
Outstanding amount of share options at 31.12.2013	**0**			
Granted amount during the period	411 366	2.0	01.07.2017-30.09.2017	**35**
Outstanding amount of share options at 31.12.2014	**411 336**			
Granted amount during the period	278 594	2.4	01.05.2018-31.07.2018	**48**
Outstanding amount of share options at 31.12.2015	**689 930**			
Granted amount during the period	270 330	3.0	01.05.2019-31.07.2019	**48**
Cancelled amount during the period	-62 183			
Outstanding amount of share options at 31.12.2016	**898 077**			

The Group will most likely issue the above mentioned share options also for the period 2016.

The vesting period for all the share options program is 3 years. Vesting date is the first day of the respective exercise period.

No options expired during the periods covered by the above tables.

Members of the management board and employees were unable to opt for the determined amount in cash instead of share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The share option agreement will become void upon premature termination of the employment contract at the employee's initiative, exemptions to which can be made by the supervisory board of AS LHV Group, and due to termination of employment contract on an extraordinary basis by the employer for a cause related to the employee.

Pursuant to the Credit Institutions Act, the supervisory board of AS LHV Group may reduce the number of share options issued or cancel share options if the overall financial results of the Group have materially deteriorated compared to the previous period, a member of the management board or employee of the Group no longer meets award criteria, the Group no longer meets the prudential ratios, the risks of the Group are not adequately covered with own funds or determination of the performance pay was based on information which was inaccurate or incorrect to a material extent. Total expenses arising from share-based payment transactions recognised during the period as part of staff costs was EUR 710 (2015: 436) thousand.

NOTE 23 Assets under management

AS LHV Pank, operating as an account manager for its customers, has custody of or intermediates the following customer assets:	31.12.2016	31.12.2015
Cash balance of customers	11 657	8 416
Securities of customers	981 251	1 204 561
incl. shareholders of the parent company and related entities (Note 25)	76 803	38 085
Total	**992 908**	**1 212 977**

Asset management fees for the management of these assets have been in the range of 0,015 – 0,025 % p.a. (for respective income, see Note 8).

The monetary funds of the customers who use the platform of an active securities trader or the trading system LHV Trader offered by the Bank, have been recognised as off-balance sheet assets. Due to the nature of the system, the Bank 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 the Bank (they cannot be lent to other customers or used as collateral), therefore the monetary funds are recognised as off-balance sheet assets. The Bank earns commission and interest income on intermediation of transactions in these accounts similarly to customers' accounts reflected in the Group's financial statement. The Bank 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. The customer has similar guarantee to the Bank and therefore, the Bank has in substance transferred the guarantee to end customer. To avoid potential losses, the Bank has a daily practice to monitor the potential decrease of collateral and deficiency of customer accounts. In its current practice, no such losses in respect of which the guarantee provided by the Bank would apply have incurred and the Bank has not paid any compensation relating to the guarantee.

NOTE 24 Contingent assets and liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Unused loan commitments	Total
Liability in contractual amount 31.12.2016	12 695	5 442	132 520	150 657
Liability in contractual amount 31.12.2015	7 853	5 369	118 696	131 918

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 2015-2016. The Group's management estimates that in 2017 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests. The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

According to sectors	31.12.2016	31.12.2015
Construction	7 170	5 525
Water supplies	2 062	1 789
Manufacturing	1 594	110
Professional, scientific and technical activities	152	77
Other areas at activities	1 718	352
Total	**12 695**	**7 853**

According to internal ratings	31.12.2016	31.12.2015
5 low credit risk	55	267
6 low credit risk	964	2 913
7 medium credit risk	5 591	3 284
8 medium credit risk	1 393	441
9 heightened credit risk	710	912
10 high credit risk	107	20
11 high credit risk	1 531	0
12 non-satisfactory rating	2 344	16
Total	**12 695**	**7 853**

Performance guarantees are over-collateralised as at each reporting date. Therefore, the Group has not borne any losses from performance guarantee contracts neither in 2016 nor in previous period.

NOTE 25 Transactions with related parties

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

- owners that have significant impact on the Group and the entities related to them;
- members of the management board and legal entities controlled by them (together referred to as management);
- members of the supervisory board;
- close relatives of the persons mentioned above and the entities related to them.

Transactions	Note	2016	2015
Interest income	7	**53**	**54**
incl. management		17	7
incl. shareholders, their related entities and close relatives that have significant influence		36	47
Fee and commission income	8	**5**	**0**
incl. management		1	0
incl. shareholders, their related entities and close relatives that have significant influence		4	0
Interest expenses from deposits	7	**46**	**87**
incl. management		3	1
incl. shareholders, their related entities and close relatives that have significant influence		43	86
Interest expenses from subordinated debt	7	**364**	**411**
incl. management		34	23
incl. shareholders, their related entities and close relatives that have significant influence		330	388

Balances	Note	31.12.2016	31.12.2015
Loans and receivables as at the year-end		**2 708**	**2 458**
incl. management	14	1 596	641
incl. shareholders, their related entities and close relatives that have significant influence	14	1 112	1 817
Deposits as at the year-end		**7 430**	**13 409**
incl. management	18	236	764
incl. shareholders, their related entities and close relatives that have significant influence	18	7 194	12 645
Subordinated debt as at the year-end		**4 799**	**6 113**
incl. management	21	104	397
incl. shareholders, their related entities and close relatives that have significant influence	21	4 695	5 716

The table provides an overview of the material balances and transactions involving related parties. All other transactions involving the close relatives and the entities related to members of the management board and supervisory board and the minority shareholders of the parent company AS LHV Group have occurred in the course and on the terms of ordinary business.

Loans granted to related parties are issued at market conditions.

As at 31.12.2016 and 31.12.2015, the management did not have term deposits and the interest rate on demand deposits corresponds to the terms applicable to customers.

The subordinated debts received in October 2015 have the interest rate of 6.5%. The subordinated debts received in June 2014 have the interest rate of 7.25%, refer to Note 21. The subordinated debts received in December 2012 had the interest rate of 7% during the first three years, these loans were redeemed in October 2015.

In 2016, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 1 198 thousand (2015: EUR 1 196 thousand), including all taxes. As at 31.12.2016, remuneration for December and accrued holiday pay in the amount of EUR 92 thousand (31.12.2015: EUR 100 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 31.12.2016 and 31.12.2015 (pension liabilities, termination benefits, etc.). In 2016, the remuneration paid to the members of the Group's supervisory board totalled EUR 54 thousand (2015: EUR 37 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.

Management is involved with share option program. In 2016 the share options were granted to the members of the management board in the amount of EUR 261 thousand (2015: EUR 191 thousand).

Information on assets of related parties held as an account manager is presented in Note 23.

NOTE 26 Basic earnings and diluted earnings per share

In order to calculate basic earnings per share, net profit has been divided by the weighted average number of shares issued. For calculation of diluted earnings per share for 2015 the annual average potential shares from subordinated bonds is used, although the last convertible bonds were redeemed in October 2015 (see Note 21) and as at 31 December 2016 no convertible bonds were outstanding.

	2016	2015
Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	17 815	13 706
Profit attributable to owners of the parent from continuing operations(EUR thousand)	17 798	11 508
Weighted average number of shares (in thousands of units)	24 856	23 356
Basic earnings per share (EUR)	0.72	0.59
Basic earnings per share from continuing operations (EUR)	0.72	0.49
Basic earnings per share from discontinued operations (EUR)	-	0.09
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	25 336	24 010
Diluted earnings per share (EUR)	0.70	0.57
Diluted earnings per share (EUR) from continuing operations	0.70	0.48
Diluted earnings per share (EUR) from discontinued operations	-	0.09

Weighted average number of shares used as the denominator (in thousands of shares)	2016	2015
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	24 856	23 356
Adjustments for calculation of diluted earnings per share:		
Convertible subordinated bonds	-	310
Share options	480	344
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	25 336	24 010

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 profit or loss and other comprehensive income of the parent

(in thousands of euros)	2016	2015
Interest income	1 390	1 019
Interest expense	-2 125	-1 372
Net interest expense	**-735**	**-353**
Net gains/losses from investments to associates	1	-36
Net gains/losses from financial assets	**1**	**-36**
Operating expenses	-601	-492
Net loss for the year	**-1 335**	**-881**
Total loss and other comprehensive loss for the year	**-1 335**	**-881**

Statement of financial position of the parent

(in thousands of euros)	31.12.2016	31.12.2015
Assets		
Due from banks and investment companies	7 638	11 270
Loans granted	22 285	16 622
Other receivables and assets	4	89
Investments in subsidiaries	67 617	56 368
Total assets	**97 544**	**84 349**
Liabilities		
Accrued expenses and other liabilities	43	126
Subordinated debt	31 110	31 105
Total liabilities	**31 153**	**31 231**
Equity		
Share capital	25 356	23 356
Share premium	45 892	33 992
Statutory reserve capital	1 580	895
Other reserves	1 283	575
Accumulated deficit	-7 720	-5 700
Total shareholders' equity	**66 391**	**53 118**
Total liabilities and equity	**97 544**	**84 349**

Statement of cash flows of the parent

(in thousands of euros)	2016	2015
Cash flows from operating activities		
Interest received	1 390	1 019
Interest paid	-2 125	-1 372
Administrative and other operating expenses paid	-598	-492
Cash flows from operating activities before change in operating assets and liabilities	**-1 333**	**-845**
Adjustments		
Investments in subsidiaries from share options	-712	-398
Net increase/(decrease) in operating assets and liabilities:		
Net increase/(decrease) of other receivables	26	-14 176
Net increase/(decrease) of other liabilities	630	14 939
Net cash from/(used in) operating activities	**-1 389**	**-480**
Cash flows from investing activities		
Loans granted	-5 600	-3 975
Disposals of subsidiaries and associates	2 700	4 450
Acquisitions of subsidiaries and associates	-13 243	-6 000
Net cash from/(used in) investing activities	**-16 143**	**-5 525**
Cash flows from financing activities		
Paid in to share capital (incl. share premium)	13 900	0
Repayment of subordinated debt	0	-750
Proceeds from subordinated debt	0	15 000
Net cash from financing activities	**13 900**	**14 250**
Increase/(decrease) in cash and cash equivalents	**-3 632**	**8 245**
Cash and cash equivalents at the beginning of the financial year	11 270	3 025
Cash and cash equivalents at the end of the financial year	**7 638**	**11 270**

Statement of changes in shareholders' equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit/retained earnings	Total
Balance as at 01.01.2015	**23 356**	**33 992**	**435**	**138**	**-4 359**	**53 562**
Transfer to statutory reserve capital	0	0	460	0	-460	0
Share options	0	0	0	437	0	437
Total loss and other comprehensive loss for 2015	0	0	0	0	-881	-881
Balance as at 31.12.2015	**23 356**	**33 992**	**895**	**575**	**-5 700**	**53 118**
Carrying amount of holdings under control and significant influence	0	0	0	0	-55 535	-55 535
Value of holdings under control and significant influence under equity method	0	0	0	-24	72 440	72 416
Adjusted unconsolidated equity as at 31.12.2015	**23 356**	**33 992**	**895**	**551**	**11 205**	**69 999**
Balance as at 01.01.2016	**23 356**	**33 992**	**895**	**575**	**-5 700**	**53 118**
Paid in share capital	2 000	11 900	0	0	0	13 900
Transfer to statutory reserve capital	0	0	685	0	-685	0
Share options	0	0	0	708	0	708
Total loss and other comprehensive loss for 2016	0	0	0	0	-1 335	-1 335
Balance as at 31.12.2016	**25 356**	**45 892**	**1 580**	**1 283**	**-7 720**	**66 391**
Carrying amount of holdings under control and significant influence	0	0	0	0	-66 781	-66 781
Value of holdings under control and significant influence under equity method	0	0	0	-39	102 836	102 797
Adjusted unconsolidated equity as at 31.12.2016	**25 356**	**45 892**	**1 580**	**1 244**	**28 335**	**102 407**

Adjusted unconsolidated equity is the maximum amount that can be distributed to shareholders' according to Estonian legislation.

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 2016.

The management board confirms that the management report on pages 6-28 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation as a whole.

The management board confirms that according to their best knowledge the consolidated financial report on pages 29-89 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

22.02.2017

Madis Toomsalu

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of LHV Group AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LHV Group AS (the Company) and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

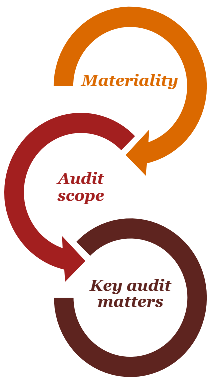
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

Overview



Materiality
Overall group materiality is EUR 940 thousand, which represents 5% of profit before tax, adjusted for any significant one-off gains or losses.

Audit scope
A full scope audit was performed by PwC network firms for Group entities covering substantially all of the Group's consolidated statements of financial position and profit or loss.

Key audit matters
- Impairment of loans and advances to customers.
- Accounting for the acquisition of Danske Capital AS.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 940 thousand.
How we determined it	5% of profit before tax, adjusted for any significant one-off gains or losses.
Rationale for the materiality benchmark applied	The use of profit before tax is considered appropriate as, in our view, profit before tax is stakeholders' primary measurement benchmark and key performance indicator for Management and Supervisory Board. The adjusting items are excluded on the basis that they do not reflect the day-to-day operational performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 45 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers (refer to Note 2 "Summary of significant accounting policies", Note 3.2 "Credit risk" and Note 14 "Loans and advances to customers" for further details). As at 31 December 2016 loans and advances to customers amounted to EUR 537.6 million and related impairment loss for 2016 amounted to EUR 1.5 million. We focused on this area because management makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. For corporate loans, a portion of impairment is individually assessed by taking into consideration the credit rating of the customer and other known heightened risk factors. Credit rating is assigned considering a combination of financial and business risks associated with the customer. Individual impairment is calculated based on the exposure and realisable value of the collateral at the balance sheet date. In addition to individual assessment and impairment calculation of corporate loans, a significant portion of their impairment is calculated on a collective basis, taking into account customer rating, historical performance, the probability of default, loss given default and other factors. Loans to individuals and loans to legal entities (other than corporate loans) are grouped for impairment calculation purposes into sub-classes on the basis of	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers are in compliance with IFRS. We assessed the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which loans and advances were individually impaired (overdue loans monitoring) and the calculation of the collective impairment provisions (including annual validation process of collective impairment model inputs). In addition, we tested the design and operating effectiveness of the credit file periodic review and rating assessment and monitoring of collateral controls for corporate loans. We determined that we could rely on these controls for the purposes of our audit. We performed detailed testing over: • the completeness and accuracy of data in the impairment model for collective impairment calculations; • the internal assignment of credit ratings for corporate loan customers; • the assumptions used for critical inputs in the collective impairment model, such as probability of default and loss given default. We have checked the annual calculations of probability of default and loss given default performed by management for material loan products, by evaluating the correctness of the calculation methodology and historical data used; • the correctness of information on collaterals

homogeneous credit risk features. The major part of impairment for those sub-classes is calculated on a collective basis, taking into account historical performance, the probability of default, loss given default and other factors.

Areas that require the most significant judgments and estimates are:

- the identification and monitoring process of corporate customers with ratings below investment grade and other known heightened risk factors and individual impairment calculations of such loans, with special attention on the valuation of collaterals;
- the key assumptions and judgments made by management that underlie the calculation of collective impairment. Key assumptions and judgments include the probability of default calculation, the loss given default calculation and credit conversion factor calculation;
- the assessment of annual internal validation process of group-based valuation models, taking into account the repayment behavior of different customer groups; and
- the completeness of the customer accounts that are included in the impairment calculation.

and their values in the loan systems; and

- the completeness of loans subject to individual impairment assessment and related calculations.

For customers operating in currently low-performing industry sectors (e.g. agriculture and oil industry), we checked the total exposure of customer loans in those sectors and assessed the performance of those customers based on internal and external information.

In the case of some impairment provisions, we formed a different view from that of the management, but in our view the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.

As a result of our work, we noted no material exceptions.

Accounting for the acquisition of Danske Capital AS (refer to Note 2 “Summary of significant accounting policies” and Note 6 “Subsidiaries and associated companies, goodwill” for further details).

In May 2016 the Group acquired the asset management company Danske Capital AS together with pension and investment funds managed by it for a total consideration of EUR 10.9 million as further described in Note 6.

Accounting for business combination involves compiling the purchase price allocation, during which the fair value of the purchase consideration paid is allocated to the fair values of the identifiable assets acquired, liabilities and contingent liabilities assumed, with any remaining difference recorded as goodwill. These fair values were assessed by the management and it required judgment.

Due to the size of the acquired business and related estimation uncertainty, it is considered a key audit matter.

We assessed whether the Group’s accounting policy in relation to accounting for the business combinations is in compliance with IFRS.

We evaluated and performed detailed testing of the purchase price allocation compiled by the management, including:

- assessing the list of separately identified assets and liabilities for their reasonableness and compliance with IFRS requirements;
- evaluating the management’s assessment of the fair values of identifiable assets acquired and liabilities assumed;
- involving PwC valuation experts to evaluate the methodology applied for determination of fair values;
- deploying our PwC valuation experts, we tested the reasonableness of key assumptions, including cash flow forecasts, customer churn rate and discount rates; and
- checking the correctness of calculation of arising goodwill.

	Furthermore, we assessed the adequacy of the disclosures related to the acquisition of Danske Capital AS. As a result of our work, we noted no material exceptions.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

The Group comprises a number of subsidiaries that mostly operate in Estonia and Lithuania (refer to Note 6). A full scope audit was performed by PwC Estonia or other PwC network firms for the following Group entities covering substantially all of the Group's consolidated statements of financial position and profit or loss:
- LHV Group AS;
- LHV Pank AS, including its subsidiary LHV Finance AS;
- LHV Varahaldus AS; and
- UAB Mokilizingas.

Where the work was performed by other PwC network firms, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The nature, timing and extent of the work performed by other PwC network firms impacting the Group audit opinion is set and monitored in Estonia.

Other information

The Management Board is responsible for the other information contained in the Consolidated Annual Report 2016 in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Verner Uibo
Auditor's Certificate No.568

28 February 2017

---

* *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 proposes to the General Meeting of Shareholders to distribute the profit of the financial year 2016 as follows:

- transfer EUR 891 thousand to statutory reserve capital;
- pay dividends EUR 0.15 per share in the total amount of 4 754 thousand;
- transfer the profit for reporting period attributable to shareholders of the parent in the amount of EUR 12 170 thousand to retained earnings.

Signatures of the supervisory board to the annual report

22.02.2017

Chairman of the supervisory board:

Rain Lõhmus

Members of the supervisory board:

Raivo Hein

Heldur Meerits

Tiina Mõis

Sten Tamkivi

Tauno Tats

Andres Viisemann

Allocation of income according to EMTA classificators

Consolidated:

EMTAK	Activity	2016	2015
66121	Security and commodity contracts brokerage	4 250	3 709
64191	Credit institutions (banks) (granting loans)	39 692	29 876
64911	Finance lease	1 603	1 388
66301	Fund management	12 905	9 196
	Total income	**58 450**	**44 169**

Separate:

EMTAK	Activity	2016	2015
64201	Activities of holding companies	1 389	1 016
	Total income	**1 389**	**1 016**