AS LHV Pank
Consolidated Annual Report 2015

(translation of the Estonian original)

Consolidated Annual Report	**01.01.2015 – 31.12.2015**
Legal name	AS LHV Pank
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
Fax	(372) 6800410
E-mail	lhv@lhv.ee
Main activities	Banking Security brokerage Financial advisory Finance lease and other lending
Management Board	Erki Kilu (chairman) Andres Kitter Indrek Nuume Jüri Heero Martin Lengi (member of the board till 31.08.2015) Meelis Paakspuu (member of the board since 01.09.2015) Martti Singi
Supervisory Board	Erkki Raasuke (chairman) Rain Lõhmus Andres Viisemann Tiina Mõis Hannes Tamjärv (member of supervisory board till 29.04.2015) Heldur Meerits Raivo Hein
Auditor	AS PricewaterhouseCoopers

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Management report

AS LHV Pank (hereinafter: the Bank) is based on Estonian capital. The Bank's clients include private individuals, small and medium-sized companies and institutional investors. The branch offices of LHV Pank are located in Tallinn, Tartu, Riga (will be closed 31.03.2016) and Vilnius. LHV Pank employs over 200 people. More than 80 000 clients use the Bank's services. LHV Pank is one of the largest brokers on NASDAQ OMX Baltic stock exchanges and the largest broker for Baltic retail investors in international markets. The Bank owns 65% of the subsidiary AS LHV Finance (togerther hereinafter: the Group or LHV) that provides hire-purchase and consumer finance services.

Business activities

Growth of deposits and loans in the year 2015 was according to expectations.

The volume of deposits grew by 36% year-on-year and reached 629 million euros by year-end (2014: 462 million euros). The focus over the year was increasing the volume of deposits and increase of the interest expense. Compared to the first half of the year, growth in deposit volumes accelerated in the second half of the year. As a result of the overall low interest rate environment, a change has occurred in the deposit structure. As the deployment of money in term deposits is no longer as attractive, LHV at the end of 2013 introduced the liquidity account concept to the market whereby if certain conditions are met, higher interest will be paid on demand deposits. All in all, the proportion of demand deposits has increased, accounting for 71% of all deposits as at the end of December (60% one year ago).

The loan portfolio volume grew by 36% year-on-year and amounted to EUR 405 million at the end of December (continuing operations 2014: EUR 298 million). The majority of the loan portfolio is made up of loans to businesses, which grew by 34% year-on-year to EUR 286 million (31.12.2014: EUR 214 million). The retail loan portfolio grew by 50% year-on-year to EUR 88 million (31.12.2014: EUR 58 million). LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was EUR 33 million (31.12.2014: EUR 27 million).

New products launched by the Bank included the additional card payment acceptance services developed in cooperation with EveryPay. In the mobile bank, the option of effecting TransferWise payments was opened for customers in five different currencies. The Bank also started providing currency forwards and swaps to investors seeking to hedge the currency risk related to their investment portfolio, and customers engaged in export and import seeking to hedge the currency risk inherent in their business operations and contract.

At the beginning of December, the European Central Bank lowered the key interest rates, raising the Bank's costs of holding liquid assets. The Bank consequently lowered the interest rates of term deposits in December.

On December 9, the EU regulation establishing a cap on interchange fees of cards issued within the European Economic Area entered into force. This is bound to scale down the Bank's revenue from transactions made with the cards issued. Nevertheless, the Bank's costs on transactions related to the acceptance of card payments will decrease accordingly. The Bank may include monthly card fees for newly issued cards. As regards the acceptance of card payments, merchants can benefit from a more favourable price in the future.

In Q4, the Bank started disposing non-performing hire-purchase, small loan and credit card agreements. The claims are assigned regularly, on a monthly basis.

The changes in the organisational structure of the Bank took effect at the beginning of 2016. The key changes include singularisation of Private Banking as a separate business area, transformation of the Marketing and Communication Department into a supra-sectoral unit and establishment of a separate Money Laundering Prevention Department and separation of its functions from those of the Compliance Department.

On November 30, the Bank decided to end its cross-border operations in Latvia. At the beginning of 2016, the decision was taken to close the Latvian branch by 31 March 2016. The Bank's operations in Latvia have been small-scale. In its business pursuits, the Bank has been governed, above all, by the business interests of its customers and endeavours to keep pace with the customers. Estonian enterprises currently need more services and support on the Western European front. These trends should be taken into account, when advancing the Bank's activities and services.

Organisation

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

Retail Banking established a new business line crypto finance which is tasked with keeping LHV up to date with developments occurring in the field of crypto finance and to develop LHV's participation in the field.

In September of 2015, there was a change in the Chief Financial Officer position of the bank. Meelis Paakspuu became the new Chief Financial Officer and member of the management board.

LHV focused mainly on gaining new customers and enhancing retail banking offers. In August, LHV started managing its own ATM network. Since August LHV Pank operates it's ATM network. The ATMs were installed with the aim of maximising support to both business and retail customers. In LHV's ATMs, incoming cash flows exceed outgoing cash flows, contrasting the rest of the Estonian market. This indicates that the Estonian retail banking is still under construction, with both room and demand for further innovative solutions.

The Financial Supervision Authority of Latvia granted a license for branch in Latvia on 02.02.2015. Less than a year after, in January 2016, it was decided to close down the branch in Latvia.

The number of employees of the group increased by 39 people in a year to 248 employees (including passive and part-time), including 20 people employed at LHV Finance. The number of active full-time equivalent employees was 225 in total.

Sponsorship

The bank's main sponsorship partners remained the same: Estonian Football Association, Estonian Optimist Class Association, Tallinn Restaurant Week, Enn Soosaar Foundation, the Education Information Technology Foundation and the Estonian Cyclists Union.

At the start of the year, The Estonian Music Foundation became a new partner and the Bank will be give out Estonian new composing award.

Financial results

The net profit of LHV in 2015 amounted to 9,9 million euros, up 60% compared to the previous year (2014: 6,2 million euros). Net interest income grew by 44% and net fee and commission income increased by 46%. Financial income was lower by 66% compared to the previous year.

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

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

Operating expenses grew by 34% year-on-year, which was expected given the current phase of high growth and new business development.

Loan losses were 33% lower compared to the previous year.

The total size of the Group's loan portfolios at the end of December amounted to 405 million euros (31.12.2014: 298 million euros). The portfolio volume grew by 36% year-on-year. The majority of the loan portfolio is made up of loans to businesses, which grew by 34% year-on-year to 286 million euros (31.12.2014: 214 million euros). The retail loan portfolio grew by 50% year-on-year to 88 million euros (31.12.2014: 58 million euros). LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was 33 million euros (31.12.2014: 27 million euros).

The volume of deposits of the Group grew by 36% year-on-year and reached 629 million euros by year-end (31.12.2014: 462 million euros). Compared to the first half of the year, growth in deposit volumes accelerated in the second half of the year. As a result of the overall low interest rate environment, a change has occurred in the deposit structure. As the deployment of money in term deposits is no longer as attractive, LHV at the end of 2013 introduced the liquidity account concept to the market whereby if certain conditions are met, higher interest will be paid on demand deposits. All in all, the proportion of demand deposits has increased, accounting for 71% of all deposits as at the end of December (60% one year ago).

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the Group, calculated according to the definitions of the Basel Committee, was 272% at the end of December (31.12.2014: 189%). The Group includes cash and bond portfolios, accounting for 45% of the balance sheet total, among its liquidity buffer (31.12.2014: 42%). The Group's loan-to-deposit ratio at the end of 2015 was 63% (31.12.2014: 68%).

During the year, the European Central Bank lowered the interest rate on deposits to -0,2%, which acted as an incentive for the bank to increase its bond portfolio. As a result of actions by the European Central Bank, bond prices rose on the markets and the bank earned considerable finance income during the year on its bond portfolio.

The Group participated in the targeted longer-term refinancing operation (TLTRO) organized by the European Central Bank for commercial banks. As the Bank had positive net lending in the TLTRO reporting period, the Bank had an opportunity to borrow 13 million euros at the first TLTRO phase. At first, borrowing was secured by bonds but the longer-term objective is to secure borrowings by business loans, requiring the adoption of an internal-ratings-based (IRB) approach by the Group. As a net lender, the Group has an opportunity to increase its participation in the TLTRO type of programmes.

Through a shares and subordinated bonds issue by the Bank's parent entity, AS LHV Group, the Bank's share capital was increased by 6 million euros at the end of the year and the amount of subordinated bonds by 3 million euros.

The Group's level of own funds at 31.12.2015 was 73,1 (31.12.2014: 56,5) million euros. The bank is well-capitalised as at the end of the reporting period with a capital adequacy level of 19,2% (31.12.2014: 19,0%).

AS LHV Pank and its subsidiary AS LHV Finance are included in the calculation of capital adequacy. The Group uses the standard method for the calculation of credit risk and market risk capital requirements and the basic indicator approach for the calculation of operational risk capital requirements. The Group has complied with all capital requirements during the financial year and in previous year.

Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

Leverage ratio, calculated according to Basel Committee on Banking Supervision requirements, as at 31.12.2015 was 6,5% (31.12.2014: 6,9%). Leverage ratio is calculated as bank’s total Tier 1 own funds divided by 's total risk exposure measure (incl risk position on assets and off the balance sheet liabilities). As at the end of the reporting period, the leverage ratio is arithmetic mean of the monthly leverage ratios over the last quarter.

Statement of profit or loss, EUR million	**2015**	**2014**	**change**
net interest income	18,76	13,04	44%
net fee and commission income	4,85	3,33	46%
net gains from financial assets	0,12	0,34	-66%
total net operating revenues	23,73	16,71	42%
other income	0,09	0,03	181%
operating expenses	-15,38	-11,50	34%
loan losses	-0,67	-1,00	-33%
discontinued operations	2,18	1,92	13%
net income	9,94	6,16	62%

Volumes, EUR million	**31.12.2015**	**31.12.2014**	**Change**
loan portfolio	405,4	298,0	36%
bond portfolio	103,0	142,5	-28%
deposits	629,0	462,0	36%
equity	61,4	45,2	36%
number of customers holding assets in bank	83 081	61 170	35%

Key figures, EUR million	**2015**	**2014**	**Change**
net profit	9,9	6,2	60%
net profit attributable to owners of the parent	9,4	6,0	57%
average equity	52,8	35,9	47%
return on equity (ROE) % *	17,8	16,7	1.1
Average assets	633	471	34%
Return on assets (ROA) %	1,6	1,3	0.3
net interest income	18,8	13,0	44%
average interest earning assets	628	443	42%
net interest margin (NIM) %	2,98	2,94	0.04
spread %	2,90	3,75	-0.9
cost/income ratio %	65%	68,7%	-0.04

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

Explanations

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

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

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

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

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

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

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

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

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

Risk Management

The purpose of risk management is to identify, assess, manage and control all risks related to the activities of the Group. The principles of identification, measuring, reporting and control of risks at the Group are set out in the policies and procedures approved by the supervisory board and daily risk management is organised by Risk management unit. The purpose of the risk management is to identify, assess, monitor and manage all risks related with LHV Group in order to ensure the LHV Group's reliability, stability and profitability. In the Group, risk management is based on three lines of defence. Business units as the first line of defence are responsible for taking and managing risks. The second line of defence – which includes the risk management unit – is responsible for developing and maintenance of the risk management framework. The third line of defence, internal audit function, carries out independent control over processes, operations and control functions in the entire Group. The rules and procedures of risk management are regularly reviewed at least once a year and updated in case of a need.

Detailed overview of the risks taken by the Group is presented in Note 3 of the annual report.

Capital base *(in EUR thousands)*	**31.12.2015**	**31.12.2014**
Paid-in share capital	51 500	45 500
Statutory reserves paid in from net profit	396	118
Accumulated deficit	-1 099	-6 796
Intangible assets (subtracted)	-626	-522
Net profit for accounting period	9 407	5 999
Non-controlling interests	535	186
Total Tier 1 capital	**60 113**	**44 485**
Subordinated debt	15 000	12 000
Total Tier 2 capital	**15 000**	**12 000**
Net own funds for capital adequacy calculation	**75 113**	**56 485**
Capital requirements		
Credit institutions and investment companies under standard method	5 292	7 929
Companies under standard method	265 870	180 283
Retail claims under standard method	81 109	81 580
Overdue claims under standard method	3 918	2 052
Other assets under standard method	3 933	3 461
Total capital requirements for covering the credit risk and counterparty credit risk	**360 121**	**275 305**
Capital requirement against foreign currency risk	182	148
Capital requirement against interest position risk	1 947	2 043
Capital requirement against equity portfolio risks	87	96
Capital requirement for operational risk under base method	28 734	19 194
Total capital requirements for adequacy calculation	**391 071**	**296 786**
Capital adequacy (%)	**19,21**	**19,03**
Tier 1 Capital Ratio (%)	**15,38**	**14,99**

Management and compensation policy

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

General meeting

The general meeting of shareholders is the highest governing body of LHV Pank where shareholders invoke their rights.

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

General meetings of shareholders are called by the management board. The annual general meeting of shareholders held for approval of the annual report is held at least once per annum.

The sole shareholder of LHV Pank is AS LHV Group. Shareholders with significant ownership interest in AS LHV Group are Rain Lõhmus and persons related to him with 28.0% and Andres Viisemann and persons related to him with 10.6%.

Supervisory board

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

The supervisory board of LHV Pank has six members. The supervisory board is comprised of Erkki Raasuke, Rain Lõhmus, Andres Viisemann, Tiina Mõis, Heldur Meerits and Raivo Hein.

Management board

The management board is a governing body of LHV Pank that represents and manages LHV Pank. The management board has three to seven members. The term of the management board member's powers is five years, unless otherwise decided by the supervisory board. The chairman of the management board organises the work of the management board. The company may be represented by two management board members jointly in each transaction.

The management board of LHV Pank has six members. In September of 2015, there was a change in the Chief Financial Officer of the bank. Meelis Paakspuu became the new Chief Financial Officer and member of the management board, replacing Martin Lengi. The management board is comprised of Erki Kilu, Andres Kitter, Indrek Nuume, Jüri Heero, Meelis Paakspuu and Martti Singi.

Committees

The supervisory board of AS LHV Group, the sole shareholder of LHV Pank, has formed two committees on the AS LHV Group level, the aim of which is to advise the supervisory board of AS LHV Group in matters pertaining to audit and compensation as described below concerning all of the group companies that are part of AS LHV Group.

Audit committee

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

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

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

Compensation committee

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

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

Compensation policy

The policy of compensating members of the management board and employees of LHV Pank is set and its implementation is evaluated by the compensation committee established on the level of AS LHV Group.

A monthly base salary is paid to members of the management board and employees of LHV Pank. A supplementary monthly incentive salary is paid to a small number of employees directly engaged in sales and new customer acquisition. The base salaries of members of the management board are determined by the supervisory board and the base salaries of employees are determined by the management board. The chairman of the management board is employed on the basis of service contract, everyone else is employed under employment contracts.

The Bank has made no major severance payments nor significant non-cash compensations.

Share options

In 2014, the general meeting of shareholders of AS LHV Group approved the criteria for the granting of share options to the management board members and equivalent employees and department managers and equivalent employees of group companies that are part of AS LHV Group. The aim of issuing share options is to align the interests of management board members and employees more effectively with the interests of shareholders and customers. Another objective is to offer a system of compensation on the labour market that is equal to competitors and comprehensive. Similarly to 2014 the share options were issued also in 2015 and in 2016.

The granting and size of share options was dependent upon the successful achievement of operational targets of the overall company and the targets of individual management board members and employees. In the beginning of 2016 share options were granted to six members of the management board of LHV Pank and thirty six employees in the total amount of 598 thousand euros. In 2014 share options were granted to five members of the management board of LHV Pank and twenty three employees in the total amount of 426 thousand euros. The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options issued in 2014 can be exercised between the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share. Share options issued in 2015 can be exercised between the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro can be acquired for 2,4 euros per share. Share options issued in 2016 can be exercised between the period of 01.05.2019-31.07.2019 and shares with nominal value of 1 euro can be acquired for 3,0 euros per share.

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

Wages and salaries

The table below provides wages and salaries paid and the number of employees who received salaries and wages during the year (including trainees).

Calculated gross salaries and wages *(EUR thousand)*	**Base salary**	**Incentive salary**	**Total**	**Number of employees**
Retail banking	2 112	65	2 177	116
Private and corporate banking	914	44	958	36
Support services	1 487	0	1 487	71
Information technology	1 226	0	1 226	60
Total	**5 739**	**109**	**5 848**	**283**

Business environment

2015 was marked by the emergence of geopolitical risks to the fore, the growth slowdown in the world economy, commodity prices continued to fall and low inflation rate. The IMF forecast for this year expected global economic growth and consumer prices increase in the well-developed countries. Short-term interest rates will remain low, but the US Federal Reserve raising interest rates indicated by the European and American divergent points of interest policy.

However, the world economy is the biggest concern of the sharper-than-expected slowdown in Chinese economic growth. The direct effect is coming through a deflationary pressures causing decline in commodity prices for oil and metals, but the decline in import volumes will negatively affect the entire global demand. In August, the Chinese government devalued the yuan, nearly 3% and a further 0.5% in January 2016. As China has publicly precluded exchange rate as manipulation tool of monetary policy to improve the economy's competitiveness, there are questions raised of possible future of China's monetary policy steps.

US economic indicators have remained strong, so after seven years of stagnation, Federal Reserve raised interest rates in December. Future changes depend on the particular set of employment and inflation targets, although expectations are to increase interest rates further.

The European Central Bank introduced stimulus measures first quarter of 2015. Still the growth of consumer prices was not achieved. According to Eurostat, the euro area consumer prices rose by only 0.2% in December compared with the previous year. Despite the increase in the money supply, the euro exchange rate against major currencies has not been lowered and didn’t create an additional incentive for the competitiveness of exporters.

Euro area quarterly economic growth in the third quarter was 0.3%, which is slightly slower than in the first quarter, reflecting a slowdown in German exports in particular. However, the IMF raised the overall growth expectations for the euro area in 2016.

The economy of Estonia's most important trading partner Sweden showed a broad-based growth in the third quarter. On the negative side, Sweden has entered into increasingly serious housing shortages, and real estate related prices have increased rapidly. The Finnish economy turned back into recession after two quarters, despite the growth in domestic demand.

The export volumes and investments in growth expectations decline were the reasons why the Bank of Estonia lowered significantly economic growth forecasts in December 2015. Inflation seen recovering, which, together with the slowdown in the pace of wage growth is pressure on private consumption. Employment rates continue to remain high.

LHV expectations for the next twelve months are moderately optimistic. Economic growth is accelerating, and the volume of investments will increase, albeit at a slowing pace. With the rate of growth in real wages and private consumption expected to decelerate, this is bound to affect the trade and real estate sector - the biggest contributors to economic growth in the last quarters. The situation on Estonia's key export markets is becoming increasingly important, along with dispersion of the export-related concentration risk.

The risks are higher than average in agriculture, transport and tourism sectors. A significant decline in the price of oil, which is mainly more favourable for local industry and private consumers, has put the energy industry facing serious challenges. LHV is also taking a more cautious approach to the real estate market, carefully monitoring the dynamics on the local and Scandinavian markets. Supply has increased with regard to both residential space and rental properties. On a positive note, the number of transactions has remained high.

According to the Bank of Estonia the loan balances by credit institutions in 2015 eleven-month period increased by 8%. Historically low interest rates and strong competition among banks have positively affected local businesses.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income

(in thousands of euros)	Note	2015	2014
Continuing operations			
Interest income		22 436	15 594
Interest expense		-3 678	-2 560
Net interest income	5	**18 758**	**13 034**
Fee and commission income		6 942	4 499
Fee and commission expense		-2 090	-1 166
Net fee and commission income	6	**4 852**	**3 333**
Net gains from financial assets measured at fair value	10	44	338
Foreign exchange rate gains/losses		70	3
Other financial income		1	0
Net gains from financial assets		**115**	**341**
Other income		87	31
Staff costs	7	-8 065	-6 067
Administrative and other operating expenses	7	-7 317	-5 434
Profit before impairment losses on loans and advances		**8 430**	**5 238**
Impairment losses on loans and advances	12	-670	-1 005
Net profit for the year from continuing operations		**7 760**	**4 233**
Profit from discontinued operations	11	**2 181**	**1 922**
Net profit for the year		**9 941**	**6 155**
Other comprehensive income/loss			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Revaluation of available-for-sale financial assets	9	-17	21
Total profit and other comprehensive income for the year		**9 924**	**6 176**
Total profit attributable to:			
Owners of the parent		9 406	5 999
Non-controlling interest		535	156
Total profit for the year		**9 941**	**6 155**
Total profit and other comprehensive income attributable to:			
Owners of the parent		9 389	6 020
Incl. continuing operations		*7 208*	*4 098*
Incl. discontinued operations		*2 181*	*1 922*
Non-controlling interest		535	156
Total profit and other comprehensive income for the year		**9 924**	**6 176**

Notes on pages 16 to 65 are an integral part of the consolidated financial statements.

LHV

Consolidated statement of financial position

(in thousands of euros)	Note	31.12.2015	31.12.2014
Assets			
Due from central bank	8	199 844	45 427
Due from credit institutions	8	11 442	22 482
Due from investment companies	8	15 922	14 484
Available-for-sale financial assets	9	3 508	4 273
Financial assets at fair value through profit or loss	10	99 511	138 290
Assets of discontinued operations, classified as held for sale	11	0	15 473
Loans and advances to customers	12	405 410	297 980
Receivables from customers	13	970	361
Other financial assets	14	940	783
Other assets	14	525	702
Tangible assets	15	606	236
Intangible assets	15	625	522
Total assets		**739 303**	**541 013**
Liabilities			
Deposits from customers and loans received	16	644 767	479 117
Financial liabilities at fair value through profit or loss	10	89	302
Accounts payable and other liabilities	17	18 078	4 233
Liabilities of discontinued operations, classified as held for sale	11	0	220
Subordinated debt	19	15 000	12 000
Total liabilities		**677 934**	**495 872**
Equity			
Share capital	20	51 500	45 500
Statutory reserve capital		419	118
Other reserves	9	-23	-6
Retained earnings/accumulated deficit		8 705	-704
Total equity attributable to owners of the parent		**60 601**	**44 908**
Non-controlling interest		768	233
Total equity		**61 369**	**45 141**
Total liabilities and equity		**739 303**	**541 013**

Notes on pages 16 to 65 are an integral part of the consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

Consolidated statement of cash flows

(in thousands of euros)	Note	2015	2014
Cash flows from operating activities			
Interest received		23 004	15 191
Interest paid		-3 618	-2 279
Fees and commissions received		6 942	4 502
Fees and commissions paid		-2 090	-1 166
Other income received		87	31
Staff costs paid		-7 667	-5 875
Administrative and other operating expenses paid		-6 519	-4 812
Cash flows from operating activities before change in operating assets and liabilities		**10 139**	**5 592**
Net increase/(decrease) in operating assets:			
Net acquisition/disposal of trading portfolio		-16	-6
Loans and advances to customers		-94 546	-109 004
Term deposits with other credit institutions		1	-1
Mandatory reserve at central bank		-1 640	-1 101
Security deposits		-157	-133
Other assets		201	-400
Net increase/(decrease) in operating liabilities:			
Demand deposits of customers		168 048	112 617
Term deposits of customers		-999	-6 920
Loans received		5 645	14 666
Repayments of loans received		-7 221	-1 110
Financial liabilities held for trading at fair value through profit or loss		-213	-131
Other liabilities		13 705	730
Net cash from/(used in) operating activities from continuing operations		**92 947**	**14 796**
Cash generated from/(used in) operating activities from discontinued operations		2 781	1 865
Net cash from/(used in) operating activities		**95 728**	**16 661**
Cash flows from investing activities			
Purchase of tangible and intangible assets	15	-1 271	-489
Proceeds from disposal and redemption of investment securities available for sale		782	7 730
Net changes of investment securities at fair value through profit or loss	10	38 805	-107 208
Cash from investment activities of discontinued operations	11	61	0
Net cash from/(used in) investing activities		**38 377**	**-99 967**
Cash flows from financing activities			
Paid in share capital	20	6 000	12 000
Proceeds from subordinated debt	19	7 000	8 000
Repayment of subordinated debt	19	-4 000	-6 000
Net cash from financing activities		**9 000**	**14 000**
Effect of exchange rate changes on cash and cash equivalents		**70**	**3**
Net increase/(decrease) in cash and cash equivalents		**143 175**	**-69 303**
Cash and cash equivalents at the beginning of the year	8	77 895	147 198
Cash and cash equivalents at the end of the year	**8**	**221 070**	**77 895**

Notes on pages 16 to 65 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in thousands of euros)	Attributable to owners of the parent						
	Share capital	Statutory reserve capital	Other reserves	Accumulated deficit/ retained earnings	Total	Non-controlling interest	Total equity
Balance as at 01.01.2014	**33 500**	**0**	**-27**	**-6 678**	**26 795**	**77**	**26 872**
Transfer to statutory reserve capital (Note 20)	0	118	0	-118	0	0	**0**
Paid in share capital (Note 20)	12 000	0	0	0	12 000	0	**12 000**
Share options (Note 20)	0	0	0	93	93	0	**93**
Profit for the year	*0*	*0*	*0*	*5 999*	*5 999*	*156*	***6 155***
Other comprehensive income	*0*	*0*	*21*	*0*	*21*	*0*	***21***
Total profit and other comprehensive income for 2014	0	0	21	5 999	6 020	156	**6 176**
Balance as at 31.12.2014	**45 500**	**118**	**-6**	**-704**	**44 908**	**233**	**45 141**
Balance as at 01.01.2015	**45 500**	**118**	**-6**	**-704**	**44 908**	**233**	**45 141**
Transfer to statutory reserve capital (Note 20)	0	301	0	-301	0	0	**0**
Paid in share capital (Note 20)	6 000	0	0	0	6 000	0	**6 000**
Share options (Note 20)	0	0	0	304	304	0	**304**
Profit for the year	*0*	*0*	*0*	*9 406*	*9 406*	*535*	***9 941***
Other comprehensive loss	*0*	*0*	*-17*	*0*	*-17*	*0*	***-17***
Total profit and other comprehensive income	0	0	-17	9 406	9 389	535	**9 924**
Balance as at 31.12.2015	**51 500**	**419**	**-23**	**8 705**	**60 601**	**768**	**61 369**

Notes on pages 16 to 65 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the year ended 31 December 2015 for AS LHV Pank (the "Bank") and its subsidiary AS LHV Finance (together hereinafter: the Group or LHV). AS LHV Pank holds 65% interest in AS LHV Finance.

AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia (till 31.03.2016), Lithuania and until 9th January 2015 in Finland (discontinued operations). There are offices for client servicing in Tallinn, Tartu, Riga (will be closed 31.03.2016) and Vilnius. The business activity of the branch office in Helsinki was sold in January 2015. LHV is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt. 2, Tallinn. As at 31.12.2015, the Group employed total of 248 people, including 13 non-active employees (as at 31.12.2014: 208 people, 12 non-active employees). LHV Finance offers hire-purchase services to merchants and consumer loans.

The consolidated annual report (incl. financial statements) was approved by the management board on 9 March 2016. The consolidated annual report will be presented for approval to the sole shareholder AS LHV Group. Rain Lõhmus, who owns 28,0% of the voting rights and Andres Viisemann, who owns 10,6% of the voting rights (see also Note 20), have significant influence over AS LHV Group.

The consolidated annual report approved by the management board shall be authorised for approval by the supervisory board and shareholders. The shareholders have the right not to approve the consolidated annual report while the supervisory board does not have that right.

NOTE 2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as: "financial assets and liabilities at fair value through profit or loss", including derivatives and assets available for sale.

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

The financial year started at 1 January 2015 and ended at 31 December 2015. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these financial statements which became mandatory for the Group's reporting periods beginning on or after 1 January 2015. The overview of these standards and the Group management's estimate of the potential impact of applying the new standards and interpretations are stated below.

(a) **Adoption of new or revised standards and interpretations**

The following new or revised standards and interpretations became effective for the Group from 1 January 2015.

IFRIC 21, Levies (effective in the EU for annual periods beginning on or after 17 June 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The application of the standard did not have any significant impact on the Group`s financial statements.

Annual improvements to IFRSs 2013 (effective in the EU for annual periods beginning on or after 1 January 2015). The improvements consist of changes to the following standards.
The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. The application of the amendments do not have significant impact on the Group`s financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that have a material impact on the Group.

(b) **New accounting pronouncements**

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2016, and which the Group has not early adopted.

IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Key features of the new standard are as follows:
Financial assets are required to be classified into three measurement categories:

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

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group is currently assessing the impact of the new standard on its financial statements.

Annual improvements to IFRSs 2012 (effective in the EU for annual perios beginning on or after 1 February 2015). The improvements consist of changes to seven standards.
IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The application of the amendments do not have significant impact to the Group`s financial statements.

Annual improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - amendments to IAS 1 (effective in the EU for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality, aggregation of information, presenting subtotals, the structure of financial statements and disclosing accounting principles. , The Group is currently assessing the impact of the amendments on its financial statements.

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

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

IFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

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

2.2 Consolidation

The 2015 consolidated financial statements include the financial statements of AS LHV Pank (parent company) and its subsidiary AS LHV Finance.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to,variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition method of accounting is used to account for the acquisition of subsidiaries (except for acquisitions among enterprises under common control) and business operations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. According to the acquisition method, the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary are recognized at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

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

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

Intercompany transactions balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless transaction provides evidence of an impairment of the asset transferred.

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

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

In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 25), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group’s equity and is shown on separate line in equity as a portion of the non-controlling interest share in Group’s subsidiary’s equity. Non-controlling interest in the consolidated statement of financial position is disclosed separately from the equity attributable to the shareholders of the parent company. In consolidated statement of profit or loss and other comprehensive income, non-controlling interest share of profit is disclosed separately from owner’s of the parent.

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

2.4 Cash and cash equivalents

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

2.5 Financial assets

The Group classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition. Refer to Note 4 for information about reclassification of held-to-maturity financial investments to available-for-sale financial assets. Since March 2013 the Group has no held-to-maturity financial investments, refer to Note 9.

	IAS 39 category	Class (applied by the Group)		2015	2014
Financial assets	Loans and receivables	Loans and advances to banks and investment companies		227 208	82 393
		Loans and advances to customers	Loans to legal entities	353 731	267 567
			Loans to individuals	51 679	30 754
		Other receivables		970	361
		Other financial assets		940	783
	Financial assets at fair value through profit or loss	Securities held for trading	Equity securities	43	27
			Listed debt securities	99 468	138 263
			Derivatives	0	0
	Available-for-sale financial assets	Investment securities	Listed debt securities	3 508	4 273
	Held-to-maturity financial investments	Investment securities	Listed debt securities	0	0

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include

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

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

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

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

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

Financial assets designated at fair value through profit or loss at inception - securities are classified into this group, if the Group has upon initial recognition designated the securities to be recorded as at fair value through profit or loss and as a result the changes in the fair value of these securities are consistently recognised in the profit or loss of the reporting period in the statement of profit or loss.
Financial assets and financial liabilities are designated at fair value through profit or loss when certain investments, such as debt or equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Refer to Note 3.6 for fair value of financial assets.

(a) Held-to-maturity financial investments

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

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

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

(b) Available-for-sale financial assets

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

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and receivables are initially recognised at fair value plus transaction costs, and are derecognised only when they are repaid or written-off. After initial recognition, the Group recognises loans and receivables at amortised cost (less principal repayments and any potential impairment losses, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest method. In case of credit cards the borrower's actual use of limit is recorded in the statement of financial position.
Finance lease transactions are lease transactions under which all significant risks and rewards from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of minimum lease payments (plus any unguaranteed residual value of the leased asset). Each lease payment received from the lessee is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. When there are service fees and initial direct attributable to the conclusion of lease agreements, they are included in the calculation of the effective interest rate of the lease and calculation of a finance lease receivable. The basis for assessing receivables is the timely fulfilment of contractual obligations, the estimated market price of the leased asset and excess collateral, the financial position and reliability of the customer. Impairment of receivables reduces the respective asset category in the statement of financial position.
Loans restructured because of significant changes in contract terms are recognised as new loans when a new loan has been issued, incl. refinancing an existing loan or increasing an existing loan for payment of the loan principal, interest, overdue penalties or other fees related to it. Loans which include a change in other contractual terms as a result of deterioration of the customer's credit quality do not qualify for derecognition.

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

The impairment of loans and advances is assessed in accordance with the principles described in clause 2.6.

2.6 Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

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

Interest income on loans is presented on the statement of profit or loss under "Interest income".

2.7 Discontinued operations

A discontinued operation is a component of the Group that is classified as held for sale, and represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Non-current asset or disposal group is classified as held for sale when their carrying amount is to be covered principally through a sale transaction rather than through continuing use, and the sale is considered highly probable within 12 months. The disposal group is recognized at carrying amount or fair value less costs to sell, depending on which is lower. The carrying amount of the assets of LHV Finnish branch, which are recognized as discontinued operations at the end of 2014, is equal to their fair value. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented. Intragroup transactions between discontinued and countuing operations are eliminated depending on whether the transactions will continue after the sale transaction.

2.8 Tangible fixed assets

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

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

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

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

2.9 Intangible assets

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

2.10 Financial guarantees and performance guarantees

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

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

2.11 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

b) financial liabilities measured at amortised cost

Recognition of a financial liability (derivative) at fair value through profit or loss is disclosed under accounting policy 2.5.a. All other financial liabilities are subsequently measured at amortised cost using the effective interest method. Transaction costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in the statement of profit or loss during the term of the instrument, using the effective interest rate. Interest costs are included in the statement of profit or loss line "Interest expenses".

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

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

2.12 Payables to employees

Payables to employees include unpaid salary accruals and a vacation pay accrual calculated in accordance with employment contracts and the laws in force in employee residential country as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance payments is included within current liabilities in the statement of financial position and as staff costs in the statement of profit or loss.

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

2.13 Share-based payments

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

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

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

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

2.14 Provisions and contingent liabilities

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

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

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

2.15 Distinction between short- and long-term assets and liabilities

Assets from which resources are expected to flow to the Group within 12 months are recognised as current assets. The portion of assets with expected inflows later than 12 months after the balance sheet date is recognised as non-current assets (see Note 3.4).

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

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

2.16 Revenues and expenses

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

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

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

Interest income and expense is recognised in the statement of profit or loss for all financial instruments carried at amortised cost using the effective interest method or for debt securities measured at fair value through profit or loss. Transaction costs of debt securities measured at fair value through profit or loss is recognised as part of effective interest method.

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

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

Dividend income is recognised when the legal right to receive dividends is established and inflow of economic benefits are probable.

2.17 Asset management services

The Group is engaged in providing asset management services (Note 21). Such assets have been given to the Group to be managed by third parties and these assets are recorded off-balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.18 Leases - Group as the lessee

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

Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the lease term. The Group primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of profit or loss as “Administrative and other operating expenses”.

2.19 Taxation and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate as of January 1st 2015 is 20/80 (21/79 until 31.12.2014) on net dividends paid. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Corporate income tax in other countries

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

Corporate income tax rates	2015	2014
Latvia	15%	15%
Lithuania	15%	15%
Finland	20%	20%

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

A deferred income tax liability in respect of the Group's available equity which would accompany the payment of available equity as dividends, is not reported in the statement of financial position. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in the Note 20 to the financial statements.

2.20 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. More detailed information in Note 3.8.

2.21 Statutory reserve capital

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

NOTE 3 Risk management

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

3.1 Capital management

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

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

The amount of capital that the Group managed as of 31.12.2015 was 75 113 thousand euros (31.12.2014: 56 485 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, having necessary capital to ensure economic preservation and enabling financing of new profitable growth opportunities;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorb losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided into: 1) regulated minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowering of the regulated minimum capital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will ensure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires maintaining higher capital buffer.

Own funds	**31.12.2015**	**31.12.2014**
Paid-in share capital	51 500	45 500
Statutory reserves transfered from net profit	396	118
Accumulated deficit	-1 099	-6 796
Intangible assets (subtracted)	-626	-522
Net profit for accounting period	9 406	5 999
Non-controlling interests	535	186
Total Tier 1 own funds	**60 113**	**44 485**
Subordinated debt	15 000	12 000
Total Tier 2 own funds	**15 000**	**12 000**
Total net own funds	**75 113**	**56 485**
Capital adequacy (%)	**19,21**	**19,03**
Tier 1 Capital Ratio (%)	**15,38**	**14,99**

The net capital of a credit institution at any time shall be equal to or exceed the minimum amount of share capital prescribed in the Credit Institutions Act (EUR 5 million). In 2014, the capital of banks and investment firms in the European Union became subject to a new legal framework (CRD IV/CRR), largely based on the Basel III framework that was agreed in the Basel Committee on Banking Supervision. The objective of the new legal framework is to strengthen the resilience of the financial sector to adverse economic shocks and thereby ensure an adequate and sustainable financing of the economy. Significant changes implemented by the new requirements include the requirement for credit institutions to maintain a higher level and quality of capital than before and a unified framework for designing liquidity buffers. The new capital requirements directive also define measures for macro-financial supervision that member states can use to control the behaviour of credit institutions in amplifying the cycles and to alleviate risks arising from market structure.

The regulation, which is directly applicable in the member states, obligates all credit institutions operating in the European Union (including their consolidating holding companies) and investment firms to maintain 4,5% of common equity tier 1 (CET 1) and 6,0% of Tier 1 Capital against risk assets. The overall capital adequacy requirement (CAD), including both tier one and tier two capital, remains at the existing 8,0% level.

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

In Estonia, in addition to the baseline capital requirements, credit institutions have been subjected to capital maintenance and systemic risk buffers, which are 2,5% (imposed by the Financial Supervisory Authority) and 2,0% (imposed by Estonian Central Bank), respectively. As the aforementioned buffers are incremental to the Tier 1 and the total baseline capital requirements, the minimum Tier 1 requirement in Estonia is 10,5% and the total capital requirement is 12,5%. The latter is also subject to the specific supplementary Pillar 2 requirement applicable to credit institutions. An overview of capital requirements is provided in the table below:

Capital requirements	**CET1**	**Tier 1**	**CAD**
Base capital requirement	4,50%	6,00%	8,00%
Capital conservation buffer	2,50%	2,50%	2,50%
Systemic risk buffer	2,00%	2,00%	2,00%
Capital requirements total	**9,00%**	**10,50%**	**12,50%**

Each year, the Bank's supervisory board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks. Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

Capital adequacy and the use of regulatory capital are monitored by the Finance Department. Reports about the compliance with prudential and capital requirements for covering the risks are submitted regularly to supervision authorities. LHV uses standard method for calculating capital requirements for credit and market risk and basic indicator approach calculating operational risk capital requirement. The Bank has complied with all capital requirements during the financial year and in previous year.

3.2 Credit risk

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

3.2.1 Distribution of credit risks

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

a) debt securities
b) loans and advances to central bank and credit institutions (referred to as "banks" in the tables) and investment companies
c) leveraged loans (loans secured by debt or equity securities), incl. repo loans
d) corporate loans and overdraft
e) consumer loans without collateral
f) credit cards and overdraft to individuals
g) leasing
h) hire-purchase
i) mortgage loans
j) financial guarantees
k) unused loan commitments

Maximum exposure to credit risk *(in thousands of euros)*	**31.12.2015**	**31.12.2014**
Loans and advances to banks and investment companies (note 8)	227 208	82 393
Financial assets at fair value (debt securities) (note 9, note 10)	103 019	142 563
Loans and advances to customers (note 12)	405 410	297 980
Receivables from customers (note 13)	970	361
Other financial assets (note 14)	940	783
Total assets	**737 547**	**524 080**
Loans and advances of discontinued operations, classified as held for sale (note 11)	0	15 413
Exposures related to off-balance sheet items (note 22), excluding performance guarantees	131 065	79 985
Total maximum exposure to credit risk	**868 612**	**619 478**

a) Debt securities

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

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

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

Ratings distribution	FVTPL			AFS	Total 31.12.2015
	Investment portfolio	Liquidity portfolio	Trading portfolio		
AAA	43 041	44 208	0	2 910	90 159
AA- to AA+	0	2 078	0	0	2 078
A- to A+	6 948	0	51	598	7 597
BBB- to BBB+	0	0	2 148	0	2 148
B- to BB+	994	0	0	0	994
Total (Note 9, 10)	**50 983**	**46 286**	**2 199**	**3 508**	**102 976**

Ratings distribution	FVTPL			AFS	Total 31.12.2014
	Investment portfolio	Liquidity portfolio	Trading portfolio		
AAA	18 414	92 231	0	3 261	113 906
AA- to AA+	1 001	12 152	286	0	13 439
A- to A+	3 551	0	2 543	609	6 703
BBB- to BBB+	4 823	0	3 262	403	8 488
B- to BB+	0	0	0	0	0
Total (Note 9, 10)	**27 789**	**104 383**	**6 091**	**4 273**	**142 536**

b) Loans and advances to banks and investment companies

Management estimates that the credit risk exposure from cash and cash equivalents, held at the central bank, other correspondent banks and investment institutions has inherently low credit risk. No loans and advances to central bank, credit institutions and investments companies are overdue. The funds of the Group according to ratings given by Standard & Poor's or equivalent (central bank without a rating) are held as follows:

Rating	Credit institutions	Inv. companies	Total 31.12.2015	Credit institutions	Inv. companies	Total 31.12.2014
Central bank (The Bank of Estonia)	199 844	0	199 844	45 427	0	45 427
AA- to AA+	0	0	0	1 899	0	1 899
A- to A+	4 385	15 785	20 170	18 145	14 268	32 413
BBB to BBB+	233	0	233	164	0	164
Non-rated	6 824	137	6 961	2 274	216	2 490
Total (Note 8)	**211 286**	**15 922**	**227 208**	**67 909**	**14 484**	**82 393**

c) Leveraged loans

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

Stress tests are carried out for evaluating the credit risk of leveraged loans in order to determine potential losses in case of changes in the value of collateral and for evaluating the credit risk of other loans, the probability of the lender becoming insolvent, the amount of loans not covered by collateral at the time of insolvency and the amount of the resulting related expected loss is assessed. If necessary, decisions are made in respect of allocating additional risk capital in order to cover credit risk.

The Bank had no impaired leveraged loans as at 31.12.2015 (31.12.2014: EUR 18 thousand).

d) Corporate loans and overdraft

Corporate loans are evaluated on individual basis. Each customer is assigned a credit rating between 1-13, where 1 means the lowest probability of default and 13 indicates insolvency. Credit rating is assigned to a customer considering combination of financial status and business risk. Financial status is the basis for financial rating focusing on the company's assets and liabilities structure, profitability, cash-flows and estimated results. The emphasis of financial analysis is focused on the following period to the loan issuance. In parallel with financial analysis the company's business risk, including management and owners, market situation and competition, diversification and history of activities, the quality of information and previous payment behaviour is analysed. Where there is consolidation group involved, credit risk for the whole group is evaluated. Credit rating is assigned by credit analyst and confirmed by Head of Credit, but final decision of risk taking is the unanimous decision by the Credit Committee.

The requirements for loan collateral are established in the Credit Policy of AS LHV Group and specified in Credit Risk management rules of the Bank. The preferred collateral is where there is no strong correlation between the clients default risk and value of the collateral. In general, the pledged assets need to be secured, the life of the collateral needs to be longer than the due date of the loan and the market value of the collateral needs to exceed the outstanding loan balance.

After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. All client ratings are reviewed at least once a year. See Note 3.2.2. for more detailed information on the credit quality of loans. As at 31.12.2015, the group based impairment reserve makes up 0,6% of corporate loans and overdraft and the related interest receivables (31.12.2014: 0.7%).

e) Consumer loans without collateral

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. The Group has entered into agreements where overdue consumer loans are sold – usually when loans reaching overdue of 70 days. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). Consumer loans are classified as performing (less than 90 days overdue and are not terminated), non-performing (more than 90 days overdue and/or terminated) and doubtful (original loan schedule has expired and there has been no cash flows received for continuous period of 6 months, fraud case, etc.). Loss rates are calculated from the past historical data for defaults and full history of recoveries. PD and LGD values are updated at least once a year with new historical data in order to maintain adequate provision levels on portfolio. If necessary, additional impairments will be made in the statement of financial position. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

As at 31.12.2015, the group-based impairment reserve makes up 1,5% of consumer loans and the related interest receivables (31.12.2014: 9,2% includes the impairment reserve of discontinued operations).

f) Credit cards

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

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2015, the group-based impairment reserve amounted to 3,1% of credit card loans and related receivables (31 December 2014: 3,1%).

g) Leasing

In autumn 2012, LHV Pank started to offer leasing products for individuals and legal entities. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2015, the group-based impairment reserve amounted to 0,9% of leasing portfolio (31.12.2014: 0,9%).

h) Hire-purchase

The Group offers hire-purchase services for merchants through its subsidiary LHV Finance. The creditworthiness of customers is assessed by using scoring models, which mainly consist of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2015, the group-based impairment reserve amounted to 1,4% of hire-purchase (31.12.2014: 1,6%).

i) Mortgage loans

In 2013 the Group started to offer on a limited bases mortgage loans to customers in Tallinn and Tartu region only.

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

As of 31 December 2015, the group-based impairment reserve amounted to 0,5% of mortgage loan portfolio (31.12.2014: 0,0%).

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

Loans and advances to customers 31.12.2015	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Collective impair-ment	Individual impairment	**Net**
Loans to legal entities							
Loans to other subsidiaries of the parent company	33 091	0	0	**33 091**	0	0	**33 091**
Corporate loans	254 238	572	2 330	**257 140**	-1 101	-456	**255 583**
Overdraft	29 380	0	168	**29 548**	-114	-15	**29 419**
Hire-purchase	211	0	9	**220**	-1	-4	**215**
Leveraged loans	4 733	0	0	**4 733**	0	0	**4 733**
Leasing	29 152	1 716	0	**30 868**	-291	0	**30 577**
Credit card loans	118	0	0	**118**	-5	0	**113**
Loans to individuals							
Consumer loans	6 425	0	2	**6 427**	-52	-1	**6 374**
Hire-purchase	17 995	431	215	**18 641**	-192	-107	**18 342**
Leveraged loans	2 712	0	0	**2 712**	0	0	**2 712**
Leasing	5 364	153	0	**5 517**	-51	0	**5 466**
Mortgage loans	15 395	0	0	**15 395**	-77	0	**15 318**
Credit card loans	3 451	0	52	**3 503**	-77	-28	**3 398**
Overdraft	69	0	0	**69**	0	0	**69**
Total (Note 12)	**402 334**	**2 872**	**2 776**	**407 982**	**-1 961**	**-611**	**405 410**

Loans and advances to customers 31.12.2014	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to legal entities							
Loans to other subsidiaries of the parent company	27 074	0	0	27 074	0	0	**27 074**
Corporate loans	201 921	2 475	3 110	207 506	-1 185	-329	**205 992**
Overdraft	6 871	0	0	6 871	-27	0	**6 844**
Hire-purchase	64	0	0	64	-1	0	**63**
Leveraged loans	4 164	0	0	4 164	0	0	**4 164**
Leasing	22 324	1 240	15	23 579	-208	0	**23 371**
Mortgage loans	0	0	0	0	0	0	**0**
Credit card loans	61	0	0	61	-1	-1	**59**
Loans to individuals							
Hire-purchase	12 138	277	182	12 597	-150	-46	**12 401**
Leveraged loans	5 014	0	18	5 032	0	-18	**5 014**
Leasing	4 040	102	0	4 142	-38	0	**4 104**
Mortgage loans	5 980	0	0	5 980	0	0	**5 980**
Credit card loans	2 753	0	145	2 898	-65	-24	**2 809**
Overdraft	92	0	0	92	0	0	**92**
Other loans to individuals	0	13	0	13	0	0	**13**
Total loans and advances to customers (Note 12)	**292 496**	**4 107**	**3 470**	**300 073**	**-1 675**	**-418**	**297 980**
Consumer loans (discontinued operations) (Note 11)	7 866	0	8 450	16 316	-569	-934	**14 813**
Total	**300 362**	**4 107**	**11 920**	**316 389**	**-2 244**	**-1 352**	**312 793**

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

As part of risk analysis, the Group is regularly performing stress tests and sensitivity analysis regarding credit risk and its components (such as probability of default (PD), loss given default (LGD)). Collective impairment credit assessment of the Group is based on historical loss rate and credit rating. The Group has performed stress test scenarios when PD and LGD estimations will both increase by 10 percent (for example, from 1,0% to 1,1%). The impact of the described stress test to impairments is aggregated in the table below. The table includes loans which have collective impairment (therefore excluding leveraged loans) and which have material balances and potential impact.

Impact to impairment as at 31.12.2015 (in case PD and LGD levels will increase by 10%)	Balance as at 31.12.2015	Impairment with increased PDs and LGDs	Impact to impairment booked
Loans to legal entities			
Corporate loans (including overdraft)	286 688	-1 936	-250
Leasing	30 868	-347	-60
Loans to individuals			
Consumer loans	6 427	-117	-20
Hire-purchase	18 641	-303	-43
Mortgage loans	15 395	-93	-16
Leasing	5 517	-64	-11
Credit card loans	3 503	-128	-22
Total	**367 039**	**-2 988**	**-422**

Impact to impairment as at 31.12.2014 (in case PD and LGD levels will increase by 10%)	Balance as at 31.12.2014	Impairment with increased PDs and LGDs	Impact to impairment booked
Loans to legal entities			
Corporate loans (including overdraft)	214 377	-1 834	-320
Leasing	23 579	-251	-43
Loans to individuals			
Hire-purchase	12 597	-238	-42
Leasing	4 142	-46	-8
Credit card loans	2 898	-108	-19
Total	**257 593**	**-2 477**	**-432**

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

Distribution of internal ratings of corporate loans:

- 1 – minimum credit risk. The rating is only assigned on the basis of the ratings of rating agencies. The average of the ratings assigned by rating agencies must be the equivalent of at least AAA (Moody's Aaa).
- 2 – minimum credit risk. The rating is only assigned on the basis of the ratings of rating agencies. The average of the ratings assigned by rating agencies must be the equivalent of at least AA+ (Moody's Aa1).
- 3 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least AA- (Moody's Aa3).
- 4 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least A- (Moody's A3).
- 5 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB+ (Moody's Baa1).
- 6 – low credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB (Moody's Baa2).
- 7 – average credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BBB- (Moody's Baa3).
- 8 – average credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BB (Moody's Ba2).
- 9 – heightened credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least BB- (Moody's Ba3).
- 10 – high credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least B+ (Moody's B1).
- 11 – high credit risk. The rating is assigned on the basis of the assessments of rating agencies or LHV. The average rating of rating agencies must be the equivalent of at least B- (Moody's B3).
- 12 – non-satisfactory rating. The rating is assigned on the basis of the assessments of rating agencies or LHV. The Credit Analyst deems the company's financial position to be sufficiently weak indicating a very high probability of default. The average rating of rating agencies must be the equivalent of at least C (Moody's Caa3).
- 13 – the obligor is in default.

Distribution of corporate loans and overdraft by internal ratings as of 31.12.2015	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total
4 low credit risk	1 041	0	0	1 041
5 low credit risk	3 460	0	0	3 460
6 low credit risk	44 205	0	0	44 205
7 medium credit risk	83 089	0	0	83 089
8 medium credit risk	58 680	0	0	58 680
9 heightened credit risk	69 775	0	0	69 775
10 high credit risk	15 736	0	0	15 736
11 high credit risk	6 825	0	0	6 825
12 non-satisfactory rating	751	3	0	754
13 insolvent	56	569	2 498	3 123
Total	**283 618**	**572**	**2 498**	**286 688**

Distribution of corporate loans and overdraft by internal ratings As of 31.12.2014	Neither past due nor impaired	Past due, but not impaired	Individually impaired	Total
4 low credit risk	1 149	0	0	1 149
5 low credit risk	1 029	0	0	1 029
6 low credit risk	32 916	158	0	33 074
7 medium credit risk	48 667	0	0	48 667
8 medium credit risk	57 043	0	0	57 043
9 heightened credit risk	42 297	0	0	42 297
10 high credit risk	18 236	146	0	18 382
11 high credit risk	6 293	0	0	6 293
12 non-satisfactory rating	1 127	1 561	2 926	5 614
13 insolvent	35	610	184	829
Total	**208 792**	**2 475**	**3 110**	**214 377**

The Group considers the loan as non-performing and assesses impairment when the loan payments have not been collected by the due date and/or the expected cash flows from the realization of collateral are not sufficient for covering the carrying amount of the loan principal and interest payments. The Group evaluates these loans individually. In case of individual evaluation, the amount of the impairment loss is the difference between the carrying value of the receivable and expected cash flows discounted at the effective interest rate. In 2015, the Group provisioned corporate loans in the total amount of EUR 31 thousand (2014: EUR 671 thousand).

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

In addition to loans issued, loan agreements have been concluded and signed for the unused loan commitment amount of 125 696 thousand euros at 31.12.2015 (31.12.2014: 77 086 thousand euros), see Note 22.

In the following table there are presented unused portions of corporate loans and financial guarantee limits. In addition to that as at 31.12.2015 the Group has also committed to grant mortgage loans, hire-purchase loans, consumer loans, overdraft loans and credit card loans in total amount of 27 564 thousand euros (31.12.2014: 12 994 thousand euros) and a loan to the other subsidiary of the parent company AS LHV Group of 7 000 thousand euros (2014: 3 000 thousand euros). No provisions have been made for off-balance sheet liabilities because the value of collateral exceeds the value of potential liabilities. All uncommissioned loans available to individuals have at least “Good” internal rating as at the end of each reporting period.

Credit quality of off-balance sheet liabilities (unused loan commitments for corporate loans and financial guarantees)	31.12.2015	31.12.2014
4 low credit risk	0	0
5 low credit risk	722	5 055
6 low credit risk	10 896	5 344
7 medium credit risk	31 133	18 384
8 medium credit risk	47 669	27 763
9 heightened credit risk	5 959	6 366
10 high credit risk	122	1 003
12 non-satisfactory rating	0	76
Total (Note 22)	**96 501**	**63 991**

Distribution of internal ratings for other loan products:

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

The following table does not include other loans to individuals in amount of 13 thousand euros that were past due but not impaired as of 31.12.2014.

As of 31.12.2015	Leveraged loans	Credit cards	Leasing	Hire-purchase	Over-draft	Mortgage loans	Consumer loans	Total
Neither past due nor impaired								
Excellent	7 445	0	0	0	0	0		**7 445**
Good and very good	0	3 569	34 516	18 206	69	15 395	6 425	**78 180**
Past due, but not impaired								
Good	0	0	1 717	313	0	0		**2 030**
Satisfactory	0	0	123	118	0	0		**241**
Weak or doubtful	0		29		0	0	2	**31**
Individually impaired								
Weak or doubtful	0	52	0	224	0	0		**276**
Total	**7 445**	**3 621**	**36 385**	**18 861**	**69**	**15 395**	**6 427**	**88 203**

As of 31.12.2014	Leveraged loans	Credit cards	Leasing	Hire-purchase	Over-draft	Mortgage loans	Total	Discontinued operations
Neither past due nor impaired								
Excellent	9 178	0	0	0	0	0	**9 178**	0
Good and very good	0	2 814	26 364	12 202	92	5 980	**47 452**	7 863
Past due, but not impaired								
Good	0	0	961	218	0	0	**1 179**	0
Satisfactory	0	0	218	59	0	0	**277**	0
Weak or doubtful	0	0	163	0	0	0	**163**	0
Individually impaired								
Weak or doubtful	18	145	15	182	0	0	**360**	8 450
Total	**9 196**	**2 959**	**27 721**	**12 661**	**92**	**5 980**	**58 609**	**16 316**

Loans and advances to customers by collateral type and fair value are presented in the following table. Under-collateralized loans are included in the line „Unsecured loans".

Loans against collateral as at 31.12.2015	Loans to other subsidiaries of the parent company	Corporate loans (including overdraft)	Leveraged loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	0	7 445	0	0	0	0	7 445
Unlisted equity securities	0	55 984	0	0	0	0	0	55 984
Mortgages, real estate	0	165 548	0	0	0	0	15 395	180 943
Guarantee of KredEx and Rural Development Foundation	0	12 271	0	0	0	0	0	12 271
Pledges of rights of claim	33 091	5 746	0	0	0	0	0	38 837
Deposits	0	4 534	0	0	0	0	0	4 534
Leased assets	0	0	0	0	36 385	18 861	0	55 246
Others	0	8 362	0	0	0	0	0	8 362
Unsecured loans	0	34 243	0	10 048	0	0	0	44 291
Total	**33 091**	**286 688**	**7 445**	**10 048**	**36 385**	**18 861**	**15 395**	**407 913**

Loans against collateral as at 31.12.2014	Loans to other subsidiaries of the parent company	Corporate loans (including overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0		9 178	0	0	0	0	9 196
Unlisted equity securities	0	29 179	0	0	0	0	0	29 179
Mortgages, real estate	0	115 412	0	0	0	0	6 085	137 393
Guarantee of KredEx and Rural Development Foundation	0	13 839	0	0	0	0	0	13 839
Pledges of rights of claim	27 074	26 712	0	0	0	0	0	53 786
Deposits	0	3 338	0	0	0	0	0	3 338
Leased assets	0		0	0	27 721	12 661	0	40 382
Others	0	8 825	0	0	0	0	0	8 825
Unsecured loans	0	17 072	18	2 959	0	0	0	4 135
Total	**27 074**	**214 377**	**9 196**	**2 959**	**27 721**	**12 661**	**6 085**	**300 073**

Unsecured loans in the year 2014 include credit card loans and also include Finnish consumer loans, which is presented as discontinued operation. Unsecured corporate loans were issued to the government sector.

Collaterals for leveraged loans are monitored on daily basis and if collateral value is falling, immediate measures are taken to avoid credit losses. As of 31 December 2015, all leveraged loans and repurchase loans are over-collateralized. In 2014 there was one under-collateralized loan in the amount of EUR 18 thousand, which has been provisioned. Consumer loans and credit card loans are issued without collateral and risk mitigation is done by regular monitoring of clients payment behaviour. Leasing, hire-purchase, mortgage loans and overdraft to private individuals are all over-collateralized. The Group monitors customers in arrears of leasing and hire-purchases on regular basis.

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

Under-collateralized loans include contracts more than 90 days overdue totalling 2 211 thousand (2014: 602 thousand) euros with a collateral value of 1 926 thousand (2014:543 thousand) euros.

	Over-collateralized loans		Under-collateralized loans	
Corporate loans and corporate credit lines	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
As at 31.12.2015	223 903	766 558	62 785	28 542
As at 31.12.2014	164 587	311 982	49 790	31 543

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

As at 31.12.2015	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables							
1-30 days	3	0	0	1 717	313	0	**2 033**
31-60 days	49	0	0	123	118	0	**290**
61-90 days	7	0	0	1	0	0	**8**
91-180 days	170	0	0	28	0	0	**198**
181-360 days	343	0	0	0	0	0	**343**
more than 360 days	0	0	0	0	0	0	**0**
Total	**572**	**0**	**0**	**1 869**	**431**	**0**	**2 872**

As at 31.12.2014	Corporate loans	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables							
1-30 days	412	0	0	961	218	0	**1 591**
31-60 days	55	0	0	218	59	0	**332**
61-90 days	2 008	0	0	163	0	0	**2 171**
91-180 days	0	0	0	0	0	0	**0**
181-360 days	0	0	0	0	0	0	**0**
more than 360 days	0	0	0	0	0	0	**0**
Total	**2 475**	**0**	**0**	**1 342**	**277**	**0**	**4 094**

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

As at 31.12.2015	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
No past due payments	0	0	0	0	0	0	**0**
Past due receivables							
61-90 days	353	0	1	0	29	2	**385**
91-180 days	0	0	13	0	23	0	**36**
181-360 days	2 038	0	18	0	172	0	**2 228**
more than 360 days	107	0	20	0	0	0	**127**
Total	**2 498**	**0**	**52**	**0**	**224**	**2**	**2 776**

As at 31.12.2014	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Total	Disconti-nued operations
No past due payments	2 432	0	0	0	0	**2 432**	**0**
Past due receivables							
1-30 days	0	0	75	0	0	**75**	3 810
31-60 days	0	0	15	0	0	**15**	1 518
61-90 days	0	0	0	0	41	**41**	594
91-180 days	570	0	13	15	49	**647**	1 220
181-360 days	108	0	18	0	66	**192**	1 308
more than 360 days	0	18	18	0	26	**62**	0
Total	**3 110**	**18**	**145**	**15**	**182**	**3 470**	**8 450**

Credit quality of other receivables	31.12.2015	31.12.2014
Receivables not impaired and not past due	1 876	1 077
Receivables past due (not impaired)	35	67
incl. receivables from individuals	7	33
incl. receivables from legal persons	28	34
Total (Note 13, 14)	**1 911**	**1 144**

As of 29 February 2016, other receivables of 15 thousand euros are uncollected and in previous years, the Group has not written off any receivables. Other financial assets (see Note 16) in amount 940 (31.12.2014: 783) thousand euros are guarantee deposits on the Baltic stock exchanges held to guarantee securities trading activity on the stock exchanges of Tallinn, Riga and Vilnius and the deposits of VISA and MasterCard to guarantee credit card transactions. The Group considers the counterparties credit risk as very low.

3.3 Market risk

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

3.3.1 Foreign currency risk

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

As at 31.12.2014 the LTL position was insignificant due to Lithuania's euro adoption as of 1'st of January 2015. Information regarding assets and liabilities bearing currency risk is presented in the following tables.

A sensitivity analysis has been performed for the effect of possible reasonable changes attributable to open currency positions on the total comprehensive income, with the assumption of other conditions remaining constant.

Impact on comprehensive income	Change	2015	2014
USD exchange rate	+/-10%	+/-4	+/-0
SEK exchange rate	+/-10%	+/-1	+/-0
GBP exchange rate	+/-10%	+/-1	+/-0
CHF exchange rate	+/-10%	+/-1	+/-0

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in euro equivalent in respective columns, according to the exchange rate prevailing at the balance sheet date. Derivatives reported at fair value in the statement of financial position have been included at contractual amounts under off-balance sheet assets and liabilities. Open currency exposure and the volume of financial assets and liabilities of the Group at the balance sheet date do not significantly differ from the average exposure during the year. The balances of total assets and total liabilities bearing currency risk do not include currency futures at their fair value, but they are shown here at their full contractual cash flow amounts as off-balance sheet assets and liabilities ; also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

31.12.2015	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 8)	215 555	1 638	1 101	587	7 338	988	**227 208**
Financial assets at fair value (Note 9,10)	64 797	0	0	1	38 213	8	**103 019**
Loans and advances to customers (Note 12)	404 217	0	0	79	1 070	44	**405 410**
Receivables from customers (Note 13)	889	0	0	0	81	0	**970**
Other financial assets (Note 14)	233	0	0	0	707	0	**940**
Total assets bearing currency risk	**685 692**	**1 638**	**1 101**	**667**	**47 409**	**1 040**	**737 547**
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 16)	591 125	1 605	2 549	353	48 279	857	**644 767**
Financial liabilities at fair value (Note 10)	89	0	0	0	0	0	**89**
Accounts payable and other financial liabilities (Note 17)	3 041	45	2 902	308	9 219	799	**16 314**
Subordinated debt (Note 19)	15 000	0	0	0	0	0	**15 000**
Total liabilities bearing currency risk	**609 254**	**1 650**	**5 451**	**661**	**57 498**	**1 656**	**676 170**
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	**61 951**	**-12**	**10**	**6**	**39**	**-616**	**61 367**

31.12.2014	EUR	LTL	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 8)	78 639	368	576	538	1 507	765	**82 393**
Financial assets at fair value (Note 9,10)	95 926	2 970	0	2	43 664	1	**142 563**
Loans and advances to customers (Note 12)	296 954	70	6	19	915	16	**297 980**
Receivables from customers (Note 13)	359	0	0	0	2	0	**361**
Other financial assets (Note 14)	149	0	0	0	634	0	**783**
Total assets bearing currency risk	**472 027**	**3 408**	**582**	**559**	**46 722**	**782**	**524 080**
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 16)	420 969	808	275	521	55 866	678	**479 117**
Financial liabilities at fair value (Note 10)	302	0	0	0	0	0	**302**
Accounts payable and other financial liabilities (Note 17)	320	2 597	305	35	133	314	**3 704**
Subordinated debt (Note 19)	12 249	0	0	0	0	0	**12 249**
Total liabilities bearing currency risk	**433 840**	**3 405**	**580**	**556**	**55 999**	**992**	**495 372**
Open gross position derivative assets at contractual value	0	0	0	0	9 275	0	**9 275**
Open gross position derivative liabilities at contractual value	9 275	0	0	0	0	0	**9 275**
Open foreign currency position	**28 912**	**3**	**2**	**3**	**-2**	**-210**	**28 708**

3.3.2 Price risk

Financial instruments bearing price risk at LHV are securities held in the trading portfolio and investment portfolio (Note 9,10). At the Group, limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for debt securities in the investment portfolio. The risk management unit monitors the compliance with limits. The Group does not hold significant amounts of equity securities in its position, due to which the sensitivity to change in the market value of these positions is marginal. The Group's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 1,0% (2014: 0,9%).

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

Impact on statement of profit or loss	**2015**	**2014**
Equity securities +/-10%	+/-2	+/-2
Debt securities (FVTPL) +/-1,0% (+/-0,9%)	+/-995	+/-1 235
Debt securities (AFS) +/-1,0% (+/-0,9%)	+/-35	+/-38
Impact on other comprehensive income	**2015**	**2014**
Debt securities (AFS) +/-1,0% (+/-0,9%)	+/-35	+/-38

3.3.3 Interest rate risk

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

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

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

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

The deposits interest rates did not change in 2015 remaining at the level of up to 1,0 % (up to 1,0% in 2014).

The interest rates for leveraged loans granted are changed at most once a month according to fluctuations in market interest rates. In 2015, the interest rate on loans received for specific purposes was 1,4% (2014: 1,4%). The effective interest rate of subordinated debt entered into in 2014 was 7,44% (2014: 7,44%) and the effective interest rate of subordinated debt entered into in 2015 was 6,5%. The information about contractual interest rates is provided in Note 19.

As at 31.12.2015, an increase of 1 percentage point in interest rates would affect the Group's annual net interest income and profit by EUR +4 003 thousand (2014: EUR +2 114 thousand). In the same time, a decrease of 1 percentage point in interest rates would affect the Group's annual net interest income (profit) by EUR -2 361 thousand (2014: -1 766 thousand). A 1 percentage point increase in market interest rates would raise the Group's economical value, i.e. equity, by EUR 463 thousand (2014: EUR 3 318 thousand). A 1 percentage point decrease in market interest rates would decrease the Group's economical value (equity) by EUR -655 thousand (2014: EUR -1 452 thousand). The effect on the Group's economic value is positive due to the fact that the Group has majorly invested in current assets and because of the prolonged nature of demand deposits, hence the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

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

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

31.12.2015	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Subtotal**	**Accrued interest**	**Impairments**	**Total**
Interest-earning assets								
Due from banks and investment companies (Note 8)	227 208	0	0	0	**227 208**	0	0	**227 208**
Financial assets at fair value (debt securities) (Note 9,10)	27 023	60 281	11 046	2 592	**100 942**	2 077	0	**103 019**
Loans and advances to customers (Note 12)	184 816	186 468	34 764	264	**406 312**	1 670	-2 572	**405 410**
Total	**439 047**	**246 749**	**45 810**	**2 856**	**734 462**	**3 747**	**-2 572**	**735 637**
Interest-bearing liabilities								
Deposits from customers and loans received (Note 16)	66 039	208 943	367 190	1 824	**643 996**	771	0	**644 767**
Subordinated debt * (Note 19)	0	0	0	15 000	**15 000**	94	0	**15 094**
Total	**66 039**	**208 943**	**367 190**	**16 824**	**658 996**	**865**	**0**	**659 861**
Net interest sensitivity cap	**373 008**	**37 806**	**-321 380**	**-13 968**	**75 466**			

31.12.2014	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Subtotal**	**Accrued interest**	**Impairments**	**Total**
Interest-earning assets								
Due from banks and investment companies (Note 8)	82 393	0	0	0	**82 393**	0	0	**82 393**
Financial assets at fair value(debt securities) (Note 9,10)	72 562	55 921	8 130	2 592	**139 205**	3 358	0	**142 563**
Loans and advances to customers (Note 12)	112 198	132 516	50 037	3 827	**298 578**	1 495	-2 093	**297 980**
Total	**267 153**	**188 437**	**58 167**	**6 419**	**520 176**	**4 853**	**-2 093**	**522 935**
Interest-bearing liabilities								
Deposits from customers and loans received (Note 16)	76 145	180 589	219 525	2 269	**478 528**	589	0	**479 117**
Subordinated debt * (Note 19)	0	0	4 000	8 000	**12 000**	249	0	**12 249**
Total	**76 145**	**180 589**	**223 525**	**10 269**	**490 528**	**838**	**0**	**491 366**
Net interest sensitivity cap	**191 008**	**7 848**	**-165 358**	**-3 850**	**29 648**			

* The contractual term of subordinated debt received in 2015 is 10 years and the interest rate is fixed at 6,5%. The contractual term of received in 2014 is 10 years and the interest rate is 7,25%.

3.4 Liquidity risk

Liquidity risk relates to the solvency of LHV Pank to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. LHV Panks' liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, LHV Panks' liquidity management reflects a conservative approach towards liquidity risk. The liquidity risk management includes stress testing and business continuity plan for liquidity management. Stress testing framework includes a survival period metrics, which represents a combined liquidity risk scenario, including both idiosyncratic and market-wide stress. Internal metrics are complemented by the Basel III metrics - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which LHV Pank is fully compliant with as of 31.12.2015 and 31.12.2014. The aim of the liquidity coverage ratio (LCR) standard is to ensure that the bank has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The bank's liquidity coverage ratio level as at 31.12.2015 was 272% (2014: 189%).

The objective of the net stable funding ratio (NSFR) is to ensure that the bank has adequate stable funding sources to finance longer-term assets. According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the bank's NSFR level as at 31.12.2015 was 157% (31.12.2014: 139%). The net stable funding ratio will be imposed as minimum requirement from the year 2018.

The Treasury of LHV Pank is responsible for the management of liquidity risk. In order to hedge liquidity risk, the probable net position of receivables and liabilities by maturities is regularly monitored and adequate amounts of liquid assets are kept in each time period, also the concentration of bank's liabilities by maturities is monitored. To enable covering unexpected monetary outflows, LHV Pank holds a liquidity buffer. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the Treasury, which can be readily sold or used as a collateral in funding operations with the central bank. LHV Pank has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2015 and 31.12.2014, the Group does not have any debts past due.

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

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows andin a separate column the statement of financial position balance is disclosed. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows). Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6

31.12.2015	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 16)	444 897	66 578	110 230	23 284	716	**645 705**	**644 767**
Subordinated debt (Note 19)	0	260	779	4 155	19 324	**24 518**	**15 000**
Accounts payable and other financial liabilities (Note 17)	0	16 314	0	0	0	**16 314**	**16 314**
Unused loan commitments (Note 22)	0	125 696	0	0	0	**125 696**	**0**
Financial guarantees by contractual amounts (Note 22)	0	5 369	0	0	0	**5 369**	**0**
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	**14 487**	**0**
Financial liabilities at fair value (Note 10)	0	26	63	0	0	**89**	**89**
Total liabilities	**444 897**	**228 730**	**111 072**	**27 439**	**20 040**	**832 178**	**676 170**

Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 8)	227 208	0	0	0	0	**227 208**	**227 208**
Financial assets at fair value (debt securities) (Note 9,10)	0	19 250	69 575	11 901	2 771	**103 497**	**102 976**
Loans and advances to customers (Note 12)	0	32 258	93 894	303 389	19 297	**448 838**	**405 410**
Receivables from customers (Note 13)	0	970	0	0	0	**970**	**970**
Other financial assets (Note 14)	940	0	0	0	0	**940**	**940**
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	**14 487**	**0**
Total assets held for managing liquidity risk	**228 148**	**66 965**	**163 469**	**315 290**	**22 068**	**795 940**	**737 504**
Maturity gap from assets and liabilities	**-216 749**	**-161 765**	**52 397**	**287 851**	**2 028**	**-36 238**	**61 334**

31.12.2014	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying amount**
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 16)	276 833	76 666	110 303	15 292	982	**480 076**	**479 117**
Subordinated debt (Note 19)	0	465	645	3 453	14 893	**19 456**	**12 000**
Accounts payable and other financial liabilities (Note 17)	0	2 877	0	0	0	**2 877**	**2 877**
Unused loan commitments (Note 22)	0	77 086	0	0	0	**77 086**	**0**
Financial guarantees by contractual amounts (Note 22)	0	2 899	0	0	0	**2 899**	**0**
Foreign exchange derivatives (gross settled)	0	42 883	0	0	0	**42 883**	**0**
Financial liabilities at fair value (Note 10)	0	23	161	118	0	**302**	**302**
Total liabilities	**276 833**	**202 899**	**111 109**	**18 863**	**15 875**	**625 579**	**494 296**

Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 8)	81 413	980	0	0	0	**82 393**	**82 393**
Financial assets at fair value (debt securities) (Note 9,10)	0	55 499	51 540	32 599	5 147	**144 785**	**142 536**
Loans and advances to customers (Note 12)	0	17 419	62 123	226 927	27 174	**333 643**	**297 980**
Receivables from customers (Note 13)	0	361	0	0	0	**361**	**361**
Other financial assets (Note 14)	783	0	0	0	0	**783**	**783**
Foreign exchange derivatives (gross settled)	0	42 883	0	0	0	**42 883**	**0**
Total assets held for managing liquidity risk	**82 196**	**117 142**	**113 663**	**259 526**	**32 321**	**604 848**	**524 053**
Maturity gap from assets and liabilities	**-194 637**	**-85 757**	**2 554**	**240 663**	**16 446**	**-20 731**	**29 757**

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

(in thousands of euros)	**31.12.2015**	**31.12.2014**
Current assets		
Due from with central banks (Note 8)	199 844	45 427
Due from credit institutions (Note 8)	11 442	22 482
Due from investment companies (Note 8)	15 922	14 484
Available-for-sale financial assets (Note 9)	3 508	762
Financial assets at fair value through profit or loss (Note 10)	84 892	105 420
Assets of discontinued operations, classified as held for sale (Note 11)	0	15 473
Loans and advances to customers (Note 12)	112 717	76 512
Receivables from customers (Note 13)	970	361
Other financial assets (Note 14)	940	783
Other assets (Note 14)	525	702
Total current assets	**430 760**	**282 406**
Non-current assets		
Available-for-sale financial assets (Note 9)	0	3 511
Financial assets at fair value through profit or loss (Note 10)	14 619	32 870
Loans and advances to customers (Note 12)	292 693	221 468
Tangible assets (Note 15)	606	236
Intangible assets (Note 15)	625	522
Total non-current assets	**308 543**	**258 607**
Total assets	**739 303**	**541 013**
Liabilities		
Current liabilities		
Deposits from customers and loans received (Note 16)	621 778	467 377
Financial liabilities at fair value through profit or loss (Note 10)	89	302
Accounts payable and other liabilities (Note 17)	18 078	4 233
Liabilities of discontinued operations, classified as held for sale (Note 11)	0	220
Total current liabilities	**639 945**	**472 132**
Non-current liabilities		
Deposits from customers and loans received (Note 16)	22 989	11 740
Subordinated debt (Note 19)	15 000	12 000
Total non-current liabilities	**37 989**	**23 740**
Total liabilities	**677 934**	**495 872**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below. As at 31.12.2015, the loans issued to 8 customers and 1 correspondent banks (2014: total 7) had a large risk exposure, i.e. more than 10% of the net own funds (NOF) of LHV Pank either individually or via group risk, totaling 114% of NOF (2014: 117%).

The Group has invested in the bonds of 3 issuers (2014: 5) with a large risk exposure, totaling 80% of NOF (2014: 170%). In 2015 the Group granted loans to another subsidiary of the parent company totaling 33 091 thousand euros (2014: 24 074), which is 46% of the Group NOF (2014: 48%). Unused loan commitments in amount of 125 696 (2014: 77 086) thousand euros are for Estonian residents and 7 000 (2014: 3 000) thousand euros for other subsidiaries of the parent company.

31.12.2015	Estonia	Latvia	Lithuania	Finland	Nether-lands	Germany	EU	USA	Other	Total
Due from banks and investment companies (Note 8)	206 950	0	809	0	874	0	1 081	15 786	1 708	**227 208**
Financial assets at fair value (Note 9,10)	618	3 624	3 327	0	0	36 944	47 454	11 051	1	**103 019**
Loans and advances to customers (Note 12)	362 002	585	33 636	20	7	1	9 139	0	20	**405 410**
Receivables from customers (Note 13)	962	2	6	0	0	0	0	0	0	**970**
Other financial assets (Note 14)	108	0	0	0	0	0	0	832	0	**940**
Total financial assets	**570 640**	**4 211**	**37 778**	**20**	**881**	**36 945**	**57 674**	**27 669**	**1 729**	**737 547**
Deposits from customers and loans received (Note 16)	551 485	2 406	1 776	625	29	302	40 024	2 211	45 909	**644 767**
Subordinated debt (Note 19)	15 000	0	0	0	0	0	0	0	0	**15 000**
Accounts payable and other financial liabilities (Note 17)	16 271	0	0	27	0	0	13	3	0	**16 314**
Financial liabilities at fair value (Note 10)	89	0	0	0	0	0	0	0	0	**89**
Total financial liabilities	**582 845**	**2 406**	**1 776**	**652**	**29**	**302**	**40 037**	**2 214**	**45 909**	**676 170**

31.12.2014	Estonia	Latvia	Lithuania	Finland	Nether-lands	Germany	EU	USA	Other	Total
Due from banks and investment companies (Note 8)	61 139	295	1 430	1 902	550	0	2 691	14 268	118	**82 393**
Financial assets at fair value (Note 9,10)	611	4 026	3 385	0	285	14 313	76 287	43 656	0	**142 563**
Loans and advances to customers (Note 12)	264 008	521	27 867	2 444	15	0	3 108	0	17	**297 980**
Receivables from customers (Note 13)	352	2	6	0	0	0	0	0	1	**361**
Other financial assets (Note 14)	108	0	0	0	0	0	0	675	0	**783**
Total financial assets	**326 218**	**4 844**	**32 688**	**4 346**	**850**	**14 313**	**82 086**	**58 599**	**136**	**524 080**
Deposits from customers and loans received (Note 16)	406 604	1 556	1 680	361	2	125	53 992	598	14 199	**479 117**
Subordinated debt (Note 19)	12 000	0	0	0	0	0	0	0	0	**12 000**
Accounts payable and other financial liabilities (Note 17)	2 861	0	0	0	0	0	13	3	0	**2 877**
Financial liabilities at fair value (Note 10)	302	0	0	0	0	0	0	0	0	**302**
Total financial liabilities	**421 767**	**1 556**	**1 680**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**494 296**

Distribution of loans granted by industry (gross):	31.12.2015	%	31.12.2014	%
Individuals	52 264	12,8%	30 755	10,3%
Real estate	106 836	26,2%	87 503	29,2%
Financial services	79 978	19,6%	49 169	16,4%
Manufacturing	36 919	9,0%	26 751	8,9%
Professional, scientific and technical activities	2 482	0,6%	2 401	0,8%
Wholesale and retail	16 555	4,1%	14 798	4,9%
Other servicing activities	23 176	5,7%	7 629	2,5%
Art and entertainment	25 724	6,3%	24 810	8,3%
Transport and logistics	14 477	3,6%	10 468	3,5%
Agriculture	8 834	2,2%	8 058	2,7%
Administrative activities	11 355	2,7%	11 321	3,8%
Construction	6 632	1,6%	4 822	1,6%
Education	1 618	0,4%	1 714	0,6%
Information and communication	4 791	1,2%	4 049	1,3%
Other areas at activities	16 341	4,0%	15 825	5,2%
Total (Note 12)	**407 982**	**100%**	**300 073**	**100%**

Loans classified as discontinued operations are granted to private individuals.

3.6 Fair value of financial assets and financial liabilities

	Level 1	Level 2	Level 3	31.12.2015	Level 1	Level 2	Level 3	31.12.2014
Financial assets at fair value through profit or loss								
Shares and fund units (Note 10)	43	0	0	**43**	27	0	0	**27**
Available-for-sale debt securities (Note 9)	3 508	0	0	**3 508**	4 273			**4 273**
Debt securities at fair value through profit or loss (Note 10)	99 468	0	0	**99 468**	138 263	0	0	**138 263**
Total financial assets	**103 019**	**0**	**0**	**103 019**	**142 563**	**0**	**0**	**142 563**
Financial liabilities at fair value through profit or loss								
Interest rate swaps and foreign exchange forwards (Note 10)	0	**89**	0	**89**	**0**	**302**	0	**302**
Total financial liabilities	**0**	**89**	0	**89**	**0**	**302**	0	**302**

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

Levels used in hierarchy:

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

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

As at 31.12.2015 the fair value of corporate loans is EUR 49 thousand (0,02%) higher than their carrying amount (31.12.2014: 228 thousand, 0,1% lower). The loans have been issued at market conditions in the segment that the Group operates in and therefore their fair value is not much different from their carrying amount as at 31.12.2015 and 31.12.2014. The fair value level of corporate loans and overdraft is 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest). Interest rate used is the average interest rate of corporate loans issued in last 6 months of the reporting period (2015: 4,52%, 2014: 5,21%).

EUR thousand	Carrying value	Fair value	Difference	Level
31.12.2015	289 139	289 188	0,02%	3
31.12.2014	233 666	233 437	-0,1%	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 bank 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, hire-purchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

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

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

The subordinated debt in the amount of EUR 8 000 was received in 2014 and the remainder in 2015. These loans carry approximately equal interest rates (7,25% and 6,5%) and considering the short term between the loan received in Oct 2015 and the balance sheet date, it can be concluded that no material changes have occurred in interest rates as of the balance sheet date. Therefore, the fair value of loans does not differ significantly from their carrying amount. As significant management judgment is required to determine fair value, loans are classified as level 3 in the fair value hierarchy.

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

3.7 Operating risk

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

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

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

3.8 Offsetting assets and liabilities

The group has offsetted the following assets and liabilities:

31.12.2015	Gross amounts before offsetting in the statement of financial position	Offsetting	Net amount of exposure presented in the statement of financial position	Related arrangements not set off in the statement of financial position: Financial instru-ments	Related arrangements not set off in the statement of financial position: Cash collateral received	Net amounts
ASSETS						
Client receivables (leveraged loans, incl. repo loans) (Note 12)	7 445	0	7 445	-7 445	0	0
31.12.2014						
ASSETS						
Client receivables (leveraged loans, incl. repo loans) (Note 12)	9 196	0	9 196	-9 196	0	0

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of income and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 3.2, 8, 9, 10, 11 and 12).

According to IAS 39, the Group classified a portion of its bond portfolio as a held-to-maturity portfolio. At the start of 2013, the bank's management estimated that it does not intend to hold the investments until maturity and the bond portfolio that was held-to-maturity was reclassified as available-for-sale portfolio (see also Note 9). As a result of the reclassification of the portfolio, the Group's equity increased by EUR 2.2 million since the market value of the portfolio was higher than the amortised cost recognised in the statement of financial position. The difference between carrying amount and fair value of the portfolio was at first recognized in other comprehensive income and after selling most of the portfolio reclassified to statement of profit or loss. According to IAS 39 the Group cannot classify debt securities to held-to-maturity for the next two years because of the breach of held-to-maturity criteria set in IAS 39.

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

NOTE 5 Net interest income

Interest income	**2015**	**2014**
Loans to companies	14 250	9 768
incl. loans to related parties (Note 23)	*47*	*151*
Hire-purchase	3 694	1 924
Leasing	1 356	923
incl. loans to related parties (Note 23)	*3*	*4*
Loans to other Group companies	1 170	1 138
Leveraged loans and lending of securities	715	833
From debt securities	351	459
incl. debt securities available-for-sale	*36*	*79*
incl. debt securities at fair value through profit or loss	*315*	*380*
Credit card loans	408	326
Consumer loans	233	0
From balances with credit institutions and investment companies	91	37
From balances with central bank	-176	19
Other loans	344	167
incl. loans to related parties (Note 23)	*5*	*7*
Total	**22 436**	**15 594**
Interest expense		
Deposits from customers and loans received	-2 763	-1 773
Subordinated debt (Note 19, 23)	-915	-787
Total	**-3 678**	**-2 560**
Net interest income	**18 758**	**13 034**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	**2015**	**2014**
Estonia	20 868	13 837
Latvia	31	37
Lithuania	1 271	1 205
Total	**22 170**	**15 079**

Interests calculated on impaired loans in 2015 is EUR 88 (2014: 54) thousand.

NOTE 6 Net fee and commission income

Fee and commission income	**2015**	**2014**
Security brokerage and commission fees	2 572	2 176
incl. related parties (Note 23)	*0*	*1*
Asset management and related fees	1 032	756
Currency exchange fees	731	393
Fees from cards and settlements	2 128	770
Other fee and commission income	479	407
Total	**6 942**	**4 499**
Fee and commission expense		
Security brokerage and commission fees paid	-707	-518
Expenses related to cards	-619	-458
Expenses related to acquiring	-441	-66
Other fee and commission expense	-323	-124
Total	**-2 090**	**-1 166**
Net fee and commission income	**4 852**	**3 333**

Fee and commission income by customer location:	**2015**	**2014**
Estonia	6 519	4 158
Latvia	80	107
Lithuania	343	233
Total	**6 942**	**4 498**

NOTE 7 Operating expenses

	2015	**2014**
Wages, salaries and bonuses	6 154	4 592
Social security and other taxes*	1 911	1 475
Total staff costs	**8 065**	**6 067**
IT expenses	986	841
Information services and bank services	491	404
Marketing expenses	1 223	891
Office expenses	372	348
Transportation and communication costs	165	119
Training and travelling expenses of employees	229	175
Other outsourced services	1 141	434
Other administrative expenses	1 077	911
Depreciation	736	558
Operating lease payments	726	663
Other operating expenses	171	90
Total other operating expenses	**7 317**	**5 434**
Total operating expenses	**15 382**	**11 501**

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

The average number of employees working for the Group in 2015 was 210 (2014: 178).

NOTE 8 Due from central bank, credit institutions and investment companies

	31.12.2015	31.12.2014
Demand and term deposits with maturity less than 3 months*	27 364	36 966
Statutory reserve capital at central bank	6 138	4 498
Demand deposit from central bank*	193 706	40 929
Total	**227 208**	**82 393**
* cash and cash equivalents in the statement of cash flows	221 070	77 895

Distribution of receivables by countries is presented in Note 3.5.

Mandatory banking reserve as at 31.12.2015 was 1% (2014: 1%) of all financial resources taken in (Deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

NOTE 9 Available-for-sale financial assets

The Group has available-for-sale debt securities portfolio which resulted from reclassification of held-to-maturity portfolio in 2013. The balance of other reserve in equity as of 31.12.2015 is -23 thousand euros (31.12.2014: EUR -6 thousand).

In 2015, no gains or losses arose (2014: a gain of 4 thousand euros was recognized in statement of profit or loss) from the sales of debt securities.

Available-for-sale financial assets 31.12.2013	**11 903**
Proceeds from disposal of assets available-for-sale	-7 730
Interest income (Note 5)	79
Revaluation of available-for-sale assets	21
Available-for-sale financial assets 31.12.2014	**4 273**
Proceeds from disposal of assets available-for-sale	-784
Interest income (Note 5)	36
Revaluation of available-for-sale assets	-17
Available-for-sale financial assets 31.12.2015	**3 508**

NOTE 10 Financial assets and liabilities at fair value through profit or loss

Securities held for trading:	**31.12.2015**	**31.12.2014**
Shares and fund units	43	27
Debt securities	99 468	138 263
Total financial assets	**99 511**	**138 290**
Interest rate swaps and foreign exchange forwards	89	302
Total financial liabilities	**89**	**302**

Financial assets at fair value through profit or loss 31.12.2013	**30 796**
Net changes of investment securities at fair value through profit or loss	107 208
Interest income (Note 5)	380
Revaluation	-94
Financial assets at fair value through profit or loss 31.12.2014	**138 290**
Net changes of investment securities at fair value through profit or loss	-38 805
Interest income (Note 5)	315
Revaluation	-289
Financial assets at fair value through profit or loss 31.12.2015	**99 511**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2015, a gain of 124 thousand euros was recognised on the revaluation of bonds (2014: 280 thousand euros) and a loss arose on the revaluation of interest rate swaps in the amount of 12 thousand euros (2014: 70 thousand euros). Interest income from bonds is recognized in interest income.

NOTE 11 Discontinued operations

At 9th of January 2015, the Group disposed of the business of the branch in Finland, therefore in these financial statements assets and liabilities related to the branch are presented separately as assets and liabilities held for sale. The fair value of these assets and liabilities did not differ from their carrying amount at the time of sale. The effective interest rate of Finnish branch 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 consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Assets and liabilities	**31.12.2014**
Loans and advances	14 813
Tangible assets	60
Other long-term assets	600
Total assets	**15 473**
Accured expenses and deferred income	220
Total liabilities	**220**

Net income from discontinued operations:	**2015**	**2014**
Interest income	0	4 649
Fee and commissions income	0	384
Other financial income	2 936	0
Total expenses	-755	-3 111
Net profit for the year from discontinued operations	**2 181**	**1 922**

Information regarding credit quality of the Finnish branch loans and advances to customers is disclosed in Note 3.2.2. The maximum exposure to credit risk is the total balance at reporting date 14 813 thousand euros and the consumer loans are not collateralised. Analysis of the ageing of loans and advances to customers is disclosed in Note 3.2.2.

The changes in allowance account for credit losses is provided in Note 12. In 2014, the credit loss changes are presented in “Consumer loan” column, aggregated with other consumer loan losses. In 2014, the reclassification is presented in separate line “Re-classified impairment provisions from discontinued operations”.

NOTE 12 Loans and advances to customers

	31.12.2015	31.12.2014
Loans to legal entities	**355 718**	**269 319**
incl. loans to other subsidiaries of the parent company	33 091	27 074
incl. corporate loans	257 140	207 506
incl. overdraft	29 548	6 871
incl. hire-purchase	220	64
incl. leveraged loans	4 733	4 164
incl. leasing	30 868	23 579
incl. credit card loans	118	61
incl. mortgage loans	0	0
Loans to individuals	**52 264**	**30 754**
incl. consumer loans	6 427	0
incl. hire-purchase	18 641	12 597
incl. leveraged loans	2 712	5 032
incl. leasing	5 517	4 142
incl. credit card loans	3 503	2 898
incl. mortgage loans	15 395	5 980
incl. overdraft	69	92
Incl. other loans	0	13
Total	**407 982**	**300 073**
Impairment provisions	-2 572	-2 093
Total	**405 410**	**297 980**

As at 31.12.2015 loans have been issued to related parties in the amount of EUR 35 676 thousand and the loans have been issued on market terms (as at 31.12.2014 EUR 29 120 thousand). See also Note 23.

In 2015, the average effective interest rate of new consumer loans issued to individuals was 22-24%.The average effective interest rate for hire-purchase was around 24%, credit cards 13% and leasing 4%. The contractual interest rate of leveraged loans issued to individuals is generally equal to their effective interest rate, because no other significant fees have been received upon their issue.

Changes in impairments in 2015	**Corporate loans incl overdraft**	**Mortgage loans**	**Credit cards**	**Hire-purchase**	**Consumer loans**	**Leasing**	**Leveraged loans**	**Total**
Balance as at January 1	**-1 541**	**0**	**-91**	**-197**	**0**	**-246**	**-18**	**-2 093**
Impairment provisions set up during the year	-149	-77	-63	-227	-53	-95	0	-664
Written off during the year	4	0	44	119	0	0	18	185
Balance as at December 31	**-1 686**	**-77**	**-110**	**-305**	**-53**	**-341**	**0**	**-2 572**

Changes in impairments in 2014	**Corporate loans incl overdraft**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leveraged loans**	**Total**
Balance as at January 1	-870	-1 495	-83	-69	-147	-18	-2 682
Impairment provisions set up during the year	-671	-962	-43	-161	-132	0	-1 969
Written off during the year	0	954	35	33	33	0	1 055
Re-classified impairment provisions from discountinued operations	0	1 503	0	0	0	0	1 503
Balance as at December 31	**-1 541**	**0**	**-91**	**-197**	**-246**	**-18**	**-2 093**

Net and gross investments on leasings according to remaining maturity	Gross investment	Unearned future interest income	Impairment loss provision	Present value of lease payments receivable
up to 1 year	11 151	-1 074	-94	9 983
1-5 years	27 960	-1 487	-245	26 228
over 5 years	180	-4	-2	174
Total as at 31.12.2015	**39 291**	**-2 565**	**-341**	**36 385**
up to 1 year	8 306	-810	-66	7 430
1-5 years	21 598	-1 206	-179	20 213
over 5 years	275	-197	-0	78
Total as at 31.12.2014	**30 179**	**-2 213**	**-245**	**27 721**

For credit risk exposures and loan collateral, see Note 3.2. Distribution of loans granted by currencies is disclosed in Note 3.3. Distribution of loans granted by due dates is disclosed in Note 3.4. The regional distribution of loans granted is disclosed in Note 3.5. For interest income on loans granted, see Note 5.

NOTE 13 Receivables from customers

	31.12.2015	31.12.2014
Asset management fees from customers	5	48
Other fees for providing services to customers	957	252
Payments in transit	8	60
Other receivables related to collection of receivables	0	1
Total	**970**	**361**

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

NOTE 14 Other assets

	31.12.2015	31.12.2014
Financial assets		
Guarantee deposits of Baltic stock exchanges	8	8
Guarantee deposit of MasterCard and VISA	932	775
Subtotal	**940**	**783**
Non-financial assets		
Prepayments to Financial Supervision Authority	151	100
Other prepayments *	374	602
Subtotal	**525**	**702**
Total	**1 465**	**1 485**

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

NOTE 15 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2013			
Cost	1 752	1 095	2 847
Accumulated depreciation and amortisation	-1 336	-562	-1 898
Carrying amount	**416**	**533**	**949**
Changes in 2014:			
Purchase of non-current assets	125	364	489
Depreciation/amortisation charge	-245	-375	-620
Balance as at 31.12.2014			
Cost	1 877	1 459	3 336
Accumulated depreciation and amortisation	-1 581	-937	-2 518
Assets of discontinued operations, classified as held for sale	-60	0	-60
Carrying amount	**236**	**522**	**818**
Changes in 2015:			
Purchase of non-current assets	534	675	1 209
Depreciation/amortisation charge	-164	-572	-736
Write-off of non-current assets	-60	0	-60
Balance as at 31.12.2015			
Cost	2 411	2 134	4 545
Accumulated depreciation and amortisation	-1 805	-1 509	-3 314
Carrying amount	**606**	**625**	**1 231**

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

In 2015 and 2014, there was no indication of impairment of tangible and intangible assets.

NOTE 16 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	**31.12.2015 total**	Individuals	Legal entities	Public sector	**31.12.2014 total**
Demand deposits	127 084	314 555	3 179	444 818	77 492	198 077	1 199	276 768
Term deposits	81 949	97 421	4 299	183 669	78 637	99 915	6 117	184 669
Loans received	0	13 000	2 510	15 510	0	13 534	3 557	17 091
Accrued interest liability	322	419	29	770	315	249	25	589
Total	**209 355**	**425 395**	**10 017**	**644 767**	**156 444**	**311 775**	**10 898**	**479 117**
incl. related parties (Note 23)	*828*	*12 587*	*0*	*13 415*	*2 829*	*11 993*	*0*	*14 822*

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of 2 510 thousand euros (31.12.2014: 3 557 thousand) with an intended purpose to finance loans to small enterprises operating in rural areas and a loan from the European Central Bank, secured with the bond portfolio, in the amount of 13 028 thousand (31.12.2014: 13 005) euros and internest rate 0,15%. The nominal interest rates of most deposits from customers and loans received equal their effective interest rates as no other significant fees have been paid.

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

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

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

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NOTE 17 Accounts payable and other liabilities

Financial liabilities	**31.12.2015**	**31.12.2014**
Trade payables	1 951	1 404
Other short-term financial liabilities	681	515
Accrued interest on subordinated loans (Note 19)	94	249
Payments in transit	13 455	611
Financial guarantee contracts issued	133	98
Subtotal	**16 314**	**2 877**
Non-financial liabilities		
Prepaid expenses	137	0
Performance guarantee contracts issued	158	182
Tax liabilities	706	506
Payables to employees	763	668
Subtotal	**1 764**	**1 356**
Total	**18 078**	**4 233**

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 18 Operating lease

The Group leases office premises under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The future unilaterally non-cancellable lease payables in the next period are disclosed in the table below. In 2015, the operating lease payments for office premises in the amount of EUR 726 thousand (2014: EUR 663 thousand).

	Up to 1 year	**1 to 5 year**	**Total**
Non-cancellable lease payables as of **31.12.2014**	637	2 334	**2 971**
Non-cancellable lease payables as of **31.12.2015**	693	2 953	**3 646**

NOTE 19 Subordinated debts

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

In June 2014, subordinated bonds were issued totalling 8 000 thousand euros carrying a rate of interest at 7.25%. The due date of the bonds is 20 June 2024.

In June 2015, subordinated bonds were issued totalling 4 000 thousand euros carrying a rate of interest at 6,50%. The due date of the bonds is 29 October 2025.

In August 2015, subordinated bonds were issued totalling 3 000 thousand euros carrying a rate of interest at 6,50%. The due date of the bonds is 29 October 2025.

In June 2015 the issuer used the right to prematurely redeem the bonds issued in 2012 in the amount of EUR 4 000 thousand. These subordinated bonds were issued in 2012 and the due date of these bonds were 20 December 2020 and the interest rate was 7% during the first three-year period.

The balances of subordinated debt as at the end of each reporting period is disclosed in the table below. Interest liabilities are accounted in the statement of financial position using the effective interest rate.

(in thousands of euros)

Subordinated debt as at 31.12.2013	**10 000**
Subordinated bonds issued	8 000
Subordinated bonds redeemed	- 6 000
Subordinated debt as at 31.12.2014	**12 000**
Subordinated bonds redeemed	-4 000
Subordinated bonds issued	7 000
Subordinated debt as at 31.12.2015	**15 000**

(in thousands of euros)

Accrued interest on subordinated debts as at 31.12.2013	**25**
Interest calculated for 2014 (Note 5)	787
Paid out during 2014	-563
Accrued interest on subordinated debts as at 31.12.2014 (Note 17)	**249**
Interest calculated for 2015 (Note 5)	915
Paid out during 2015	-1070
Accrued interest on subordinated debts as at 31.12.2015 (Note 17)	**94**

NOTE 20 Shareholders' equity in the public limited company

The sole shareholder of the Group is a company registered in Estonia, AS LHV Group. Rain Lõhmus who owns 28,0% of the voting rights and Andres Viisemann who owns 10,6% of the voting rights in AS LHV Group have significant influence over the company (31.12.2014: 28% and 8,6%, respectively). According to the Company's articles of association, the minimum share capital is 25 million euros and the maximum share capital is 100 million euros (at 31.12.2014: 25 million euros and 100 million euros, respectively). The share capital is paid in full through cash contributions. In 2015, the share capital of AS LHV Pank was increased by 6 million euros and in 2014 by 12 million euros through a cash contribution by the sole shareholder AS LHV Group. The bank's share capital increased to 51,5 million euros by the year-end 2015.

As at 31.12.2015, the retained earnings of the Group amounted to 8 705 thousand euros (31.12.2014: accumulated loss of 704 thousand euros). Thus, as of 31.12.2015 it is possible to pay out dividends in amount 6 964 thousand euros and the related income tax charge would be 1 741 thousand euros. As in previous year LHV Group had accumulated deficit, it was not possible to pay dividends to the shareholders.

	31.12.2015	**31.12.2014**
Share capital (in EUR thousand)	51 500	45 500
Number of shares (pcs)	51 500 000	45 500 000
Par value of a share	1 EUR	1 EUR

In 2014, the general meeting of shareholders of AS LHV Group approved the criteria for the granting of share options to the management board members and equivalent employees and department managers and equivalent employees of group companies that are part of AS LHV Group. The aim of issuing share options is to align the interests of management board members and employees more effectively with the interests of shareholders and customers. Another objective is to offer a system of compensation on the labour market that is equal to competitors and comprehensive. Similarly to 2014 the share options were issued also in 2015.

In 2016 share options were granted to six members of the management board of LHV Pank and thirty six employees in the total amount of 598 thousand euros. In 2015 share options were granted to five members of the management board of LHV Pank and thirty five employees in the total amount of 510 thousand euros. In 2014 share options were granted to five members of the management board of LHV Pank and twenty three employees in the total amount of 426 thousand euros. The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options can be exercised after the expiry of a three-year period. Share options issued in 2014 can be exercised between the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share. Share options issued in 2015 can be exercised between the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro can be acquired for 2,4 euros per share. Share options issued in 2016 can be exercised between the period of 01.05.2019-31.07.2019 and shares with nominal value of 1 euro can be acquired for 3,0 euros per share.

NOTE 21 Assets under management

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

	31.12.2015	31.12.2014
Cash balance of customers	8 416	6 047
Securities of customers	**1 261 320**	**590 802**
incl. parent company (Note 23)	*56 759*	*50 051*
incl. shareholders of the parent company and related entities (Note 23)	*38 085*	*22 029*
Total	**1 269 736**	**596 849**

Asset management fees for the management of these assets have been in the range of 0,015 – 0,025 % (for, respective income, see Note 6).

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

NOTE 22 Contingent assets and liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Unused loan commitments	Total
Liability in contractual amount 31.12.2015	7 853	5 369	125 696	**138 918**
Liability in contractual amount 31.12.2014	6 892	2 899	77 086	**86 877**

Tax authorities have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines.

The tax authorities have not performed any tax audits at the Group during 2014 - 2015. The Group's management estimates that there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

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

According to sectors	2015	2014
Construction	5 525	4 912
Water supplies	1 789	1 472
Manufacturing	110	149
Professional, scientific and technical activities	77	3
Other areas at activities	352	356
Total	**7 853**	**6 892**

According to internal ratings	31.12.2015	31.12.2014
5 low credit risk	267	435
6 low credit risk	2 913	2 150
7 medium credit risk	3 284	2 608
8 medium credit risk	441	358
9 heightened credit risk	912	1 236
10 high credit risk	20	29
12 non-satisfactory rating	16	76
Total	**7 853**	**6 892**

Performance guarantees are over-collateralised as at each reporting date. Therefore, the Group has not borne any losses from performance guarantee contracts neither in 2015 nor in previous periods.

NOTE 23 Transactions with related parties

In preparing the financial statements of AS LHV Pank, the following entities have been considered related parties:

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

Transactions	Note	2015	2014
Interest income	**6**	**1 232**	**1 300**
incl. management		7	4
incl. entities in the consolidation group of the parent		1 225	1 296
Interest expenses	**6**	**915**	**845**
incl. management		*0*	*0*
incl. parent company		*770*	*782*
incl. shareholders, related entities and close relatives that have significant influence		*145*	*63*
Fee and commission income	**5**	**0**	**8**
incl. shareholders, related entities and close relatives that have significant influence		*0*	*1*
Other income		**33**	**46**
incl. shareholders, related entities and close relatives that have significant influence		*33*	*46*

Balances	Note	31.12.2015	31.12.2014
Loans and receivables as at the year-end	**12**	**35 676**	**29 120**
incl. management		*762*	*347*
incl. shareholders, related entities and close relatives that have significant influence		*34 914*	*28 773*
Loans received as at the year-end		**28 509**	**27 071**
incl. management	*16*	*764*	*162*
incl. parent company	*19*	*15 094*	*12 249*
incl. shareholders, related entities and close relatives that have significant influence	*16*	*12 651*	*14 660*

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

In 2014 the Group granted loans to another subsidiary of the parent company in amount of 3 million euros and in 2015 the Group granted additional loans of 7 million euros. The interest rate of this loan is dependant of financing cost and capital requirements of the Group and is changed on quarterly basis. As of 31.12.2015 the interest rate was 3,87% (31.12.2014: 3,86%). As of 31.12.2015 the Group has taken a commitment to grant loans up to 40 million euros.
As at 31.12.2015, the term deposits due to the management are with maturities in April to October 2016 with interest rates 0,9-1,0%. As at 31.12.2014, the management did not have term deposits and the interest rate on demand deposits corresponds to the overall price list applicable to customers.
The subordinated loan received in June 2014 has the interest rate of 7,25%. The subordinated debt received in June and in August 2015 have the interest rate of 6,5%.

The interest rate of all subordinated debt is the same as the parent is paying on its own subordinated loan received from a third party, and it deposited the funds at the Bank.
In 2015, salaries and other compensations paid to the management of LHV totalled 681 thousand EUR (2014: 426 thousand), including all taxes. The management board of the Bank had 6 members in 2015 like in 2014. As at 31.12.2015, remuneration for December and accrued holiday pay in the amount of EUR 55 thousand (as at 31.12.2014: 94 thousand) is reported as a payable to management (Note 17). The Group did not have any long-term payables or commitments to the members of the management board and the supervisory board as at 31.12.2015 and 31.12.2014 (pension liabilities, termination benefits, etc). In 2015 no remuneration was paid to the members of the supervisory board (2014: EUR 7 thousand).

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

Information on assets of related parties held as an account manager is presented in Note 21.

NOTE 24 Subsequent events

In January 2016 LHV Pank desided to close down its branch in Latvia

NOTE 25 Separate financial statements of parent company

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

Statement of profit or loss and other comprehensive income of the parent

(in thousands of euros)	**2015**	**2014**
Continuing operations		
Interest income	19 182	13 984
Interest expense	-3 678	-2 560
Net interest income	**15 504**	**11 424**
Fee and commission income	6 907	4 480
Fee and commission expense	-2 084	-1 161
Net fee and commission income	**4 823**	**3 319**
Net gains from financial assets measured at fair value	44	338
Foreign exchange rate losses	70	3
Dividends	1	0
Net gains from financial assets	**115**	**341**
Other income	90	36
Administrative and other operating expenses	-13 910	-10 489
Profit before impairment losses on loans and advances	**6 622**	**4 631**
Impairment losses on loans and advances	-390	-844
Net profit for the year from continuing operations	**6 232**	**3 787**
Profit from discontinued operations	**2 181**	**1 922**
Net profit for the year	**8 413**	**5 709**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Revaluation of available-for-sale financial assets	-17	21
Total profit and other comprehensive income for the year	**8 396**	**5 730**

Statement of financial position of the parent

(in thousands of euros)	31.12.2015	31.12.2014
Assets		
Due from central bank	199 844	45 427
Due from credit institutions	11 442	22 482
Due from investment companies	15 922	14 484
Available-for-sale financial assets	3 508	4 273
Other financial assets at fair value through profit or loss	99 511	138 290
Assets of discontinued operations, classified as held for sale	0	15 473
Loans and advances to customers	401 683	296 028
Receivables from customers	696	213
Other assets	1 461	1 482
Subsidiaries	325	325
Tangible assets	579	207
Intangible assets	520	408
Total assets	**735 491**	**539 092**
Liabilities		
Deposits from customers and loans received	644 767	479 117
Financial liabilities at fair value through profit or loss	89	302
Accrued expenses and other liabilities	16 050	2 405
Liabilities of discontinued operations, classified as held for sale	0	220
Subordinated debt	15 094	12 249
Total liabilities	**676 000**	**494 293**
Equity		
Share capital	51 500	45 500
Statutory reserve capital	419	118
Other reserves	-23	-6
Retained earnings/accumulated deficit	7 595	-813
Total equity	**59 491**	**44 799**
Total liabilities and equity	**735 491**	**539 092**

Statement of cash flows of the parent

(in thousands of euros)	**2015**	**2014**
Cash flows from operating activities		
Interest received	19 927	13 646
Interest paid	-3 657	-2 308
Fees and commissions received	6 907	4 483
Fees and commissions paid	-2 084	-1 161
Other operating income received	90	36
Staff costs paid	-7 134	-5 460
Administrative and other operating expenses paid	-5 702	-4 291
Cash flows from operating activities before change in operating assets and liabilities	**8 347**	**4 945**
Net increase/decrease in operating assets:		
Net acquisition/disposal of trading portfolio	-16	-6
Loans and advances to customers	-92 491	-107 918
Term deposits with other credit institutions	1	-1
Mandatory reserve at central bank	-1 640	-1 101
Security deposits	-157	-133
Other assets	177	-411
Net increase/decrease in operating liabilities:		
Demand deposits of customers	168 048	112 617
Term deposits of customers	-999	-6 920
Loans received and repayments	-1 576	13 556
Financial liabilities for trading at fair value through profit or loss	-213	-131
Other liabilities	13 404	206
Net cash generated from operating activities from continuing operations	**92 885**	**14 703**
Cash generated from operating activities from discontinued operations	2 781	1 865
Net cash generated from operating activities	**95 666**	**16 568**
Cash flows from investing activities		
Purchase of non-current assets	-1 209	-393
Proceeds from disposal and redemption of investment securities available for sale	784	7 730
Net changes of investment securities at fair value through profit or loss	38 803	-107 208
Investment in share capital of subsidiary	0	0
Cash from investment activities of discontinued operations	61	0
Net cash from/(used in) investing activities	**38 439**	**-99 871**
Cash flows from financing activities		
Paid in share capital	6 000	12 000
Proceeds from subordinated debt	3 000	2 000
Net cash from financing activities	**9 000**	**14 000**
Effect on exchange rate change on cash and cash equivalents	**70**	**0**
Net increase/(decrease) in cash and cash equivalents	**143 175**	**-69 303**
Cash and cash equivalents at the beginning of the year	77 895	147 198
Cash and cash equivalents at the end of the financial year	**221 070**	**77 895**

Statement of changes in shareholders' equity

(in thousands of euros)	Share capital	Statutory reserve capital	Other reserves	Accumulated deficit/ Retained earnings	Total
Balance as at 01.01.2014	**33 500**	**0**	**-27**	**-6 496**	**26 795**
Paid in statutory reserve capital	0	118	0	-118	**0**
Paid in share capital	12 000	0	0	0	**12 000**
Share options	0	0	0	92	**92**
Profit for the year	*0*	*0*	*0*	*5 709*	***5 709***
Other comprehensive income	*0*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	21	5 709	**5 730**
Balance as at 31.12.2014	**45 500**	**119**	**-6**	**-813**	**44 799**
Carrying amount of holdings under control and significant influence	0	0	0	-325	-325
Value of holdings under control and significant influence under equity method	0	0	0	455	455
Adjusted unconsolidated equity as at 31.12.2014	**45 500**	**118**	**-6**	**-683**	**44 929**
Balance as at 01.01.2015	**45 500**	**119**	**-6**	**-813**	**44 799**
Paid in statutory reserve capital	0	301	0	-301	**0**
Paid in share capital	6 000	0	0	0	**6 000**
Share options	0	0	0	296	**296**
Profit for the year	*0*	*0*	*0*	*8 413*	***8 413***
Other comprehensive income	*0*	*0*	*-17*	*0*	***-17***
Total comprehensive income for 2015	0	0	-17	8 413	**8 396**
Balance as at 31.12.2015	**51 500**	**419**	**-23**	**7 595**	**59 491**
Carrying amount of holdings under control and significant influence	0	0	0	-325	-325
Value of holdings under control and significant influence under equity method	0	0	0	1 431	1 431
Adjusted unconsolidated equity as at 31.12.2015	**51 500**	**419**	**-23**	**8 701**	**60 597**

Signatures of the management board to the consolidated annual report

The management board has prepared the management report and the consolidated financial statements of AS LHV Pank for the financial year ended on 31 December 2015. The consolidated financial statements present a true and fair view of the Bank's financial position, the results of operations and its cash flows.

09.03.2016

Erki Kilu /signed/
Chairman of the management board

Andres Kitter /signed/
Member of the management board

Indrek Nuume /signed/
Member of the management board

Jüri Heero /signed/
Member of the management board

Meelis Paakspuu /signed/
Member of the management board

Martti Singi /signed/
Member of the management board

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS LHV Pank

We have audited the accompanying consolidated financial statements of AS LHV Pank and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS LHV Pank and its subsidiary as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/signed/ /signed/

Ago Vilu
Auditor's Certificate No. 325

Verner Uibo
Auditor's Certificate No. 568

9 March 2016

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

Proposal for profit distribution

The management board of LHV Pank proposes to the general meeting of shareholders to distribute the profit of the financial year 2015 as follows:

- transfer EUR 469 thousand to statutory reserve capital
- transfer the profit for reporting period attributable to shareholders of the parent in the amount of EUR 8 920 thousand to the accumulated deficit.

Signatures of the supervisory board to the annual report

The supervisory board has reviewed the annual report which consists of the management report and the financial statements, the independent auditor's report and the profit allocation proposal, and approved it for presentation at the general meeting of shareholders.

16.03.2016

Erkki Raasuke /signed/
Chariman of the supervisory board

Rain Lõhmus /signed/
Member of the supervisory board

Andres Viisemann /signed/
Member of the supervisory board

Tiina Mõis /signed/
Member of the supervisory board

Raivo Hein /signed/
Member of the supervisory board

Heldur Meerits /signed/
Member of the supervisory board

Allocation of income according to EMTA classificators

EMTAK	Activity	2015	2014
66121	Security and commodity contracts brokerage	3 604	2 932
64191	Credit institutions (banks) (granting loans)	24 418	21 271
64911	Finance lease	1 356	923
	Total income	**29 378**	**25 126**