# Interim Report January – December 2016
# Summary of Results

**Q4 2016 in comparison with Q4 2016**

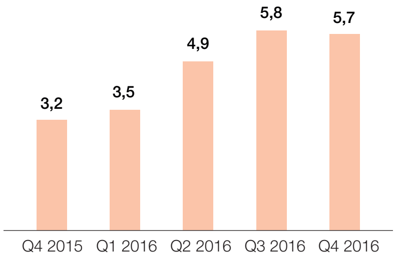
- Net profit EUR 5.7 m (EUR 5.8 m), of which EUR 4.9 m (EUR 5.3 m) is attributable to owners of the parent
- Earnings per share EUR 0.19 (EUR 0.21)
- Net income EUR 13.6 m (EUR 13.5 m)
- Operating expenses EUR 7.8 m (EUR 7.2 m)
- Loan provisions EUR -0.02 m (EUR 0.5 m)
- Return on equity 19.6% (22.6%)
- Capital adequacy 20.6% (22.5%)

**Q4 2016 in comparison with Q4 2015**

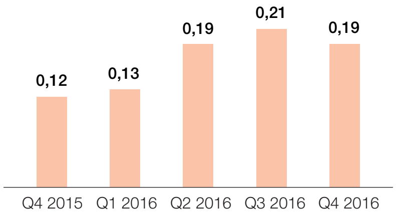
- Net profit EUR 5.7 m (EUR 3.2 m), of which EUR 4.9 m (EUR 2.8 m) is attributable to owners of the parent
- Earnings per share EUR 0.19 (EUR 0.12)
- Net income EUR 13.6 m (EUR 10.4 m)
- Operating expenses EUR 7.8 m (EUR 7.0 m)
- Loan provisions EUR -0.02 m (EUR 0.04 m)
- Return on equity 19.6% (16.5%)
- Capital adequacy 20.6% (23.4%)

**Earnings per share and return on equity ratios are based on the profit attributed to the shareholders and equity of AS LHV Group and do not include non-controlling interest.**

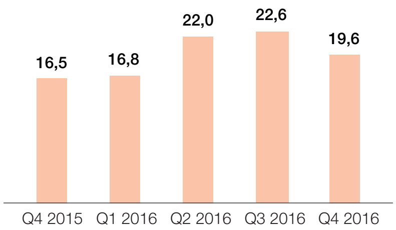
**Profit by quarters**



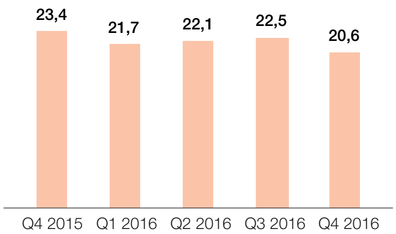

**Basic earnings per share**




**Return on equity**




**Capital adequacy**



# Managing Director's Statement

Dear investor in LHV,

LHV's good results rely on our dedicated, professional, visionary staff members. I am more than happy to recognise that we continue to excel in this respect - the overall results of the staff satisfaction survey carried out in LHV in the fourth quarter of the year were the highest on record. The results presented in this report are a good testament to our efforts.

The global economic environment was quite eventful in the fourth quarter. The picture of various governments pursuing an increase in costs instead of a budget balance is beginning to take shape. Against the backdrop of OPEC cutting production volumes, this has fuelled expectations of inflation. Indeed, the greatest shift is evident in the path towards inflation resuming its position among the most widely-used terms in economics.

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.

Low interest rates have inflated the real estate sector, triggering a potential oversupply in rent flow 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.

The fourth quarter was very successful for LHV. The home loan product was launched during the quarter - a product, whose existence eliminates the main obstacle for a private customer wishing to change his or her bank. We have brought our cost structure to a level which allows to provide the home loan product on favourable conditions. Furthermore, we opened a new, spacious office in Tartu. Well-positioned in a prominent location, we also expect to garner further customer attention. We also installed a new ATM for cash deposits and withdrawals in Tartu.

The fourth quarter demonstrated a growing interest in investment-making in Estonia. 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. It is important to note that investment decisions should always be made by carefully considering the expectations and risk tolerance. We will continue serving as the leader in educating and training the Estonian investor community.

The group's consolidated profit for Q4 amounted to EUR 5.7 million. This constitutes a EUR 0.1 million decrease from Q3 and a EUR 2.5 million increase from Q4 2015. The decrease in the profit for Q4, compared to Q3, can be attributed, above all, to the decrease in the value of the bond portfolio in the amount of EUR 0.7 million. Profit was supported by strong customer activity, strong credit quality and the extraordinary revenue generated by the acquisition of Danske Capital.

LHV posted a total profit of EUR 19.9 million in 2016, i.e. a EUR 5.1 million increase from last year (Q1 2015 included extraordinary revenue from disposal of business operations in Finland). Return on equity held by LHV's shareholders amounted to 20.7 % in 2016.

The group's consolidated loan portfolio grew by EUR 60 million during the quarter (+ EUR 9 million in Q3) and consolidated deposits by EUR 36 million (+ EUR 69 million in Q3). The volume of funds managed by LHV grew by EUR 37 million during the quarter (+ EUR 46 million in Q3).

The Bank's profit for Q4 amounted to EUR 3.2 million - the EUR 0.5 million drop from Q3 can be attributed to the shrinking of the bond portfolio. Q4 is characterised by strong customer activity and a record growth in the loan portfolio. New customer numbers grew by 7,300 during the quarter, with the total number of customers exceeding 112,000.

The Bank's loan portfolio grew by EUR 58 million in Q3, amounting to EUR 532 million. Corporate loans showed the biggest growth among loan portfolios. Credit quality has remained strong, with a few high-risk loans either refinanced or the borrower's outlook improved. Loan losses amounted to EUR 0.7 million in Q4 - EUR 0.3 million more than in Q3.

Deposits of customers grew by EUR 31 million in Q4 and reached EUR 784 million by the end of the quarter. Demand deposits grew by EUR 43 million, while term deposits shrank by EUR 12 million. The volume of term deposits has dropped to a five-year low. The significant change in the structure of deposits is illustrated by the fact that while at the end of 2011, the Bank held EUR 173 million in term deposits and EUR 35 million in demand deposits, the indicators as at the end of 2016 stood at EUR 152 million and EUR 632 million, respectively. The average expense on deposits has dropped throughout the period and in terms of the cost of its internal funds, LHV Bank is just as competitive as other banks providing services in Estonia.

Asset Management posted a profit of EUR 1.8 million in Q4, falling EUR 0.4 million short of the result for the previous quarter. The acquisition of Danske Capital generated EUR 6.6 million in intangible assets, with the client agreements yet to be depreciated. Asset Management posted EUR 2.2 million in profit before depreciation (no change from Q3).

The volume of funds managed by LHV grew by EUR 37 million during the quarter (+ EUR 46 million in Q3), totalling EUR 974 million by the end of the quarter. The number of active 2nd pillar pension customers grew by 2.9 thousand (1.1 thousand in Q3).

We continued to avoid major investment risks in the management of pension funds. 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. From November, LHV also offers passively managed 2nd and 3rd pillar pension funds, i.e. funds where the investments do not depend on the fund manager's vision of the financial markets.

As the volume goes up, the management fees for 2nd pillar funds will be lowered. New rates will take effect from February 2017, lowering the management fees of LHV's actively managed 2nd pillar funds by an average of 19 %. The lowering of the fees is a benefit gained by 2nd pillar fund customers from the Danske Capital transaction. For Asset Management, the Danske Capital process will be completed in May, with the merger of pension funds with a similar strategy.

In Q4, the parliament adopted the long-awaited Investment Funds Act, regulating the functioning of Asset Management and funds. The entry into force of the Act will also lower the capital requirements governing Asset Management.

Mokilizingas' profit for Q4 amounted to EUR 1.0 million - EUR 0.8 million less than in Q3. Profit was positively affected by the disposal of uncollectable receivables in the amount of EUR 0.9 million. Q4 also witnessed a growth in loan volumes, attributable to the holiday season. The financing portfolio grew by EUR 1 million during the quarter, amounting to EUR 36 million at the end of the quarter. The credit quality of the portfolio remains stable. Mokilizingas' credit card product is still in the testing stage, with the first results meeting our expectations.

LHV's outlook for the year ahead is good. Opportunities for growth are evident in all key segments: retail banking, corporate banking, private banking, asset management and consumer financing in Estonia and Lithuania. Retail banking will focus on modern-day payment solutions and development of a futuristic mobile bank; the corporate loan and consumer financing segment 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 customer base. In addition to organic growth, we will continue to search for opportunities beyond Estonian and Lithuanian borders. We will also continue forward-looking investments, with the basic principle of achieving long-term capital efficiency.

Madis Toomsalu

**Table of contents**

# Financial Summary

| **Income statement** EUR million | Q4 2016 | Q4 2015 | Year over year | 12M 2016 | 12M 2015 | Year over year |
|---|---|---|---|---|---|---|
| Net interest income | 8.26 | 6.37 | 30% | 29.98 | 23.23 | 29% |
| Net fee and commission income | 5.85 | 3,80 | 54% | 19.19 | 14.66 | 31% |
| Other financial income | -0.49 | 0,19 | -358% | 1.31 | 0.44 | 198% |
| Total net operating income | 13.62 | 10,36 | 31% | 50.48 | 38.33 | 32% |
| Other income | -0.01 | 0,02 | -150% | 0.08 | 0.05 | 60% |
| Operating expenses | -7.83 | -6,99 | 12% | -28.92 | -24.11 | 20% |
| Loan losses | 0.02 | -0,04 | -150% | -1.48 | -1.37 | 8% |
| Income tax expenses | -0.07 | -0,07 | 0% | -0.27 | -0.27 | 0% |
| Discontinued operations | 0.00 | 0,00 | - | 0.00 | 2.18 | -100% |
| **Net profit** | **5,73** | **3,28** | **75%** | **19.89** | **14.81** | **34%** |
| including attributable to owners of the parent | 4.90 | 2.83 | 73% | 17.83 | 13.71 | 30% |

| **Business volumes** EUR million | Q4 2016 | Q3 2016 | Quarter over quarter | Q4 2015 | Year over year |
|---|---|---|---|---|---|
| Loan portfolio | 537.6 | 478.3 | 12% | 410.0 | 31% |
| Financial investments | 76.1 | 77.7 | -2% | 110.1 | -31% |
| Deposits of customers | 776.8 | 741.0 | 5% | 617.2 | 26% |
| Equity (including minority interest) | 107.7 | 101.8 | 6% | 73.2 | 47% |
| Equity (owners' share) | 102.4 | 97.3 | 5% | 70.0 | 46% |
| Volume of funds managed | 973.9 | 937.0 | 4% | 570.2 | 71% |
| Assets managed by bank | 992.9 | 908.4 | 9% | 1 213.0 | -18% |

| **Ratios** EUR million | Q4 2016 | Q4 2015 | Year over year | 12M 2016 | 12M 2015 | Year over year |
|---|---|---|---|---|---|---|
| Average equity | | | | | | |
| (attributable to owners of the parent) | 99.9 | 68.5 | 31.4 | 86.2 | 62.9 | 23.3 |
| Return on equity (ROE), % | 19.6 | 16.5 | 3.1 | 20.7 | 21.8 | -1.1 |
| Return on assets (ROA), % | 2.5 | 1.8 | 0.7 | 2.4 | 2.4 | 0.1 |
| | | | | | | |
| Interest-bearing assets, average | 890.8 | 724.8 | 166.0 | 832.1 | 641.1 | 191.0 |
| Net interest margin (NIM) % | 3.71 | 3.52 | 0.19 | 3.60 | 3.62 | -0.02 |
| Price spread (SPREAD) % | 3.64 | 3.44 | 0.20 | 3.50 | 3.57 | -0.06 |
| | | | | | | |
| Cost/income ratio % | 57.5 | 67.3 | -9.8 | 57.2 | 62.8 | -5.6 |

**Explanations to ratios** (quarterly ratios have been expressed on an annualised basis)

Average equity (attributable to owners of the parent) = (equity as at the end of the reporting period + equity as at the end of the previous reporting period) / 2

Return on equity (ROE) = net profit for the quarter (share of owners of the parent) / average equity (attributable to owners of the parent) *100

Return on assets (ROA)= net profit for the quarter (share of owners of the parent) / average assets*100

Net interest margin (NIM) = net interest income / interest-bearing assets, average * 100

Price spread (SPREAD) = interest yield from interest-bearing assets – cost of external capital

Interest yield from interest-bearing assets = interest income / interest-bearing assets, average * 100

Cost of external capital = interest expenses / interest-bearing liabilities, average * 100

Cost/income ratio = total operating cost / total income * 100

# Operating 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.

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.

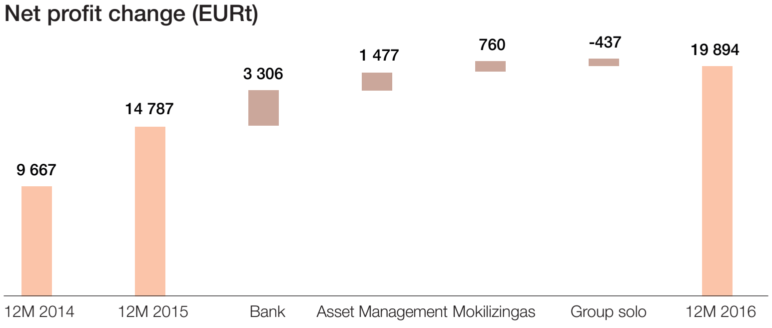
On a positive note, the financing environment remains favourable. 2016 saw a growth in the balance of loans taken from credit institutions. The loan to deposit ratio and overdue loans have maintained their post-crisis lows. With the record-low interest rates and interbank competition having a positive 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 of the Group

Compared to Q3, the Group's net interest income grew in Q4 by 7%, standing at EUR 8.3 (Q3: 7.7) million. Net fee and commission income increased by 9% and stood at EUR 5.9 (Q3: 5.4) million. Financial income decreased by 209% and stood at EUR -0.5 (Q3: 0.5) million due to the revaluation of bond portfolio. Total financial income of the year 2016 was EUR 1.7 million. In total, the net income of the Group increased by 1% in Q4, compared to Q3, amounting to EUR 13.6 (Q3: 13.5) million, with expenses increasing by 9% and amounting to EUR 7.8 (Q3: 7.2) million. The Group's operating profit for Q4 amounted to EUR 5.8 (Q3: 6.3) million. Impairments amounted to EUR -0.02 (Q3: 0.5) million in Q4.

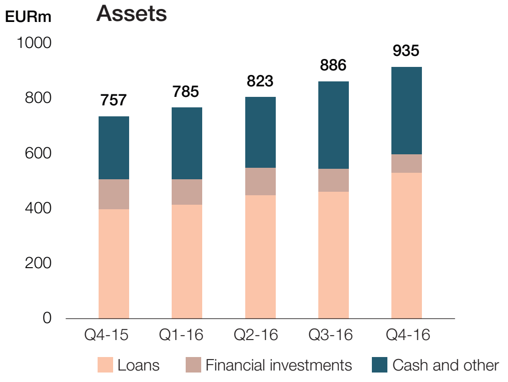
The Group's total profit for Q4 amounted to EUR 5.7 million (Q3: 5.8). Compared to Q4 2015, the Group's net interest income increased by 30% and net fee and commission income by 54%.

In terms of business entities, AS LHV Pank posted a consolidated profit of EUR 3.2 million, AS LHV Varahaldus a profit of EUR 1.8 million and UAB Mokilizingas a profit of EUR 1.0 million. The LHV Group separately posted a loss of EUR 0.2 million, as it does not have a separate revenue generating unit and the main type of expense of the Group is interest expense from subordinated liabilities.




The Group's volume of deposits as at the end of Q4 amounted to EUR 777 (Q3: 741) million, of which demand deposits formed EUR 624 (Q3: 578) million and term deposits EUR 153 (Q3: 162) million.

As at the end of Q4, the volume of loans granted by the Group amounted to EUR 538 (Q3: 478) million, increasing in Q4 by 12%. Compared to Q4 2015, the volume of the Group's deposits has increased by 26% and the volume of loans by 31%.



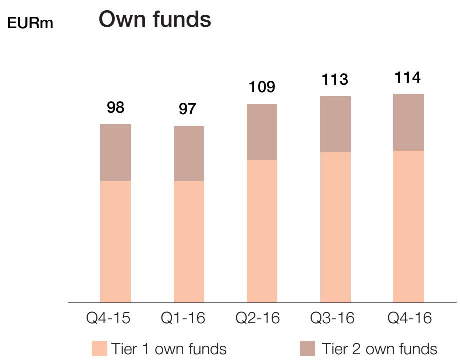
# The Group's Liquidity, Capitalisation and Asset Quality

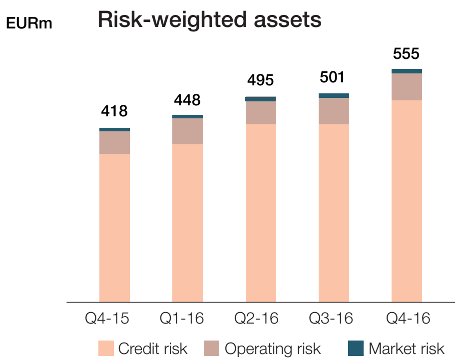
As at 31 December 2016, the Group's own funds stood at EUR 114.3 million (30 September 2016: EUR 112.5 million). The own funds of the Group increased in Q4 by including the Q3 2016 profit to own funds.

Compared to Group's internal capital adequacy ratio target 16.19%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 20.65% (30 September 2016: 22.5%).

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 222% as at the end of December (30 September 2016: 260%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 40% of the balance sheet (30 September 2016: 43%). The ratio of loans to deposits stood at 70% as at the end of the fourth quarter (30 September 2016: 65%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of December, provisions for estimated loan losses amounted to EUR 5.7 million in the balance sheet, i.e. approximately 1.1% of the loan portfolio (30 September 2016: EUR 5.3 million, 1.1%). Estimated loan losses make up 210.4% (30 September 2016: 255.1%) of the portfolio of loans overdue for more than 90 days.



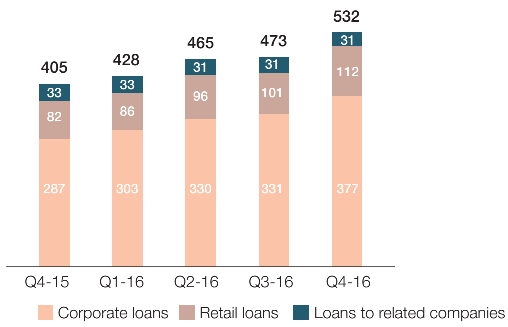




| EUR thousand | 31.12.2016 | Proportion | 30.09.2016 | Proportion |
|---|---|---|---|---|
| **Loans to customers** | **543 382** | | **483 596** | |
| including overdue loans: | 10 654 | 2.0% | 17 026 | 3.5% |
| 1-30 days | 4 651 | 0.9% | 11 505 | 2.4% |
| 31-60 days | 2 638 | 0.5% | 2 310 | 0.5% |
| 61-90 days | 637 | 0.1% | 1 136 | 0.2% |
| 91 and more days | 2 729 | 0.5% | 2 076 | 0.4% |
| Impairment of loans | -5 741 | -1.1% | -5 297 | -1.1% |
| Impairment % of loans overdue for more than 90 days | 210.4% | | 255.1% | |

| Capital base | 31.12.2016 | 30.09.2016 | 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 | -34 | -23 |
| Accumulated deficit | 10 517 | 10 517 | -2 503 |
| Intangible assets (subtracted) | -8 514 | -8 549 | -1 734 |
| Net profit for the reporting period | 8 588 | 5 075 | 10 879 |
| Non-controlling interest | 0 | 1 792 | 1 937 |
| **Total Tier 1 capital** | **83 379** | **81 629** | **66 799** |
| Subordinated debt | 30 900 | 30 900 | 30 900 |
| **Total Tier 2 capital** | **30 900** | **30 900** | **30 900** |
| **Net own funds for capital adequacy** | **114 279** | **112 529** | **97 699** |
| **Capital requirements** | | | |
| Central governments and central bank under standard method | 1 498 | 1 438 | - |
| Credit institutions and investment companies under standard method | 7 415 | 5 711 | 5 949 |
| Companies under standard method | 334 314 | 291 238 | 232 779 |
| Retail claims under standard method | 114 677 | 105 025 | 106 445 |
| Public sector under standard method | 216 | 212 | - |
| Housing real estate under standard method | 7 079 | 4 829 | - |
| Overdue claims under standard methods | 2 313 | 5 861 | 7 758 |
| Investment funds' shares under standard method | 10 886 | 10 228 | 6 369 |
| Other assets under standard method | 7 627 | 7 329 | 5 712 |
| **Total capital requirements for covering the credit risk and counterparty credit risk** | 486 025 | 431 871 | 365 012 |
| Capital requirement against foreign currency risk under standard method | 5 032 | 4 600 | 6 527 |
| Capital requirement against interest position risk under standard method | 1 709 | 2 105 | 2 342 |
| Capital requirement against equity portfolio risks under standard method | 601 | 541 | 87 |
| Capital requirement for operational risk under base method | 61 812 | 61 812 | 44 367 |
| **Total capital requirements for adequacy calculation** | **555 179** | **500 929** | **418 334** |
| | | | |
| **Capital adequacy (%)** | **20.58** | **22.46** | **23.35** |
| **Tier 1 capital ratio (%)** | **15.02** | **16.30** | **15.97** |

# Overview of AS LHV Pank Consolidation Group

- (Net) growth in deposit volume in Q4 – EUR 30 million
- (Net) growth in loan volume in Q4 – EUR 58 million (Q3: EUR 8 million)
- Good profitability in Q4
- Increase in number of clients




| EUR million | Q4 2016 | Q3 2016 | Change % | Q4 2015 | Change % | From the beginning of 2016 | From the beginning of 2015 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 7.18 | 6.60 | 9% | 5.26 | 36% | 25.55 | 18.76 | 36% |
| Net fee and commission income | 1.77 | 1.47 | 20% | 1.39 | 28% | 5.72 | 4.85 | 18% |
| Other financial income | -0.55 | 0.30 | -283% | 0.05 | -1124% | 1.00 | 0.12 | 783% |
| Total net operating income | 8.39 | 8.37 | 0% | 6.70 | 25% | 32.27 | 23.73 | 36% |
| Other income | 0.03 | 0.04 | -26% | 0.02 | 38% | 0.39 | 0.09 | 343% |
| Operating expenses | -4.56 | -4.34 | 5% | -4.56 | 0% | -17.64 | -15.38 | 15% |
| Loan losses | -0.68 | -0.37 | 85% | -0.03 | 2314% | -1.77 | -0.67 | 164% |
| Discontinued operations | 0.00 | 0.00 | - | 0.00 | - | 0.00 | 2.18 | -100% |
| Net profit | 3.18 | 3.71 | -14% | 2.14 | 49% | 13.25 | 9.94 | 33% |
| Loan portfolio | 532 | 473 | 12% | 405 | 31% | | | |
| Financial investments | 65 | 67 | -3% | 103 | -37% | | | |
| Deposits of customers | 785 | 754 | 4% | 629 | 25% | | | |
| Subordinated liabilities | 20 | 20 | 0% | 31 | 33% | | | |
| Equity | 80 | 72 | 12% | 61 | 31% | | | |

Q4 was successful both in terms of business volumes and profitability. LHV Bank generated EUR 7.2 million in net interest income and EUR 1.8 million in net fee and commission income. In total, the bank's net income amounted to EUR 8.4 million, expenditure to EUR 4.6 million and loan provisions to EUR 0.7 million. The net profit of LHV Bank amounted to EUR 3.2 million in Q4. This constitutes a 14% decrease from Q3 (3.7) and an 49% increase from Q4 2015 (2.1). Net interest income grew by 9% during the quarter, and net fee and commission income decrease by 20%, compared to Q3. Net operating income stood at the same level compared to previous quarter. Other financial expenses amounted to EUR 0.6 million (Q3 2016 financial income EUR 0.3 million). Financial expenses increased because of the rose of interest rates of USD bonds as well European government bonds.

Securities brokerage fees, transaction fees and fees from cards are greatest contributor to fee and commission income.

The increase in net interest income stems from the growth in business volumes. By the end of Q4, the total volume of the bank's loan portfolios amounted to EUR 532 million (Q3 2016: EUR 473 million). The volume of portfolios grew 12% over the quarter.

The corporate credit portfolio that contains loans and guarantees grew by EUR 88.6 million on an annualised basis (+30 %) and EUR 47.6 million on a quarterly basis (+14 %). The largest source of growth is real estate management, which has traditionally been well-financed by commercial banks. Compared to the previous year, loans for real estate purposes grew by EUR 50.4 million (+50 %). Commercial real estate projects with a strong rental flow were the greatest contributor to growth. Loans issued for financial activities, often including the activities of holding companies related to the financing of corporate purchases, grew by EUR 21.1 million, year-over-year (+42 %). The sector involved in electricity, gas, steam and air conditioning ranked second, with the corresponding loan portfolio growing by EUR 5.8 million (+169 %).

Compared to last quarter, the greatest volume of loans and guarantees were provided in real estate management (EUR 20.1 million; +16 %), finance and insurance (EUR 8.1 million; +13 %), water supply, sewerage, waste and pollution management (EUR 5.4 million, +103 %) and the processing industry (EUR 3.3 million; +8 %).

The largest amount of corporate loans was granted to the real estate sector, which accounts for 39% of the bank's total portfolio of corporate loans. A bulk of the real estate loans have been issued for projects with a high-quality rent flow. Real estate development ranks second. A bulk of the real estate developments financed are located in Tallinn, with a few in other major Estonian cities. LHV's market share in the financing of new developments in Tallinn was approximately 20 % at the end of Q4 2016. LHV's real estate development portfolio is well-positioned for potential changes in market trends – the financed projects have a good location, with major projects nearing completion and the average risk to price ratio standing at 50 %.

Alongside the real estate sector, the greatest volume of credit was provided to companies pursuing financial activities (share: 18 %), as well as the processing industry (share: 11%). As regards sectors with a higher-than-average risk conditioned by the economic and geopolitical situation, agriculture contributes 1 %, transport less than 1 %, accommodation and catering 2% and energy 2 % of the total volume of the portfolio.

The number of new accounts and customer activity continued to grow at a good pace in Q4. The number of customers grew by 7,000, with the bank's customer base reaching 110,000 in the quarter. The customer's use of payment services as well as initiation and acceptance of card payments reached record levels.

The volume of deposits grew by EUR 30.6 million during the quarter, with the loan portfolio growing by EUR 58.4 million. The loan portfolio saw record growth during the quarter. The largest growth was evident in corporate loans (EUR 45.8 million), home and private loans (EUR 7.7 million) as well as hire-purchase and small loans (EUR 2.5 million). The profit for the quarter amounted to EUR 3.1 million.

The provision of home loans was launched in October. The customers' interest in home loans has remained high ever since the launch of the product. Nearly a half of the home loan customers have been existing customers, with new customers making up the other half.

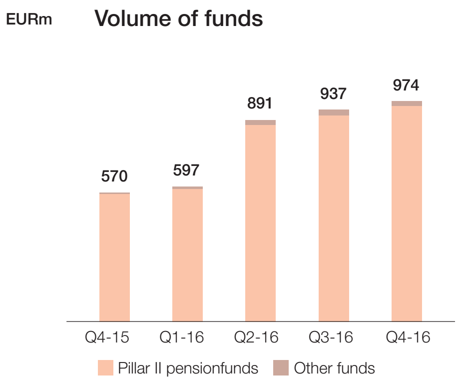
A new business unit – trade finance department – was set up in the corporate banking segment in Q4. The products to be offered by the trade finance department include letters of credit, foreign guarantees, trade loans and factoring. The products will be launched gradually over 2017.

The new office in Tartu was opened at the beginning of November. The staff satisfaction survey was carried out at the end of the year. A record number of people took part in the survey, with the overall results being highest on record.

In December LHV Pank made a small investment into start-up company Sofitto OÜ.

# Overview of AS LHV Varahaldus

- The volume of 2nd pillar funds totals EUR 974 million
- Passive pension funds are separately accounted for




| EUR million | Q4 2016 | Q3 2016 | Change % | Q4 2015 | Change % | From the beginning of 2016 | From the beginning of 2015 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net fee and commission income | 3.89 | 3.79 | 3% | 2.25 | 73% | 12.91 | 9.2 | 40% |
| Net financial income | 0.02 | 0.11 | -82% | 0.14 | -82% | 0.15 | 0.26 | -42% |
| Operating expenses | -2.15 | -1.75 | 23% | -1.36 | 58% | -6.94 | -4.81 | 44% |
| Profit | 1.76 | 2.15 | -18% | 1.00 | 76% | 6.12 | 4.66 | 31% |
| Financial investments | 10.9 | 10.2 | 7% | 7.1 | 54% | | | |
| Subordinated liabilities | 2.1 | 2.1 | 0% | 1.5 | 40% | | | |
| Equity | 21.0 | 19.2 | 9% | 9.15 | 130% | | | |
| Assets under management | 973.9 | 937.0 | 4% | 570.2 | 71% | | | |

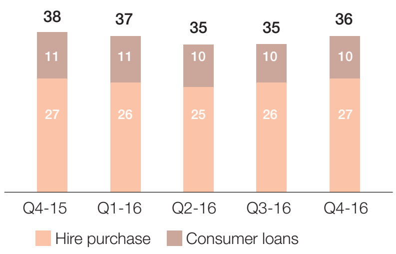
The volume of funds managed by LHV grew by EUR 37 million during the quarter (+ EUR 46 million in Q3) and the number of active 2nd pillar customers by 2.9 thousand (Q3: 0.9 thousand). From November, LHV also offers passively managed 2nd and 3rd pillar pension funds, i.e. funds where the investments do not depend on the fund manager's vision of the financial markets.

LHV Asset Management generated EUR 3.89 million in operating income in Q4 (EUR 3.79 million in Q3). Operating expenses for Q4 amounted to EUR 1.75 million (on par with Q3). The acquisition of and merger with Danske Capital generated EUR 6.6 million in intangible assets, with the client agreements yet to be depreciated. Asset Management posted EUR 2.2 million in profit before depreciation (no change from Q3) and EUR 1.8 million on profit after depreciation. Asset Management made a EUR 2.7 million disbursement from share capital before the year's end.

While stock markets continued to excel in Q4, the rise in interest rates triggered negative yields for bond funds. LHV continued to avoid major investment risks with regard to actively managed pension funds, maintaining a relatively high proportion of available funds. 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 Asset Management and funds. With the entry into force of the Act on January 10, the capital requirements applied for Asset Management will be lowered and the exit fees of 2nd pillar funds will be abolished. As the volume goes up, the management fees for 2nd pillar funds will be lowered. New rates will take effect from February 2017, lowering the management fees of LHV's actively managed 2nd pillar funds by an average of 19 %. The lowering of the fees is a benefit gained by 2nd pillar fund customers from the Danske Capital transaction. For Asset Management, the Danske Capital process will be completed in May, with the merger of pension funds with a similar strategy.

# Overview of UAB Mokilizingas




| EUR million | Q4 2016 | Q3 2016 | Change % | Q4 2015 | Change % | From the beginning of 2016 | From the beginning of 2015 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 1.3 | 1.3 | 0% | 1.3 | 0% | 5.3 | 4.8 | 10% |
| Net fee and commission income | 0.2 | 0.1 | 100% | 0.2 | 0% | 0.6 | 0.7 | -14% |
| Operating expenses | -1.1 | -1.0 | 10% | -0.9 | 22% | -4.0 | -3.5 | 14% |
| Loan losses | 0.7 | -0.1 | -800% | 0.0 | - | 0.3 | -0.6 | -150% |
| Income tax expenses | -0.1 | -0.1 | 0% | -0.1 | 0% | -0.3 | -0.3 | 0% |
| Profit | 1.0 | 0.2 | 400% | 0.5 | 100% | 1.9 | 1.1 | 73% |
| Loan portfolio | 38.0 | 38.0 | 0% | 40.0 | -5% | | | |
| Equity | 6.8 | 5.8 | 17% | 4.9 | 39% | | | |

In Hire Purchase (HP) segment Mokilizingas continues to work in a strong collaboration with Bite Lietuva and Kesko Senukai, launching seasonal campaigns and supporting the sales. Q4 2016 HP sales amounted to EUR 10.3 million (EUR 10.4 million during Q4 2015). The number of contracts signed increased by 2%, average contract amount remained stable with some decrease. Margins remained at similar levels with a slight decrease compared to Q4 2015. Q4 2016 sales through major partners grew significantly, however small or medium-sized partners‘ volumes declined.

Consumer Loan (CL) sales amounted to EUR 1.9 million and decreased by 25% compared to Q4 2015. The number of contracts signed decreased by 11% and average contract amount decreased by 26%. However, margins are higher than Q4 2015.

After the successful launch of Credit Card Pilot, the second phase started in Q4 2016. Total number of cards sold reached 4 thousand by the end of Q4 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.

As planned, Mokilizingas dedicated Q4 2016 to optimize customer experience in recently launched Self-Service. This is a major step towards unifying all customer related processes since all the following projects will be designed in the same manner. The consent ratification and general admission process is quicker and more customer 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.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

| *(in thousands of euros)* | Note | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest income | | 9 476 | 35 160 | 7 540 | 27 544 |
| Interest expense | | -1 214 | -5 184 | -1 170 | -4 311 |
| **Net interest income** | **9** | **8 262** | **29 976** | **6 370** | **23 233** |
| Fee and commission income | | 7 148 | 23 290 | 4 622 | 16 801 |
| Fee and commission expense | | -1 301 | -4 104 | -820 | -2 136 |
| **Net fee and commission income** | **10** | **5 847** | **19 186** | **3 802** | **14 665** |
| Net gains/losses from financial assets measured at fair value | | -274 | 1 414 | 181 | 366 |
| Foreign exchange gains/losses | | -211 | -105 | 7 | 64 |
| Other financial income | | 0 | 0 | 1 | 1 |
| **Net gains from financial assets** | | **-485** | **1 309** | **189** | **431** |
| Other income | | 7 | 156 | 42 | 96 |
| Other expense | | -15 | -69 | -21 | -39 |
| Staff costs | 11 | -3 199 | -12 976 | -3 014 | -10 977 |
| Administrative and other operating expenses | 11 | -4 631 | -15 940 | -3 974 | -13 130 |
| **Profit before impairment losses on loans and advances** | | **5 786** | **21 642** | **3 394** | **14 279** |
| Share of result of associates | | 0 | 1 | -36 | -36 |
| Impairment losses on loans and advances | | 17 | -1 480 | -35 | -1 367 |
| **Profit before tax** | | **5 803** | **20 163** | **3 323** | **12 876** |
| Income tax expense | | -69 | -270 | -72 | -269 |
| **Net profit for the reporting period from continuing operations** | | **5 734** | **19 893** | **3 251** | **12 607** |
| **Profit from discontinued operations** | 12 | **0** | **0** | **-2** | **2 181** |
| **Net profit for the reporting period** | 2 | **5 734** | **19 893** | **3 249** | **14 788** |
| **Other comprehensive income** | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Available-for-sale investments: | | | | | |
| Revaluation of available-for-sale financial assets | | -6 | -17 | -11 | -17 |
| **Total profit and other comprehensive income for the reporting period** | | **5 728** | **19 876** | **3 238** | **14 771** |
| **Total profit of the reporting period attributable to:** | | | | | |
| Owners of the parent | | 4896 | 17 815 | 2 827 | 13 706 |
| Non-controlling interest | | 838 | 2 078 | 422 | 1 082 |
| **Total profit for the reporting period** | 2 | 5 734 | 19 893 | 3 249 | 14 788 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | 4 890 | 17 798 | 2 816 | 13 689 |
| Incl. continuing operations | | 4 890 | 17 798 | 2 818 | 11 508 |
| Incl. discontinued operations | | 0 | 0 | -2 | 2 181 |
| Non-controlling interest | | 838 | 2 078 | 422 | 1 082 |
| **Total comprehensive income for the reporting period** | | **5 728** | **19 876** | **3 238** | **14 771** |
| Basic earnings per share (in euros) | 17 | 0.19 | 0.72 | 0.12 | 0.59 |
| Diluted earnings per share (in euros) | 17 | 0.19 | 0.70 | 0.12 | 0.57 |

The Notes on pages 18 to 29 are an integral part of the consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Financial Position

| *(in thousands of euros)* | Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| **Assets** | | | |
| Due from central bank | 4, 5, 6, 13 | 271 256 | 199 844 |
| Due from credit institutions | 4, 5, 6, 13 | 27 171 | 14 735 |
| Due from investment companies | 4, 6, 13 | 8 073 | 15 922 |
| Available-for-sale financial assets | 4, 6, 7 | 579 | 3 508 |
| Financial assets at fair value through profit or loss | 4, 6, 7 | 75 611 | 106 608 |
| Loans and advances to customers | 4, 6, 8 | 537 641 | 409 997 |
| Receivables from customers | | 3 479 | 2 026 |
| Other financial assets | | 941 | 940 |
| Other assets | | 1 391 | 1 128 |
| Tangible assets | | 1 191 | 685 |
| Intangible assets | | 4 500 | 689 |
| Goodwill | | 3 614 | 1 044 |
| **Total assets** | 2 | **935 447** | **757 126** |
| | | | |
| Liabilities | | | |
| Deposits of customers and loans received | 14 | 777 581 | 632 760 |
| Financial liabilities at fair value through profit or loss | 6 | 209 | 89 |
| Accounts payable and other liabilities | 15 | 19 031 | 20 137 |
| Subordinated debt | 6 | 30 900 | 30 900 |
| **Total liabilities** | 2 | **827 721** | **683 886** |
| | | | |
| Owner’s equity | | | |
| Share capital | | 25 356 | 23 356 |
| Share premium | | 45 892 | 33 992 |
| Statutory reserve capital | | 1 580 | 895 |
| Other reserves | | 1 244 | 551 |
| Retained earnings / accumulated deficit | | 28 335 | 11 205 |
| Total equity attributable to owners of the parent | | 102 407 | 69 999 |
| Non-controlling interest | | 5 319 | 3 241 |
| **Total equity** | | **107 726** | **73 240** |
| | | | |
| **Total liabilities and equity** | | **935 447** | **757 126** |

The Notes on pages 18 to 29 are an integral part of the consolidated interim financial statements

## Condensed Consolidated Interim Statement of Cash Flows

| *(in thousands of euros)* | Note | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Interest received | | 9 164 | 33 920 | 7 418 | 27 936 |
| Interest paid | | -1 379 | -4 543 | -1 328 | -4 075 |
| Fees and commissions received | | 7 139 | 23 377 | 4 475 | 16 874 |
| Fees and commissions paid | | -1 301 | -4 105 | -820 | -2 138 |
| Staff costs paid | | -3 228 | -12 956 | -2 949 | -10 880 |
| Administrative and other operating expenses paid | | -3 989 | -14 898 | -3 716 | -12 607 |
| **Cash flow from operating activities before change in operating assets and liabilities** | | **6 406** | **20 795** | **3 080** | **15 110** |
| **Net increase/decrease in operating assets:** | | | | | |
| Net acquisition/disposal of trading portfolio | | -29 | -257 | -3 | -17 |
| Loans and advances to customers | | -59 780 | -129 439 | -15 148 | -96 787 |
| Term deposits with banks | | 0 | 0 | 0 | 1 |
| Mandatory reserve at central bank | | -311 | -1 598 | -361 | -1 640 |
| Security deposits | | -40 | -1 | -47 | -157 |
| Other assets | | 275 | -546 | -11 694 | 386 |
| **Net increase/decrease in operating liabilities:** | | | | | |
| Demand deposits of customers | | 48 423 | 191 312 | 45 687 | 160 153 |
| Term deposits of customers | | -12 346 | -31 506 | -18 395 | -999 |
| Loans received | | 0 | 0 | 0 | 5 645 |
| Repayments of loans received | | -53 | -14 731 | -149 | -7 221 |
| Financial liabilities held for trading at fair value through profit and loss | | 231 | 120 | -109 | -213 |
| Other liabilities | | 7 439 | -918 | 24 000 | 14 883 |
| **Net cash generated/used in operating activities from continuing operations** | | **-9 785** | **33 231** | **26 861** | **89 144** |
| Cash generated from/ used in operating activities from discontinued operations | | 0 | 0 | -2 | 2 781 |
| **Net cash generated from/used in operating activities** | | **-9 785** | **33 231** | **26 859** | **91 925** |
| Cash flow from investing activities | | | | | |
| Purchase of non-current assets | | -335 | -1 603 | -593 | -1 266 |
| Disposal of non-current assets | | 0 | 10 | 0 | 0 |
| Acquisition and disposal of associates | | 974 | -9 952 | 0 | 0 |
| Proceeds from disposal and redemption of investment securities available for sale | | -978 | 307 | 334 | 784 |
| Net change of investments at fair value through profit or loss | | 1 209 | 38 613 | 49 048 | 38 974 |
| **Net cash flow from investing activities** | | **870** | **27 375** | **48 789** | **38 492** |
| Cash flow from financing activities | | | | | |
| Paid in share capital (incl. share premium) | | 0 | 13 900 | 0 | 0 |
| Proceeds from subordinated debt | | 0 | 0 | 15 000 | 15 000 |
| Repayment of subordinated debt | | 0 | 0 | -750 | -750 |
| **Net cash from financing activities** | | **0** | **13 900** | **14 250** | **14 250** |
| **Effect of exchange rate changes on cash and cash equivalents** | 6 | **-211** | **-105** | **2** | **65** |
| **Net decrease/increase in cash and cash equivalents** | | **-9 126** | **74 401** | **89 900** | **144 731** |
| Cash and cash equivalents at the beginning of the period | | 307 890 | 224 363 | 134 463 | 79 631 |
| **Cash and cash equivalents at the end of the period** | 13 | **298 764** | **298 764** | **224 363** | **224 363** |

The Notes on pages 18 to 29 are an integral part of the consolidated interim financial statements

# Condensed Consolidated Interim Statement of Changes in Equity

| *(in thousands of euros)* | Attributable to owners of LHV Group<br>Share capital | Share premium | Statutory reserve capital | Other reserves | Accumulated deficit/ retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **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 | 0 | 0 | 460 | | -460 | 0 | 0 | **0** |
| Share options | 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 the reporting period | 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** |
| Transfer to statutory reserve capital | 0 | 0 | 685 | 0 | -685 | 0 | 0 | **0** |
| Share options | 0 | 0 | 0 | 710 | 0 | 710 | 0 | **710** |
| Paid in share capital | 2 000 | 11 900 | 0 | 0 | 0 | 13 900 | 0 | **13 900** |
| 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 the reporting period | 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** |

The Notes on pages 18 to 29 are an integral part of the consolidated interim financial statements

# Notes to the Condensed Consolidated Interim Financial Statements

## NOTE 1 Accounting Policies

The interim financial statements have been prepared in accordance with the international financial reporting standard IAS 34 "Interim Financial Reporting", as adopted in the European Union and accordance with International Financial Reporting Standards as adopted by European Union. The interim financial statements should be read in conjunction with the group's annual financial statements as at 31 December 2015.

The accounting policies adopted are consistent with those of the previous financial year. Specification has been added to cash and cash equivalents accounting policy:

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 significant restrictions and which are subject to an insignificant risk of changes in value.

These condensed consolidated interim financial statements are not audited and do not contain the entire range of data required for the preparation of the financial statements.

The financial figures of the interim financial statements have been presented in thousands of euros, unless otherwise indicated. The interim financial statements have been consolidated and include the results of AS LHV Group and its subsidiaries AS LHV Varahaldus (100% interest), AS LHV Pank (100% interest), OÜ Cuber Tehnology (100% interest), AS LHV Finance (65% interest) and UAB Mokilizingas (50% interest + 1 share).

## NOTE 2 Business Segments

The Group divides its business activities into segments according to its legal structure. 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 profit by the Group's decision-maker. 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 9 and 10. The breakdown of interest income by customer location does not include the income from current accounts, deposits and investments in securities. The Group does not have any customers, whose income would account for more than 10% of the corresponding type of revenue.

| Q4 2016 | Retail banking | Private banking | Corporate banking | Asset manage-ment | Hire-purc-hase and consumer finance in Estonia | Hire-purc-hase and consumer finance in Lithuania | Treasury activities | Intra-seg-ment eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 1 531 | 273 | 4 733 | 1 | 1 990 | 1 548 | 1 051 | -1 651 | 9 476 |
| Interest expense | 0 | 0 | -886 | -42 | -298 | -274 | -1 365 | 1 651 | -1 214 |
| **Net interest income** | **1 531** | **273** | **3 847** | **-41** | **1 692** | **1 274** | **-314** | **0** | **8 262** |
| Fee and commission income | 2 527 | 220 | 128 | 3 888 | 7 | 196 | 182 | 0 | 7 148 |
| Fee and commission expense | -1 108 | 0 | -13 | 0 | -117 | -5 | -58 | 0 | -1 301 |
| **Net fee and commission income** | **1 419** | **220** | **115** | **3 888** | **-110** | **191** | **124** | **0** | **5 847** |
| **Net income** | **2 950** | **493** | **3 962** | **3 847** | **1 582** | **1 465** | **-190** | **0** | **14 109** |
| Net gains from financial assets | -3 | 0 | 0 | 68 | 0 | 0 | -550 | 0 | -485 |
| Administrative and other operating expenses, staff costs | -2 497 | -259 | -1 147 | -2 154 | -420 | -1 095 | -266 | 0 | -7 838 |
| **Operating profit** | **450** | **234** | **2 815** | **1 761** | **1 162** | **370** | **-1 006** | **0** | **5 786** |
| Impairment losses on loans and advances | -58 | 0 | -431 | 0 | -187 | 693 | 0 | 0 | 17 |
| Income tax | 0 | 0 | 0 | 0 | 0 | -69 | 0 | 0 | -69 |
| **Net profit** | **392** | **234** | **2 384** | **1 761** | **975** | **994** | **-1 006** | **0** | **5 734** |
| **Total assets** | **306 066** | **128 935** | **460 220** | **23 543** | **35 520** | **39 393** | **97 441** | **-155 670** | **935 447** |
| **Total liabilities** | **396 421** | **255 113** | **168 692** | **2 586** | **30 023** | **32 592** | **31 180** | **-88 885** | **827 721** |

| Q4 2015 | Retail banking | Private banking | Corporate banking | Asset manage-ment | Hire-purc-hase and consumer finance in Estonia | Hire-purc-hase and consumer finance in Lithuania | Treasury activities | Intra-seg-ment eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 843 | 166 | 3 798 | 1 | 1 256 | 1 637 | 786 | -947 | 7 540 |
| Interest expense | 0 | 0 | -1 259 | -30 | -219 | -318 | -291 | 947 | -1 170 |
| **Net interest income** | **843** | **166** | **2 539** | **-29** | **1 037** | **1 319** | **495** | **0** | **6 370** |
| Fee and commission income | 1 650 | 213 | 274 | 2 250 | 8 | 170 | 57 | 0 | 4 622 |
| Fee and commission expense | -612 | 0 | -116 | 0 | 0 | -3 | -89 | 0 | -820 |
| **Net fee and commission income** | **1 038** | **213** | **158** | **2 250** | **8** | **167** | **-32** | **0** | **3 802** |
| **Net income** | **1 881** | **379** | **2 697** | **2 221** | **1 045** | **1 486** | **463** | **0** | **10 172** |
| Net gains from financial assets | 1 | 0 | 0 | 135 | 0 | 0 | 53 | 0 | 189 |
| Administrative and other operating expenses, staff costs | -2 255 | -280 | -1 114 | -1 358 | -511 | -881 | -568 | 0 | -6 967 |
| **Operating profit** | **-373** | **99** | **1 583** | **998** | **534** | **605** | **-52** | **0** | **3 394** |
| Income/loss from associates | 0 | 0 | 0 | 0 | 0 | 0 | -36 | 0 | -36 |
| Impairment losses on loans and advances | -58 | 0 | 109 | 0 | -79 | -7 | 0 | 0 | -35 |
| Income tax | 0 | 0 | 0 | 0 | 0 | -72 | 0 | 0 | -72 |
| Discontinued operations | -2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2 |
| **Net profit** | **-433** | **99** | **1 692** | **998** | **455** | **526** | **-88** | **0** | **3 249** |
| **Total assets** | **251 487** | **105 923** | **378 081** | **11 038** | **25 366** | **35 558** | **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 3 Risk Management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management department or in any risk management policies since the year end.

## NOTE 4 Breakdown of Financial Assets and Liabilities by Countries

| 31.12.2016 | Estonia | Latvia | Lithuania | Finland | The Nether-lands | Germany | Other EU | USA | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Due from banks and investment companies | 287 878 | 0 | 2 718 | 0 | 0 | 0 | 5 100 | 7 919 | 2 885 | **306 500** |
| Financial assets at fair value | 12 316 | 2 737 | 18 788 | 0 | 0 | 33 660 | 8 657 | 2 | 30 | **76 190** |
| Financial assets at fair value | 484 578 | 245 | 37 018 | 512 | 7 | 46 | 14 508 | 51 | 676 | **537 641** |
| Receivables from customers | 3 110 | 1 | 365 | 0 | 0 | 0 | 3 | 0 | 0 | **3 479** |
| Other financial assets | 108 | 0 | 0 | 0 | 0 | 0 | 0 | 833 | 0 | **941** |
| **Total financial assets** | **787 990** | **2 983** | **58 889** | **512** | **7** | **33 706** | **28 268** | **8 805** | **3 591** | **924 751** |
| Deposits of customers and loans received | 666 870 | 1 617 | 2 024 | 1 072 | 1 | 201 | 71 983 | 746 | 33 067 | **777 581** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| Accounts payable and other financial liabilities | 14 941 | 65 | 928 | 27 | 0 | 0 | 13 | 3 | 0 | **15 977** |
| Financial liabilities at fair value | 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** |

Unused loan commitments in the amount of EUR 133 338 thousand are for the residents of Estonia and in the amount of EUR 5 235 thousand for the residents of Lithuania.

| 31.12.2015 | Estonia | Latvia | Lithuania | Finland | The Nether-lands | Germany | Other EU | USA | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Due from banks and investment companies | 209 268 | 0 | 1 784 | 0 | 874 | 0 | 1 081 | 15 786 | 1 708 | **230 501** |
| Financial assets at fair value | 7 501 | 3 838 | 3 327 | 0 | 0 | 36 944 | 47 454 | 11 051 | 1 | **110 116** |
| Financial assets at fair value | 362 002 | 585 | 38 223 | 20 | 7 | 1 | 9 139 | 0 | 20 | **409 997** |
| Receivables from customers | 1 784 | 2 | 240 | 0 | 0 | 0 | 0 | 0 | 0 | **2 026** |
| Other financial assets | 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 of customers and loans received | 539 478 | 2 406 | 1 776 | 625 | 29 | 302 | 40 024 | 2 211 | 45 909 | **632 760** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| Accounts payable and other financial liabilities | 16 606 | 0 | 639 | 27 | 0 | 0 | 13 | 3 | 0 | **17 288** |
| Financial liabilities at fair value | 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** |

Unused loan commitments in the amount of EUR 118 696 thousand are for the residents of Estonia.

## NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates

| 31.12.2016 | On demand | 0-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | |
| Deposits from customers and loans received | 624 126 | 67 100 | 83 814 | 3 357 | 0 | **778 397** |
| Subordinated debt | 0 | 532 | 1 596 | 8 511 | 37 682 | **48 321** |
| Accounts payable and other financial liabilities | 0 | 15 977 | 0 | 0 | 0 | **15 977** |
| Unused loan commitments | 0 | 133 338 | 0 | 0 | 0 | **133 338** |
| Financial guarantees by contractual amounts | 0 | 5 442 | 0 | 0 | 0 | **5 442** |
| Foreign exchange derivatives (gross settled) | 0 | 15 884 | 0 | 0 | 0 | **15 884** |
| Financial liabilities at fair value | 0 | 209 | 0 | 0 | 0 | **209** |
| **Total liabilities** | **624 126** | **238 482** | **85 410** | **11 868** | **37 682** | **997 568** |
| **Financial assets by contractual maturity dates** | | | | | | |
| Due from banks and investment companies | 306 427 | 73 | 0 | 0 | 0 | **306 500** |
| Financial assets at fair value (debt securities) | 0 | 7 666 | 36 123 | 18 474 | 3 613 | **65 876** |
| Loans and advances to customers | 0 | 42 969 | 140 761 | 381 350 | 40 710 | **605 791** |
| Receivables from customers | 0 | 3 479 | 0 | 0 | 0 | **3 479** |
| Other financial assets | 941 | 0 | 0 | 0 | 0 | **941** |
| Foreign exchange derivatives | 0 | 15 884 | 0 | 0 | 0 | **15 884** |
| **Total financial assets** | **307 368** | **70 071** | **176 884** | **399 824** | **44 323** | **998 471** |
| **Maturity gap from financial assets and liabilities** | **-316 758** | **-168 411** | **91 474** | **387 956** | **6 641** | **903** |

| 31.12.2015 | On demand | 0-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | |
| Deposits from customers and loans received | 433 027 | 66 578 | 110 230 | 23 284 | 716 | **633 835** |
| Subordinated debt | 0 | 532 | 1 596 | 8 511 | 39 810 | **50 449** |
| Accounts payable and other financial liabilities | 0 | 17 288 | 0 | 0 | 0 | **17 288** |
| Unused loan commitments | 0 | 118 696 | 0 | 0 | 0 | **118 696** |
| Financial guarantees by contractual amounts | 0 | 5 369 | 0 | 0 | 0 | **5 369** |
| Foreign exchange derivatives (gross settled) | 0 | 14 487 | 0 | 0 | 0 | **14 487** |
| Financial liabilities at fair value | 0 | 26 | 63 | 0 | 0 | **89** |
| **Total liabilities** | **433 027** | **222 976** | **111 889** | **31 795** | **40 526** | **840 213** |
| **Financial assets by contractual maturity dates** | | | | | | |
| Due from banks and investment companies | 230 501 | 0 | 0 | 0 | 0 | **230 501** |
| Financial assets at fair value (debt securities) | 0 | 19 250 | 69 590 | 12 136 | 2 977 | **103 953** |
| Loans and advances to customers | 0 | 43 364 | 114 515 | 280 732 | 19 297 | **457 908** |
| Receivables from customers | 0 | 2 026 | 0 | 0 | 0 | **2 026** |
| Other financial assets | 940 | 0 | 0 | 0 | 0 | **940** |
| Foreign exchange derivatives | 0 | 14 487 | 0 | 0 | 0 | **14 487** |
| **Total financial assets** | **231 441** | **79 127** | **184 105** | **292 868** | **22 274** | **809 815** |
| **Maturity gap from financial assets and liabilities** | **-201 586** | **-143 849** | **72 216** | **261 073** | **-18 252** | **-30 398** |

It is possible to take a short-term loan from the central bank against the security of the majority of instruments in the bond portfolio.

All cashflows from financial assets and –liabilities except derivatives include all contractual cash flows.

## NOTE 6 Open Foreign Currency Positions

| 31.12.2016 | EUR | CHF | GBP | SEK | USD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets bearing currency risk** | | | | | | | |
| Due from banks and investment companies | 278 929 | 1 994 | 13 061 | 3 942 | 6 668 | 1 906 | **306 500** |
| Financial assets at fair value | 34 505 | 0 | 0 | 1 | 41 243 | 441 | **76 190** |
| Loans and advances to customers | 535 747 | 4 | 4 | 2 | 1 873 | 11 | **537 641** |
| Receivables from customers | 3 255 | 1 | 43 | 6 | 171 | 3 | **3 479** |
| Other financial assets | 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 | 700 874 | 1 983 | 13 264 | 3 869 | 55 924 | 1 667 | **777 581** |
| Financial liabilities at fair value | 0 | 0 | 0 | 0 | 72 | 137 | **209** |
| Accounts payable and other financial liabilities | 8 116 | 2 | 1 226 | 65 | 5 341 | 1 227 | **15 977** |
| Subordinated debt | 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 | EUR | CHF | GBP | SEK | USD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets bearing currency risk** | | | | | | | |
| Due from banks and investment companies | 218 849 | 1 638 | 1 101 | 587 | 7 338 | 988 | **230 501** |
| Financial assets at fair value | 71 894 | 0 | 0 | 1 | 38 213 | 8 | **110 116** |
| Loans and advances to customers | 408 804 | 0 | 0 | 79 | 1 070 | 44 | **409 997** |
| Receivables from customers | 1 945 | 0 | 0 | 0 | 81 | 0 | **2 026** |
| Other financial assets | 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 | 579 117 | 1 605 | 2 549 | 353 | 48 279 | 857 | **632 760** |
| Financial liabilities at fair value | 89 | 0 | 0 | 0 | 0 | 0 | **89** |
| Accounts payable and other financial liabilities | 4 015 | 45 | 2 902 | 308 | 9 219 | 799 | **17 288** |
| Subordinated debt | 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** |

## NOTE 7 Fair Value of Financial Assets and Liabilities

The Management Board of the Group has determined the fair value of assets and liabilities recognised at amortised cost in the balance sheet. To determine the fair value, future cash flows are discounted based on the market interest curve.

The below table provides an overview of the assessment techniques, which depend on the hierarchy of assets and liabilities measured at fair value:

| | Level 1 | Level 2 | Level 3 | 31.12.2016 | Level 1 | Level 2 | Level 3 | 31.12.2015 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | | | | | |
| Shares and fund units* | 628 | 10 866 | 50 | 11 544 | 352 | 6 349 | 0 | 6 701 |
| Available-for-sale bonds and shares | 579 | 0 | 0 | 579 | 3 508 | 0 | 0 | 3 508 |
| Bonds at fair value through profit and loss | 63 817 | 0 | 0 | 63 817 | 99 907 | 0 | 0 | 99 907 |
| Interest rate swaps and foreign exchange forwards | 0 | 250 | 0 | 250 | | | | |
| **Total financial assets** | **65 024** | **11 116** | **50** | **76 190** | **103 767** | **6 349** | **0** | **110 116** |
| **Financial liabilities at fair value through profit and loss** | | | | | | | | |
| Interest rate swaps and foreign exchange forwards | 0 | 209 | 0 | 209 | 0 | 89 | 0 | 89 |
| **Total financial liabilities** | **0** | **209** | **0** | **209** | **0** | **89** | **0** | **89** |

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 10 866 (31.12.2015: 6 349) thousand. 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.

Hierarchy levels:

1. Level 1 – the price quoted on active market
2. Level 2 – a technique which uses market information as input (rates and interest curves of arms-length transactions)
3. Level 3 – other methods (e.g. discounted cash flow method) with estimations as input

Interest rate swaps are instruments, where the fair value is determined via the model-based approach by using the inputs available on the active market. The fair value of such non-market derivatives is calculated as a theoretical net present value (NPV), by using independent market parameters and without assuming the presence of any risks or uncertainties. The NPV is discounted by using the risk-free profitability rate available on the market.

As at 31.12.2016 the fair value of corporate loans and overdraft is EUR 2 354 thousand (0.63%) lower than their carrying amount (30.09.2016: 546 thousand, 0.16% lower) . Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of loans does not materially differ from their carrying amount as at 31 December 2016 and 30 September 2016. In determining the fair value of loans, considerable management judgements are used (discounted cash flow method with current market interest is used for the valuation). Loans issued are thus categorised under hierarchy level 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. 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, hirepurchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Other receivables from customers, along with accrued expenses and other current receivables have been generated in the course of ordinary business and are subject to payment over a short period of time. Their fair value does not thus differ from the carrying amount. These receivables and payables do not bear any interest. The fair value of accounts payable, accrued expenses and other payables is determined based on hierarchy level 3.

Customer deposits with fixed interest rates are mostly short-term with the deposits priced pursuant to market conditions. The fair value of the deposits determined via discounting future cash flows does not thus materially differ from the carrying amount. In determining the fair value of customer deposits, considerable management judgements are used. Customer deposits are thus categorised under hierarchy level 3.

From all the subordinated loans received, EUR 15 000 thousand were received in October 2015 and the rest in 2014. Subordinated loans were issued on market terms and considering the movements in loan and interest market, we can say that the market conditions are similar as they were when issuing the subordinated loans so that the fair value of the loans does not materially differ from their net book value. In determining the fair value of loans, considerable management judgements are used. Loans issued are thus categorised under hierarchy level 3.

## NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

| | 31.12.2016 | % | 31.12.2015 | % |
|---|---|---|---|---|
| Individuals | 125 125 | 23.0% | 91 793 | 22.1% |
| Real estate activities | 149 145 | 27.4% | 106 836 | 25.8% |
| Manufacturing | 43 541 | 8.0% | 36 919 | 8.9% |
| Arts and entertainment | 29 143 | 5.4% | 25 724 | 6.2% |
| Financial activities | 68 985 | 12.7% | 46 887 | 11.3% |
| Wholesale and retail trade | 14 721 | 2.7% | 16 563 | 4.0% |
| Administrative and support service activities | 11 953 | 2.2% | 11 355 | 2.7% |
| Transportation and storage | 12 835 | 2.4% | 14 706 | 3.6% |
| Agriculture | 8 341 | 1.5% | 8 836 | 2.1% |
| Other service 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 sectors | 29 525 | 5.4% | 16 346 | 3.9% |
| **Total** | **543 382** | **100%** | **414 677** | **100%** |
| Provision | -5 741 | | -4 680 | |
| **Total loan portfolio** | **537 641** | **100%** | **409 997** | **100%** |

## NOTE 9 Net Interest Income

| **Interest income** | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Balances with credit institutions and investment companies | 5 | 74 | 19 | 94 |
| Bonds | 71 | 380 | 87 | 395 |
| Leasing | 452 | 1 603 | 380 | 1 338 |
| Leverage loans and lending of securities | 117 | 505 | 129 | 715 |
| Consumer loans | 1 505 | 5 296 | 674 | 2 707 |
| Hire purchase | 1 923 | 7 797 | 1 885 | 6 835 |
| Business loans | 4 825 | 17 593 | 3 801 | 14 251 |
| Creditcard loans | 159 | 553 | 111 | 408 |
| Other loans | 419 | 1 359 | 454 | 751 |
| **Total** | **9 476** | **35 160** | **7 540** | **27 544** |
| Interest expense | | | | |
| Deposits of customers and loans received | -483 | -2 248 | -624 | -2 763 |
| Balances with the central bank | -203 | -811 | -75 | -176 |
| Subordinated liabilities | -528 | -2 125 | -471 | -1 372 |
| including loans between related parties | -114 | -458 | -110 | -411 |
| **Total** | **-1 214** | **-5 184** | **-1 170** | **-4 311** |
| **Net interest income** | **8 262** | **29 976** | **6 370** | **23 233** |

| **Interest income on loans by customer location (interest on bank balances and bonds excluded):** | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Estonia | 7 831 | 28 136 | 5 762 | 20 868 |
| Latvia | 91 | 102 | 8 | 31 |
| Lithuania | 1 478 | 6 468 | 1 664 | 6 156 |
| **Total** | **9 400** | **34 706** | **7 434** | **27 055** |

## NOTE 10 Net Fee and Commission Income

| Fee and commission income | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Security brokerage and commissions paid | 943 | 3 086 | 739 | 2 572 |
| Asset management and similar fees | 4 278 | 14 344 | 2 557 | 10 227 |
| Currency conversion revenues | 483 | 1 109 | 221 | 731 |
| Fees from cards and payments | 1 094 | 3 584 | 812 | 2 128 |
| Fees related to collection of debts | 0 | 0 | 0 | 0 |
| Fee from Snoras's portfolio management* | 0 | 45 | 48 | 276 |
| Other fee and commission income | 350 | 1 122 | 245 | 867 |
| **Total** | **7 148** | **23 290** | **4 622** | **16 801** |
| Fee and commission expense | | | | |
| Security brokerage and commissions paid | -225 | -828 | -261 | -707 |
| Expenses related to cards | -386 | -1 059 | -220 | -619 |
| Expenses related to acquiring | -435 | -1 280 | -235 | -440 |
| Other fee and commission expense | -255 | -937 | -104 | -370 |
| **Total** | **-1 301** | **-4 104** | **-820** | **-2 136** |
| **Net fee and commission income** | **5 847** | **19 186** | **3 802** | **14 665** |

** Mokilizingas was providing till Q2 2016 portfolio administration services to Snoras Bank, to whom the portfolio was sold in 2011.*

| Fee and commission income by customer location: | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Estonia | 6 820 | 22 156 | 4 291 | 15 441 |
| Finland | 0 | 0 | 0 | 8 |
| Latvia | 6 | 23 | 18 | 84 |
| Lithuania | 268 | 902 | 245 | 1 008 |
| Sweden | 0 | 0 | 0 | 96 |
| Luxembourg | 54 | 209 | 68 | 164 |
| **Total** | **7 148** | **23 290** | **4 622** | **16 801** |

## NOTE 11 Operating Expenses

| | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Wages, salaries and bonuses | 2 467 | 9 788 | 2 296 | 8 297 |
| Social security and other taxes* | 732 | 3 188 | 718 | 2 680 |
| **Total personnel expenses** | **3 199** | **12 976** | **3 014** | **10 977** |
| IT expenses | 505 | 1 807 | 370 | 1 371 |
| Information services and bank services | 175 | 751 | 196 | 702 |
| Marketing expenses | 1 479 | 4 653 | 1 123 | 3 896 |
| Office expenses | 137 | 541 | 132 | 447 |
| Transportation and communication expenses | 87 | 277 | 84 | 246 |
| Staff training and business trip expenses | 125 | 429 | 96 | 312 |
| Other outsourced services | 886 | 3 225 | 928 | 2 909 |
| Other administrative expenses | 142 | 1 602 | 423 | 1 331 |
| Depreciation of non-current assets | 761 | 1 419 | 287 | 791 |
| Operational lease payments | 262 | 973 | 234 | 911 |
| Other operating expenses | 72 | 263 | 101 | 214 |
| **Total other operating expenses** | **4 631** | **15 940** | **3 974** | **13 130** |
| **Total operating expenses** | **7 830** | **28 916** | **6 988** | **24 107** |

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

## NOTE 12 Discontinued operations

| Profit from discontinued operations | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| Other financial income | 0 | 0 | 0 | 2 936 |
| Total expenses | 0 | 0 | -2 | -755 |
| **Net profit from discontinued operations** | **0** | **0** | **-2** | **2 18** |

## NOTE 13 Balances with the Central Bank, Credit Institutions and Investment Companies

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Term deposits with maturity less than 3 months* | 41 373 | 30 657 |
| Legal reserve with the central bank | 7 736 | 6 138 |
| Other receivables 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 |

The breakdown of receivables by countries has been presented in Note 4. Demand deposits include receivables from investment companies in the total amount of EUR 8 073 thousand (31 December 2015: EUR 15 922 thousand). All other demand and term deposits are held with credit institutions and the central bank. The minimum reserve requirement as at 31 December 2016 was 1% (31 December 2015: 1%) of all financial resources (customer deposits and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign financial assets approved by the central bank.

## NOTE 14 Deposits of Customers and Loans Received

| Deposits/loans by type | Individuals | Legal entities | Public sector | 31.12.2016 |
|---|---|---|---|---|
| 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** |

| Deposits/loans by type | Individuals | Legal entities | Public sector | 31.12.2015 |
|---|---|---|---|---|
| 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** |

Loans received include loans granted by the Estonian Rural Development Foundation in the amount of EUR 778 thousand (31 December 2015: EUR 2 510 thousand) for the purpose of financing loans to small companies in rural areas and overdraft received. As a rule, the nominal interest rate of the deposits of customers and loans granted equals to their effective interest rate, as no other significant fees have been paid.

## NOTE 15 Accounts payable and other liabilities

| Financial liabilities | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Trade payables and payables to merchants | 3 016 | 3 022 |
| Other short-term financial liabilities | 1 551 | 473 |
| Accrued interest on subordinated loans | 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 |
| 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. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

## NOTE 16 Contingent Liabilities

| Irrevocable transactions | Performance guarantees | Financial guarantees | Unused loan commitments | Total |
|---|---|---|---|---|
| Liability in the contractual amount as at 31 December 2016 | 12 695 | 5 442 | 138 573 | **156 710** |
| Liability in the contractual amount as at 31 December 2015 | 7 853 | 5 369 | 118 696 | **131 918** |

## NOTE 17 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. The last convertible bonds were redeemed in October 2015.

| | Q4 2016 | 12M 2016 | Q4 2015 | 12M 2015 |
|---|---|---|---|---|
| **Total profit (incl. discontinued operations)** | | | | |
| attributable to owners of the parent (EUR thousand) | 4 896 | 17 815 | 2 816 | 13 689 |
| Weighted average number of shares (in thousands of units) | 25 356 | 24 856 | 23 356 | 23 356 |
| Basic earnings per share (EUR) | 0.19 | 0.72 | 0.12 | 0.59 |
| Weighted average number of shares used for calculating | | | | |
| the diluted earnings per shares (in thousands of units) | 25 836 | 25 336 | 24 464 | 24 464 |
| Diluted earnings per share (EUR) | 0.19 | 0.70 | 0.12 | 0.57 |

## NOTE 18 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 114 279 thousand euros (31.12.2015: 97 699 thousand euros). 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, ensuring the necessary capital to ensure economic preservation and enables 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 in two: 1) regulative 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 regulative minimumcapital (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 marinating higher capital buffer.

| Capital base | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Paid-in share capital | 25 356 | 23 356 |
| Share premium | 45 892 | 33 992 |
| Reserves | 1 580 | 895 |
| Other reserves | -40 | -23 |
| Accumulated loss | 10 517 | -2 503 |
| Intangible assets (subtracted) | -8 514 | -1 734 |
| Profit for the reporting period | 8 588 | 10 879 |
| Non-controlling interest | 0 | 1 937 |
| **Total Tier 1 capital** | **83 379** | **66 799** |
| Subordinated liabilities | 30 900 | 30 900 |
| **Total Tier 2 capital** | **30 900** | **30 900** |
| **Total net own funds** | **114 279** | **97 699** |

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

## NOTE 19 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 | 12M 2016 | 12M 2015 |
|---|---|---|
| **Interest income** | **50** | **54** |
| incl. management | 14 | 7 |
| incl. shareholders and their related entities that have significant influence | 36 | 47 |
| **Fee and commission income** | **5** | **0** |
| Incl. management | 1 | 0 |
| incl. shareholders and their related entities that have significant influence | 4 | 0 |
| **Interest expenses from deposits** | **46** | **87** |
| incl. management | 3 | 1 |
| incl. shareholders and their related entities that have significant influence | 43 | 86 |
| **Interest expenses from subordinated loans** | **386** | **411** |
| incl. management | 34 | 23 |
| incl. shareholders and their related entities that have significant influence | 352 | 388 |

| Balances | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Loans and receivables as at the year-end** | **2 091** | **2 458** |
| incl. management | 979 | 641 |
| incl. shareholders and their related entities that have significant influence | 1 112 | 1 817 |
| **Deposits as at the year-end** | **15 223** | **13 409** |
| incl. management | 236 | 764 |
| incl. shareholders and their related entities that have significant influence | 14 987 | 12 645 |
| **Subordinated loans as at the year-end** | **5 099** | **6 113** |
| incl. management | 104 | 397 |
| incl. shareholders and their related entities that have significant influence | 4 995 | 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 according to the overall price list.

Loans granted to related parties are issued at market conditions.

In Q4, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 277 thousand (Q4 2015: EUR 291 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 15). 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 Q4 2016, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 18 thousand (Q4 2015: EUR 9 thousand).

Management is related to the share-based compensation plan. In Q4 2016 the share-based compensation to management amounted to EUR 31 thousand (Q4 2015: EUR 66 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.

# Shareholders of AS LHV Group

AS LHV Group has a total of 25 356 005 ordinary shares, with a nominal value of 1 euro.

**As at 31 December 2016, AS LHV Group has 5 170 shareholders:**

- 13 108 473 shares (51.7%) were held by members of the Supervisory Board and Management Board, and related parties.
- 12 247 532 shares (48.3%) were held by Estonian entrepreneurs and investors, and related parties.

**Top ten shareholders as at 31 December 2016:**

| Number of shares | Participation | Name of shareholder |
|---|---|---|
| 3 357 920 | 13,2% | AS Lõhmus Holdings |
| 2 628 367 | 10,4% | Rain Lõhmus |
| 2 052 344 | 8,1% | Viisemann Investments 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 |

**Shares held by members of the Management Board and Supervisory Board**

Madis Toomsalu holds 13 775 shares.

Rain Lõhmus holds 2 628 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 581 718 shares.

Andres Viisemann does not hold shares, Viisemann Holdings OÜ holds 434 925 shares and Viisemann Investment AG holds 2 052 344 shares.

Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 595 620 shares.

Tiina Mõis does not hold shares. AS Genteel holds 999 456 shares.

Heldur Meerits does not hold shares. AS Amalfi holds 951 978 shares.

Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 490 190 shares.

Sten Tamkivi holds 355 shares. OÜ Seikatsu holds 1 825 shares.

# Supervisory Boards and Management Boards of AS LHV Group and its Subsidiaries

| | |
|---|---|
| **AS LHV Group** | Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Tauno Tats, Andres Viisemann, Sten Tamkivi<br>Management board: Madis Toomsalu |
| **AS LHV Varahaldus** | Supervisory board: Erki Kilu, Madis Toomsalu, Andres Viisemann<br>Management board: Mihkel Oja, Joel Kukemelk |
| **AS LHV Pank** | Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Madis Toomsalu, Andres Viisemann, Sten Tamkivi<br>Management board: Jüri Heero, Erki Kilu, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi |
| **AS LHV Finance** | Supervisory board: Erki Kilu, Rain Lõhmus, Veiko Poolgas, Jaan Koppel<br>Management board: Kalev Karus (till 31.12.2016), Nele Roostalu (from 01.01.2017) |
| **OÜ Cuber Tehnology** | Management board: Jüri Laur |
| **UAB Mokilizingas** | Supervisory board: AS LHV Group, AS LHV Pank, UAB „K2Z", KŪB „RAZFin<br>Management board: Erki Kilu, Jurgis Rubazevicius, Benas Pavlauskas, Mantas Jonuška<br>CEO: Benas Pavlauskas |

# Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to December 2016 period the condensed consolidated interim financial statements of AS LHV Group for the 12-month period ended 31 December 2016.

The management board confirms that according to their best knowledge the interim report presents a fair view of LHV Group AS's 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.

**05.02.2017**

**Madis Toomsalu**