Public Offering, Listing and Admission to Trading Prospectus of up to 10,000 Unsecured Subordinated Bonds of AS LHV Group with Nominal Value of EUR 1,000, Interest Rate 6.5% per annum and Maturity Date 29 October 2025

Listing and Admission to Trading Prospectus of 318 Unsecured Subordinated Bonds of AS LHV Group with Nominal Value of EUR 50,000, Interest Rate 7.25% per annum and Maturity Date 20 June 2024

This Public Offering, Listing and Admission to Trading Prospectus has been drawn up and published by AS LHV Group (an Estonian public limited company, registered in the Estonian Commercial Register under register code 11098261, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia; the **Company**) in connection with the public offering, listing and the admission to trading of the bonds issued by the Company on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange (the **Prospectus**).

The Company is publicly offering up to 10,000 bonds with the nominal value of EUR 1,000 (the **Bonds 29.10.2025** or the **Offer Bonds**) to institutional and retail investors in Estonia (the **Offering**). In case of over-subscription of the Offer Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 5,000 additional Offer Bonds as a result of which the total number of the Offer Bonds offered in the course of the Offering may be up to 15,000 and the total volume of the Offering up to EUR 15,000,000.

The Offer Bonds are offered for the price of EUR 1,000 per one Offer Bond (the **Offer Price**). The Offer Bonds may be subscribed for during the period commencing on 5 October 2015 and ending on 26 October 2015 (the **Offering Period**) in accordance with the terms and conditions described in this Prospectus. The Company will, simultaneously with the Offering, apply for the listing and the admission to trading of the Offer Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

The Offering will be carried out only in Estonia and there will not be any offering of the Offer Bonds in any other jurisdiction.

The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

In addition to the Offering and the listing of the Offer Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, the Company will apply for the listing and the admission to trading of the existing bonds of the Company with the nominal value of EUR 50,000, registered in the Estonian Central Register of Securities under the name of “LHV Group subordinated bond 20.06.2024” and ISIN code EE3300110550 (the **Bonds 20.06.2024** and together with the Offer Bonds, the **Bonds**).

It is estimated that trading with the Bonds 20.06.2024 will commence on or about 5 October 2015 and that the trading with the Bonds 29.10.2025 will commence on or about 2 November 2015.

The Bonds are subordinated to all unsubordinated claims against the Company. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. The Bonds may be redeemed prematurely by the Company on the grounds set forth in the terms of the Bonds only if the Estonian Financial Supervision Authority (or the European Banking Authority if it is in the competence thereof) has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company.

Investing into the Bonds involves risks. While every care has been taken to ensure that this Prospectus presents a fair and complete overview of the risks related to the Company, the operations of the Company and its subsidiaries (the Group) and to the Bonds, the value of any investment in the Bonds may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

2 October 2015

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1. INTRODUCTORY INFORMATION

1.1. Applicable Law

The Prospectus has been drawn up in accordance with and is governed by Estonian laws implementing the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and in accordance with the Commission Regulation No 809/2004 of 29 April 2004 implementing the Directive 2003/71/EC (the **Prospectus Regulation**), in particular the Annexes IV and V thereof. The Prospectus comprises of the registration document of the Company drawn up in accordance with Annex IV of the Prospectus Regulation and two securities notes of the Bonds drawn up in accordance with Annex V of the Prospectus Regulation.

Before reading this Prospectus, please take notice of the following important introductory information.

1.2. Persons Responsible and Limitations of Liability

The person responsible for the information given in this Prospectus is AS LHV Group (the **Company**). The Company accepts responsibility for the fullness and correctness of the information contained in this Prospectus as of the date hereof. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts, and contains no omission likely to affect its import.

AS LHV Group

Erkki Raasuke

Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely on the basis of the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

1.3. Presentation of Information

Approximation of Numbers. Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values, etc.) are presented with such precision which is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100% due to the effects of approximation. Exact numbers may be derived from the Financial Statements, to the extent that the relevant information is reflected therein.

Currencies. In this Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

Date of Information. This Prospectus is drawn up based on information which was valid as of 30 June 2015. Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 30 June 2015, this is identified by either specifying the relevant date or by the use of expressions “the date of this Prospectus”, “to date”, “until the date hereof” and other similar expressions, which must all be construed to mean the date of this Prospectus (2 October 2015).

Third Party Information and Market Information. For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Company and its subsidiaries operate is based on the best assessment made by the Management (as defined in Section “Glossary”). With respect to the industry in which the Company and its subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant.

Updates. The Company will update the information contained in this Prospectus only to such extent and at such intervals and by such means as required by the applicable law or considered necessary and appropriate by the Management. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus (please see Section “Forward-Looking Statements” below).

Definitions of Terms. In this Prospectus, capitalized terms have the meaning ascribed to them in Section “Glossary”, with the exception of such cases where the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

1.4. Documents in Display

In addition to this Prospectus, certain additional documents and information on the Group, such as the Articles of Association and other information on corporate governance of the Group, historic financial data, etc. may be obtained from the website of the Company at www.lhv.ee/en/for-investors/.

1.5. Accounting Principles

The Financial Statements have been prepared in accordance with IFRS as adopted by the European Union.

1.6. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under Sections “Summary”, “Risk Factors”, “Business Overview” and “Reasons for Offering and Use of Proceeds”). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as “strategy”, “expect”, “plan”, “anticipate”, “believe”, “will”, “continue”, “estimate”, “intend”, “project”, “goals”, “targets” and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a highly competitive business. This business is affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and technological developments and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

1.7. Use of Prospectus

This Prospectus is prepared solely for the purposes of the Offering of the Offer Bonds and listing and the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. No public offering of the Offer Bonds is conducted in any jurisdiction other than Estonia and consequently the dissemination of this Prospectus in other countries may be restricted or prohibited by law. This Prospectus may not be used for any other purpose than for making the decision of participating in the Offering or investing into the Bonds. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

AS LHV GROUP TARTU MNT 2, 10145 TALLINN 6 802 670 INFO@LHV.EE LHV.EE

2. SUMMARY

This summary is a brief overview of the information disclosed in this Prospectus. This summary is made up on the basis of the applicable disclosure requirements known as “Elements”. These Elements are numbered in the Sections A – E (A.1 – E.7). This Summary contains all Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding that Element. In this case, a short description of the Element is included in this Summary with the mention of “not applicable”.

Section A – Introduction and Warnings

Element	Title	Disclosure
A.1	Introduction and warnings	This summary should be read as an introduction to the Prospectus and any decision to invest in the Bonds should be based on consideration of the Prospectus as a whole by an investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff might, under Estonian legislation, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have prepared the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Bonds.
A.2	Use of Prospectus for subsequent resale of Bonds	Not applicable.

Section B – Issuer

Element	Title	Disclosure
B.1	Legal and commercial name	AS LHV Group
B.2	Domicile/ legal form/ legislation/ country of incorporation	The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term.

B.4b	Known trends affecting the Company and industry	There has been no material adverse change in the prospects of Group since 30 June 2015.
B.5	Group description; position of the Company within the Group	The Company is the holding company of the Group with limited operations of its own. The Company is engaged in investor relations management and ensuring necessary capitalisation for the Group companies. The Company has two fully-owned Subsidiaries – LHV Pank (a licensed credit institution) and LHV Varahaldus (a licensed fund manager). The Company holds 50%, plus one share, in Mokilizingas, a Lithuanian financial institution, engaged in offering hire-purchase and consumer loan services in the Lithuanian market. LHV Pank holds 65% shares in LHV Finance, an Estonian financial institution offering hire-purchase services in the Estonian market.
B.9	Profit forecast	Not applicable.
B.10	Qualifications in audit report on the historical financial information	Not applicable.
B.12	Selected historical key financial information; changes in prospects and financial position	

(in MEUR)	**2014**	**2013**	**Q2 2015**	**Q1 2015**
Net interest income	16.5	9.1	5.4	5.2
Net profit	9.7	4.3	3.0	5.1
Net profit attributable to owners of the parent	9.2	4.2	2.8	4.9
Average assets	485	366	612	574
Average interest earning assets	479	360	579	559
Average equity	43.1	25.7	62.3	58.4
Return on equity (ROE) %	21.4	16.5	17.9	33.6
Net interest margin (NIM) %	4.25	3.29	3.76	3.73
Spread %	4.16	3.22	3.68	3.66
Cost/ income ratio %	64.7	69.7	63.7	60.3

In the opinion of the Management, the key ratios and indicators are the most appropriate ratios and indicators, considering the markets where

		the Group companies operate. These ratios and indicators enable adequate evaluation of the profitability of the operations of the Group, considering business volumes of the Group companies. There have been no significant changes in the financial or trading position of the Group since 30 June 2015.
B.13	Recent events relevant to evaluation of solvency of the Company	According to the knowledge of the Management, there are no recent events relevant to the evaluation of solvency of the Company.
B.14	Dependency upon Group companies	The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries.
B.15	Principal activities	According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2014, the field of activity of the Company was “activities of holding companies” (EMTAK[1] 64201). The consolidated fields of activity of the Group were “security and commodity contracts brokerage” (EMTAK 66121), “credit institutions (banks, granting loans)” (EMTAK 64191), “finance lease” (EMTAK 64911) and “fund management” (EMTAK 66301).
B.16	Controlling shareholders of the Company	There are no controlling shareholders of the Company. The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 38.6% of all the Shares, whereas approximately 28% of the Shares are held by Mr Rain Lõhmus and 10.6% by Mr Andres Viisemann.
B.17	Credit ratings of the Bonds	Not applicable.

Section C – Securities (Bonds 20.06.2024)

Element	**Title**	**Disclosure**
C.1	Type and class of	The Bonds 20.06.2024 are subordinated bonds with the nominal value of EUR 50,000. The Bonds 20.06.2024 represent unsecured debt

[1] EMTAK (the Estonian Classification of Economic Activities) is the basis for determining the fields of activity of Estonian companies. EMTAK is the national version of the international harmonised NACE classification. As of 1 January 2007, the Estonian companies are, instead of providing their fields of activity in the Articles of Association, required to report them in their annual reports using EMTAK classification.

	securities and security identification number	obligation of the Company before the bondholder. The Bonds 20.06.2024 are in dematerialised book-entry form and are not numbered. The Bonds 20.06.2024 are registered in the ECRS under ISIN code EE3300110550.
C.2	Currency of the Bonds	The Bonds 20.06.2024 are denominated in euro.
C.5	Restrictions on free transferability of securities	The Bonds 20.06.2024 are freely transferrable; however, any bondholder wishing to transfer the Bonds 20.06.2024 must ensure that any offering related to such transfer would not be qualified as a public offering in the essence of the applicable law. According to the Terms of the Bonds 20.06.2024, ensuring that any offering of the Bonds 20.06.2024 does not fall under the definition of public offering under the applicable law is the obligation and liability of the bondholder.
C.8	Rights attached to the Bonds; ranking and limitations to rights	The rights attached to the Bonds 20.06.2024 have been established by the Terms of the Bonds 20.06.2024. The main rights of bondholders arising from the Bonds 20.06.2024 and the Terms of the Bonds 20.06.2024 are the right to the redemption of the Bonds 20.06.2024 and the right to interest. After the contemplated listing of the Bonds 20.06.2024 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, information on the Company and the operations of the Group companies required to be disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange, including required financial statements, will be disclosed via the information system of the Nasdaq Tallinn Stock Exchange.
C.9	Interest, maturity date, yield and representativ e of Bond holders	The maturity date of the Bonds 20.06.2024 is 20 June 2024. The Bonds 20.06.2024 carry an annual coupon interest at a rate of 7.25% per annum, calculated from the date of issue of the Bonds 20.06.2024, i.e. 20 June 2014, until the date of redemption. The interest is paid quarterly on the following dates – 20 March, 20 June, 20 September and 20 December. The interest on the Bonds 20.06.2024 is calculated based on 30-day calendar month and 360-day calendar year (30/360).
C.10	Impact of derivative component in the interest payment	Not applicable.
C.11	Admission to trading in regulated market	The Company intends to apply for the listing and the admission to trading of the Bonds 20.06.2024 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds 20.06.2024 is on or about 5 October 2015.

Section C – Securities (Bonds 29.10.2025)

Element	Title	Disclosure
C.1	Type and class of securities and security identification number	The Bonds 29.10.2025 are subordinated bonds with the nominal value of EUR 1,000. The Bonds 29.10.2025 represent unsecured debt obligation of the Company before the bondholder. The Bonds 29.10.2025 are in dematerialised book-entry form and are not numbered. The Bonds 29.10.2025 are registered in the ECRS under ISIN code EE3300110741.
C.2	Currency of the Bonds	The Bonds 29.10.2025 are denominated in euro.
C.5	Restrictions on free transferability of securities	The Bonds 29.10.2025 are freely transferrable; however, any bondholder wishing to transfer the Bonds 29.10.2025 must ensure that any offering related to such transfer would not be qualified as a public offering in the essence of the applicable law. According to the Terms of the Bonds 29.10.2025, ensuring that any offering of the Bonds 29.10.2025 does not fall under the definition of public offering under the applicable law is the obligation and liability of the bondholder.
C.8	Rights attached to the Bonds; ranking and limitations to rights	The rights attached to the Bonds 29.10.2025 have been established by the Terms of the Bonds 29.10.2025. The main rights of bondholders arising from the Bonds 29.10.2025 and the Terms of the Bonds 29.10.2025 are the right to the redemption of the Bonds 29.10.2025 and the right to interest. After the contemplated listing of the Bonds 29.10.2025 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, information on the Company and the operations of the Group companies required to be disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange, including required financial statements, will be disclosed via the information system of the Nasdaq Tallinn Stock Exchange.
C.9	Interest, maturity date, yield and representativ e of Bond holders	The maturity date of the Bonds 29.10.2025 is 29 October 2025. The Bonds 29.10.2025 carry an annual coupon interest at the rate of 6.5% per annum, calculated from the date of issue of the Bonds 29.10.2025, i.e. 29 October 2015, until the date of redemption. The interest is paid quarterly on the following dates – 29 January, 29 April, 29 June and 29 October. The interest on the Bonds 29.10.2025 is calculated based on 30-day calendar month and 360-day calendar year (30/360).
C.10	Impact of derivative component in the interest payment	Not applicable.

C.11	Admission to trading in regulated market	The Company intends to apply for the listing and the admission to trading of the Bonds 29.10.2025 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds 29.10.2025 is on or about 2 November 2015.

Section D – Risks

Element	**Title**	**Disclosure**
D.2	Key risks specific to the Company	Counterparty Credit Risk. Counterparty credit risk is inherent to the core operations of the Group – counterparty credit risk is the risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group companies. Concentration Risk. The operations of the Group are subject to concentration risk, which by essence is a risk arising from the overall spread of outstanding accounts over the number and variety of clients. If loans are heavily concentrated in certain economic sector, the Group is exposed to risks inherent to such economic sector. Market Risk. Market risk arises from the Group's trading and investment activities in the financial markets, primarily in interest rate products, foreign exchange and stock markets as well as from borrowing activities and other means of taking in financial resources. Foreign Currency Risk. Foreign currency risk arises primarily from the acquisition of securities denominated in foreign currencies or from foreign currency receivables and liabilities. Price Risk. The Group holds positions in different financial instruments, which are subject to fluctuations in market price arising from various circumstances beyond the control of the Group. Interest Rate Risk. The operations of the Group and foremost the operations of LHV Pank are inherently exposed to interest rate risk. Interest rates are affected by numerous factors beyond the control of the Group companies, which may not be estimated adequately. Liquidity Risk. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. Operating Risk. Operating risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition to human, process or information system failures and flaws, the operating risk embraces risk of corporate fraud and misconduct. Dependency on Information Technology Systems. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. Failures of or significant

		disruptions to the Group's information technology systems could prevent it from conducting its operations. Dependency on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries. Dependency on Qualified Staff. The results of operations of the Group companies depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees. Competitive Market. The Group operates in a highly competitive market. Exposure to Conduct of Other Market Participants. The Group's access to financing, investment and derivative transactions may be adversely affected by market practises of other market participants. Control over Joint Ventures. The operations of these joint ventures (LHV Finance and Mokilizingas) may be adversely affected by the joint venture partners of the Company. Changes in Economic Environment. Each of the Group's operating segments is affected by general economic and geopolitical conditions. Exposure to Regulative Changes. The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice, which are subject to changes. Maintaining Capital Adequacy Ratios. Credit institutions and investment firms are subject to strict capital adequacy requirements subject to frequent reforms and changes. Exposure to Regulatory Actions and Investigations. The Group provides various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group's business, including, but not limited to regarding capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting, corporate governance, etc. Contractual Risks. The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group.

		Exposure to Civil Liability. The Group operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings. Tax Regime Risks. Tax regimes of the geographical markets where the Group operates are from time to time subject to change, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable.
D.3	Key risks specific to the Bonds	Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner. Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company; however, not to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Early Redemption Risk. According to the Terms of the Bonds, the Bonds may be redeemed prematurely on the initiative of the Company. The Bonds may; however, be redeemed prematurely by the Company only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption. Changes to Bond Terms. The Terms of the Bonds 20.06.2024 may be amended on the grounds and following the procedure set forth in the Terms of the Bonds 20.06.2024. No Ownership Rights. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds. Cancellation of Offering. Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Bonds they subscribed for. Highly Volatile and Illiquid Market. The Company will apply for the listing of the Bonds in the Bond List of the Nasdaq Tallinn Stock Exchange; however, although every effort will be made by the Company to ensure the listing of the Bonds as anticipated by the Company, no assurance can be provided that the Bonds will be listed and admitted to trading.

		Further, even if the Bonds are listed on the Bond List of the Nasdaq Tallinn Stock Exchange, there is no assurance that an active market for the Bonds will develop.

Section E – Offer

Element	Title	Disclosure
E.2b	Reasons for offer; use of proceeds	The primary purpose of the Offering is to strengthen the capital structure of the Group. The proceeds from the Offering will be used for the general corporate purposes to support the further growth and market position of the Group, increase the business volumes of the Group and ensure conservative capital buffer for the Group companies. The Company is looking to engage additional capital in the amount of up to EUR 10 million and should the Company choose to exercise the right to increase the number of Offer Bonds and the volume of the Offering in the amount of up to EUR 15 million. The total amount of costs related to the Offering is estimated to range between EUR 100,000 and EUR 200,000, which will be deducted from the proceeds of the Offering before using the proceeds as described above.
E.3	Terms and conditions of offer	In the course of the Offering, altogether up to 10,000 Offer Bonds are being offered to retail and institutional investors in Estonia. In case of over-subscription of the Offer Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 5,000 additional Offer Bonds as a result of which the total number of the Offer Bonds offered in the course of the Offering may be up to 15,000 and the total volume of the Offering up to EUR 15,000,000. The Retail Offering is directed to all retail and institutional investors in Estonia. The Offer Price is EUR 1,000 per one Offer Bond. The Offer Price will be the same in the Institutional Offering and in the Retail Offering. The Offering Period commences on 5 October 2015 at 12.00 local time in Estonia and terminates on 26 October 2015 at 17.00 local time in Estonia. The Company will decide on the allocation of the Offer Bonds after the expiry of the Offering Period, and no later than on 28 October 2015. The Offer Bonds will be allocated to the investors participating in the Offering in accordance with the following principles: (i) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering; (ii) the Company shall be entitled to prefer its existing shareholders and bondholders to other investors; (iii) the allocation shall be aimed to create a solid and reliable investor base for the Company; and

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		(iv) under the same circumstances, all investors shall be treated equally. The Offer Bonds allocated to investors will be transferred to their securities accounts on or about 29 October 2015 through the “delivery versus payment” method simultaneously with the transfer of payment for such Offer Bonds. In addition to other cancellation rights, the Company has reserved the right to cancel the Offering in the part not subscribed for in the course of the Offering.
E.4	Interests material to issue/ offer	According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.
E.7	Estimated expenses charged to investor	Not applicable.

3. RISK FACTORS

3.1. Introduction

Investing into the Bonds issued by the Company entails various risks. Each prospective investor in the Bonds should thoroughly consider all the information in this Prospectus, including the risk factors described below. Any of the risk factors described below, or additional risks not currently known to the Management or not considered significant by the Management, could have a material adverse effect on the business, financial condition, operations or prospects of the Group and result in a corresponding decline in the value of the Bonds or the ability of the Company to redeem the Bonds. As a result, investors could lose a part or all of the value of their investments. The Management believes that the factors described below present the principal risks inherent in investing into the Bonds. The risk factors are not listed in any order of priority with regard to significance or probability.

This Prospectus is not, and does not purport to be, investment advice or an investment recommendation to acquire the Bonds. Each prospective investor in the Bonds must determine, based on its own independent review and analysis and such professional advice as it deems necessary and appropriate, whether an investment into the Bonds is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc.

3.2. Business Risks

Counterparty Credit Risk. Counterparty credit risk is inherent to the core operations of the Group – counterparty credit risk is the risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group companies. Credit risk affects cash and cash equivalents held with third parties (such as deposits with banks and other financial institutions), bonds, derivatives, but mostly credit exposures to customers, including outstanding loans, cover for guarantees, as well as other receivables and commitments. In order to mitigate credit risk, the Group constantly analyses the operations and financial position of its customers and other counterparties. After authorising the initial credit exposure, the solvency of a customer and the value of the collateral are monitored regularly. Further, the Group makes provisions for potential credit losses in accordance with the applicable requirements, including the IFRS requirements; however, such provisions are made based on the available information, estimates and assumptions, which by definition are subject to certain amount of uncertainty. Therefore there can be no assurance that provisions are sufficient to cover potential losses. The recoverability of credit provided to customers may be adversely affected by negative changes in the overall economic, political or regulatory environment, decrease in collateral values and other circumstances beyond the control of the Group. Materialisation of credit risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Concentration Risk. The operations of the Group are subject to concentration risk, which by essence is a risk arising from the overall spread of outstanding accounts over the number and variety of clients. If loans are heavily concentrated in certain economic sector, the Group is exposed to risks inherent to such economic sector. 33% of the corporate credit portfolio of LHV Pank includes loans granted in real estate sector, which is traditionally the field that receives the greatest financing from commercial banks. LHV Pank's real estate development portfolio is well-positioned should market trends change – financed developments are sited in good locations, the major developments are nearing completion and the average loan to value ratio is around 50%. The real estate sector is followed by companies pursuing financial and insurance activities (15% of corporate credit portfolio) and the processing industry (13% corporate credit portfolio). Agriculture, which is under special surveillance due to the geopolitical situation, accounts for just 2% of the portfolio. The concentration risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Market Risk. Market risk arises from the Group's trading and investment activities in the financial markets, primarily in interest rate products, foreign exchange and stock markets as well as from borrowing activities and other means of taking in financial resources. Market risk is the risk of potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. The market value of financial instruments may be adversely affected by the volatility of financial markets arising from numerous market variables beyond the control of the Group. Due to such volatility, the value of the financial instruments held by the Group may decrease more than it is able to foresee, and therefore result in write-downs of certain assets. Within the Group, internal judgement and know-how is used to assess and avoid potential market losses; however, such internal judgement may turn out to be inaccurate due to changes in the financial markets not foreseen at the time of making the judgement. In order to mitigate the market risk, conservative limits have been established for the trading portfolio and open foreign currency exposures of the Group companies. Despite the measures taken by the Group, the market risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Foreign Currency Risk. Foreign currency risk arises primarily from the acquisition of securities denominated in foreign currencies or from foreign currency receivables and liabilities. Foreign exchange rates may be affected by complex political and economic factors, including relative rates of inflation, interest rate levels, the balance of payments between countries, the extent of any governmental surplus or deficit, and from the monetary, fiscal and trade policies pursued by the governments of the relevant currencies. Devaluation, depreciation or appreciation of foreign currency may have significant adverse effect on the value of the Group's assets denominated in foreign currency or increase the euro value of the Group's foreign currency liabilities. The Group's foreign currency risk management is based on risk policies, limits and internal procedures, which, however, may turn out to be inadequate. If an open currency position exceeds the established limits, measures are implemented to immediately reduce such a position or to hedge the risk with relevant instruments (such as foreign currency derivatives), but such measures may not be effective or sufficient to avoid significant losses arising from adverse changes in foreign currency exchange rates. Therefore foreign currency risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Price Risk. The Group holds positions in different financial instruments, which are subject to fluctuations in market price arising from various circumstances beyond the control of the Group. In order to mitigate the price risk, the Group has established internal rules setting forth limits to the size of trading and investment portfolios and requirements to acceptable credit quality ratings. Due to the fact that such internal rules are established based on historical market data, such rules may not be adequate or sufficient to mitigate potential losses arising from adverse changes in the market prices of the financial instruments held by the Group companies. The price risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Interest Rate Risk. The operations of the Group and foremost the operations of LHV Pank are inherently exposed to interest rate risk. The amount of net interest income earned by the Group companies materially affects the revenues and the profitability of the operations of the Group. Interest rates are affected by numerous factors beyond the control of the Group companies, which may not be estimated adequately. Such factors include the changes in the overall economic environment, level of inflation, monetary policies of states, etc. Due to the fluctuations of market interest rates there may be a mismatch between the interest income earned from the lending and crediting operations of the Group and the interest costs paid on the interest-bearing liabilities, which may have material adverse effect on the Group's operations, financial condition and results of operations.

Liquidity Risk. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Group's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Group's liquidity management reflects a conservative approach towards liquidity risk. Such risk policies and internal procedures may, however, not be adequate or sufficient in order to ensure the Group's access to funding resources when needed in order to ensure sufficient liquidity. The liquidity risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Operating Risk. Operating risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition to human, process or information system failures and flaws, the operating risk embraces risk of corporate fraud and misconduct. When completing transactions, transaction limits and competence systems are used to minimise potential loss and the principle of duality is used in the Group's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure. The information systems and operations of the Group companies are monitored constantly in order to identify risks of system failures, flaws or fraud and mitigate the operating risk. The information received from the monitoring of the information systems and operations of the Group companies is used to correct the flaws in information systems and avoid failures thereof. The Group's working procedures are reviewed periodically to ensure minimising human and process flaws and the potential loss arising therefrom; however, the risk of such losses cannot be eliminated altogether. The operating risk may have material adverse effect on the Group's operations, financial condition and results of operations.

Dependency on Information Technology Systems. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. The dependency on such systems is increasing in time with the spread of online and mobile banking services and the development of cloud computing. This means that the Group is exceedingly open to risks over which it has no control, including system-wide failures of communication infrastructure, quality and reliability of equipment and software supplied by third parties and other similar risks. Failures of or significant disruptions to the Group's information technology systems could prevent it from conducting its operations. Furthermore, should the Group experience a significant security breakdown or other significant disruption to its information technology systems, sensitive information could be compromised, which in turn could result in civil and administrative liability of the Group companies before its customers, counterparties and state authorities, as well as in a general decrease in the trustworthiness of the Group and consequently in the demand for its services. Ensuring security and reliability of information technology systems is becoming more challenging in the environment where service providers are facing increasingly sophisticated and highly targeted attacks aimed at obtaining unauthorised access to confidential and sensitive information, disable or degrade service or sabotage information systems for other purposes. The Group has made significant investments into developing well-functioning and secure information technology systems and is constantly working on improving such systems and developing adequate contingency procedures; however, the Group may, despite its efforts, fail to mitigate all risks or fail to take appropriate and effective countermeasures if its information technology systems fall under attack, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

Dependency on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries. According to Estonian law, a company may only pay dividends or make other distributions if its current profits and retained earnings are sufficient for such distribution. Therefore, the Group's financial position is dependent on the Subsidiaries' profit and ability to pay dividends.

Dependency on Qualified Staff. The results of operations of the Group companies depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees. New regulatory restrictions, such as the recently introduced limits on certain types of remuneration paid by credit institutions and investment firms set forth in CRD IV[2], could adversely affect the Group's ability to attract new qualified personnel and retain and motivate existing employees. Any loss of the services of key employees, particularly to competitors, or the inability to attract and retain highly skilled personnel may have material adverse effect on the Group's operations, financial condition and results of operations.

Competitive Market. The Group operates in a highly competitive market. In addition to the licenced credit institutions and branches of foreign banks present in the geographical markets where the Group companies operate, there are market participants who are not subject to regulatory and capital requirements as burdensome as the Group companies, and who therefore may have a competitive advantage on the relevant market. Furthermore, recent trends in the crediting and lending market may be characterised by the development of new products and solutions, which compete with the more conservative and traditional products and services offered by the Group. Often such alternative service providers are able to offer more favourable terms, which may result in price pressure on the products and services offered by the Group. If the Group fails to respond to the competitive environment in its target markets by offering attractive and profitable product and service solutions, it may face the decrease of its market shares or the overall profitability of the Group may suffer.

Exposure to Conduct of Other Market Participants. The Group's access to financing, investment and derivative transactions may be adversely affected by market practises of other market participants. Financial and securities markets are interrelated and defaults and failures to conduct sound business by other market players could lead to market-wide liquidity problems or other market-wide issues, which could adversely affect the Group companies' access to capital resources. Further, the Group companies have exposure to many counterparties arising from trading, clearing, funding or other relationships with them. Failure of such market participants to meet their obligations may result in the default of the Group companies before other counterparties and clients, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

Control over Joint Ventures. The Company holds interests in two joint ventures – LHV Finance in Estonia and Mokilizingas in Lithuania. In LHV Finance, the Company holds a 65% shareholding, and in Mokilizingas a 50% shareholding plus one share. The Company is therefore the controlling shareholder in both of these joint ventures and has executed shareholders' agreements with its joint venture partners in respect of both companies (please see Section "Material Agreements" for further details). Although due care is taken by the Company in order to ensure effective control over these joint ventures and ensure that they are managed prudently and effectively, the operations of these joint ventures may be adversely affected by the joint venture partners of the Company. Despite the shareholders' agreements, it cannot be excluded that the joint venture partners exercise their voting rights for influencing management decisions in a direction with which the Company disagrees, or fail to exercise their voting

[2] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

rights to adopt management decisions that in the view of the Company are necessary in the interest of the joint ventures. Furthermore, the joint venture partners may understand the terms of the shareholders' agreements differently from the Company or fail to perform the shareholders' agreements. Although the Management considers the materialisation of the above-described risks unlikely and has high confidence and trust in its joint venture partners, such behaviour by the joint venture partners of the Company, in theory, cannot be excluded or prevented, and may have adverse effect on the financial position and results of operations of the joint ventures. This may have material adverse effect on the Group's operations, financial condition and results of operations.

3.3. Political, Economic and Legal Risks

Changes in Economic Environment. Each of the Group's operating segments is affected by general economic and geopolitical conditions. The repercussions of the global financial crisis of 2008-2009 continue to have some effect on the overall economic environment and there have been new adverse developments in recent years. Economic growth in the Group's target markets remained weak in 2014 and the securities markets underwent significant fluctuations during the year. The first 6 months of 2015 have been eventful. Several central banks over the world have been intervening in the currency markets more than usual and financial markets tend to behave unpredictably. Europe is struggling with the weakening of the euro and with uncertainties about the ability of Greece to remain in the Eurozone. These or other, yet unknown, adverse developments of the global and local economies and of financial markets could have a degrading effect on the financial position of the Group. Any deterioration in the economic environment of the countries where the Group operates, in particular in Estonia, where most of the Group's services and products are focused, could have a direct negative impact on the financial position and profitability of the Group. The Estonian economy is a small open economy that is closely linked to the global economy and especially the macroeconomic conditions in the Eurozone countries and Russia. Over the recent years, the Eurozone debt crisis has had an adverse effect on the Estonian economy. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic environment.

Exposure to Regulative Changes. The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice. As a result of the recent global financial and economic crises, a number of regulatory initiatives have been taken to amend or implement rules and regulations in the fields where the Group companies operate. As to the significant recent developments in the regulatory framework, in May 2014, the Council of the European Union adopted a bank recovery and resolution directive (BRRD[3]) which is intended to provide resolution authorities with a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing in order to safeguard financial stability and minimise taxpayers' exposure to losses. The implementation of the BRRD regulation in Estonia in the first quarter of 2015 has imposed additional restrictions on the operations of some of the Group companies and resulted in a need to review certain internal procedures of some Group companies, above all LHV Pank. The Group has duly and timely complied with the new requirements. Nevertheless, considering the recent reforms and changes in the regulatory framework applicable in respect of the operations of the Group, the Group cannot predict to what extent laws and policies or their interpretations will change in the future nor the impact of such changes. Increased requirements and expectations, enhanced

[3] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

supervisory standards and uncertainty with regard to further changes may result in limitations of operating flexibility and certain lines of business, in additional costs and liabilities, in a necessity to change legal, capital or funding structures, and in decisions to exit or not to engage in certain business activities.

Maintaining Capital Adequacy Ratios. Credit institutions and investment firms are subject to strict capital adequacy requirements subject to frequent reforms and changes. At the start of 2014, the capital of banks and investment firms in the EU became subject to a new legal framework (CRD IV/CRR[4]), 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 economic shocks and thereby ensure the adequate and sustainable financing of the economy. Significant changes implemented with the new rules 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 defines measures for macro-financial supervision that the Member States can use to control the behaviour of credit institutions in amplifying the cycles and to alleviate risks arising from market structure. In Estonia, in addition to the baseline capital requirements, credit institutions have been subjected to capital maintenance and systemic risk buffers imposed by the Financial Supervisory Authority and the Eesti Pank (i.e. the Bank of Estonia). So far, the Group has complied with all applicable capital requirements. However, the capital requirements adopted in Estonia and the European Union may change, whether as a result of further changes of the EU or Estonian legislation, global standards or interpretation thereof. Such changes, either individually or in combination, may lead to unexpected increased requirements and have a material adverse effect on the business of LHV Pank and the Group as a whole. This may result in the need to increase capital, reduce leverage and risk weighted assets, modify the Group's legal structure or even change the Group's business model.

Exposure to Regulatory Actions and Investigations. The Group provides various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group's business, including, but not limited to regarding capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting, corporate governance, etc. Any determination by the authorities that the Group has not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even lead to business disruption in the respective fields. Any of these consequences may have material adverse effect on the Group's operations, financial condition and results of operations.

Contractual Risks. The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group. These transactions and agreements may be subject to the laws of Estonia or to the laws of other countries where the Group companies operate. While due care is taken to ensure that the terms of these transactions and agreements are fully enforceable under the laws applicable to them, occasional contradictions and variations of interpretation may occur. Consequently, the Group companies may not be able to always enforce their contractual rights. Moreover, the legal environment where such transactions are effected and agreements are entered into, which is primarily that of the Baltic states, is subject to changes, both

[4] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

through the enactment of new laws and regulations and through changes in interpretation by the competent authorities and courts. Therefore, it cannot be fully excluded that certain terms of the transactions and agreements entered into by the Group companies turn out to be unenforceable, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

Exposure to Civil Liability. The Group operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings. The results of such disputes are inherently difficult to predict and even the disputes themselves, not only unfavourable outcomes, may result in the Group incurring significant expenses and damages, and in negative effects on the Group's reputation, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations.

Tax Regime Risks. Tax regimes of the geographical markets where the Group operates are from time to time subject to change, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable. Any changes in the tax regimes in the jurisdictions where the Group companies operate or in the interpretation of such tax laws, regulations or treaties may have material adverse effect on the Group's operations, financial condition and results of operations.

3.4. Group's Risk Management

The principles of risk management of the Group, the respective facts and figures have been described in detail in Note 3 of the annual Financial Statements.

3.5. Risks Related to Bonds and Listing

Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner. The Company's ability to meet its obligations arising from the Bonds and the ability of the holders of the Bonds to receive payments arising from the Bonds depend on the financial position and the results of operations of the Company and the Group, which are subject to other risks described in this Prospectus.

Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company; however, not to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the holders of the Bonds are not entitled to any payments due under the Terms of the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company. The subordination may have adverse effect on the Company's ability to meet all its obligations arising from the Bonds.

Early Redemption Risk. According to the Bond Terms, the Bonds may be redeemed prematurely on the initiative of the Company, any time after the lapse of a certain period from the issue of the Bonds as described in Section "Bonds". If this early redemption right is exercised by the Company, the rate of return from an investment into the Bonds may be lower than initially anticipated. The Bonds may; however, be redeemed prematurely by the Company only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company.

Changes to Bond Terms. The Bond Terms may be amended on the grounds and following the procedure set forth in the Bond Terms. Changes in the material terms of the Bond Terms, such as interest payable on the Bonds or the maturity term of the Bonds, may have adverse effect on the rate of return from an investment into the Bonds.

No Ownership Rights. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. The Bonds represent an unsecured debt obligation of the Company, granting the bondholders only such rights as set forth in the Bond Terms.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

Cancellation of Offering. Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Bonds they subscribed for. The Company is entitled to cancel the Offering on the terms and conditions described in the Section “Cancellation of Offering”.

Highly Volatile and Illiquid Market. The Company will apply for the listing of the Bonds in the Bond List of the Nasdaq Tallinn Stock Exchange; however, although every effort will be made by the Company to ensure the listing of the Bonds as anticipated by the Company, no assurance can be provided that the Bonds will be listed and admitted to trading. Further, even if the Bonds are listed on the Bond List of the Nasdaq Tallinn Stock Exchange, there is no assurance that an active market for the Bonds will develop and that the bondholders will be able to sell their Bonds on the open market, use them as collateral for other obligations or engage in other transactions requiring the existence of an active market. The Nasdaq Tallinn Stock Exchange may be characterised by lower liquidity, higher volatility and lower investor activity compared to established exchanges such as those in other countries with highly developed securities markets. The market capitalisation of the Baltic regulated market (including the Nasdaq Tallinn Stock Exchange, the Nasdaq Riga Stock Exchange and the Nasdaq Vilnius Stock Exchange) as at 18 September 2015 was EUR 10,721,105,362.48. There are altogether 14 issuers whose debt instruments are listed on the Baltic regulated market and none of these issuers is listed on the Nasdaq Tallinn Stock Exchange.

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4. TERMS AND CONDITIONS OF OFFERING

4.1. Offering

In the course of the Offering, altogether up to 10,000 Offer Bonds are being offered to retail and institutional investors in Estonia (the **Retail Offering**). In addition to the Retail Offering the Offer Bonds may be offered to institutional investors outside Estonia (the **Institutional Offering**); however, the Institutional Offering will be carried out under a separate offering circular and this Prospectus relates only to the Retail Offering.

The division of the Offer Bonds between the Institutional Offering and the Retail Offering has not been predetermined. The number of the Offer Bonds included in the Institutional Offering and in the Retail Offering will be decided by the Company. This decision will be taken in conjunction with the allocation process, which will take place after the expiry of the Offering Period. The total amount of Offer Bonds may decrease in case any part of the Offering is cancelled – please see the Section “Cancellation of Offering” for further details.

4.2. Right to Participate in Offering

The Retail Offering is directed to all retail and institutional investors in Estonia. For the purposes of the Offering, a natural person is considered to be “in Estonia” if such person has a securities account with the ECRS and such person’s address recorded in the ECRS records in connection with such person’s securities account is located in Estonia. A legal person is considered to be “in Estonia” if such person has a securities account with the ECRS and such person’s address recorded in the ECRS records in connection with such person’s securities account is located in Estonia or its registration code recorded in the ECRS records is the registration code of the Estonian Commercial Register.

4.3. Offer Price

The Offer Price is EUR 1,000 per one Offer Bond. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.

4.4. Offering Period

The Offering Period is the period during which the persons who have the right to participate in the Retail Offering may submit Subscription Undertakings (please see Section “Subscription Undertakings” for further details) for the Offer Bonds. The Offering Period commences on 5 October 2015 at 12.00 local time in Estonia and terminates on 26 October 2015 at 17.00 local time in Estonia.

4.5. Subscription Undertakings

The Subscription Undertakings may be submitted only during the Offering Period. An investor participating in the Retail Offering may apply to subscribe for the Offer Bonds only for the Offer Price. Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. All investors participating in the Retail Offering can submit Subscription Undertakings denominated only in euro. An investor shall bear all costs and fees charged by the respective custodian of the ECRS accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking.

In order to subscribe for the Offer Bonds, an investor must have a securities account with the ECRS. Such securities account may be opened through any custodian of the ECRS. As of the date hereof, the following banks and investment firms operate as custodians of the ECRS:

(i) AS LHV Pank;

(ii) AS Swedbank;

(iii) AS SEB Pank;

(iv) Nordea Bank AB Estonian branch;

(v) Danske Bank A/S Estonian branch;

(vi) AS Eesti Krediidipank;

(vii) Tallinna Äripanga AS;

(viii) AS Citadele banka; and

(ix) Versobank AS.

An investor wishing to subscribe for the Offer Bonds should contact a custodian that operates such investor's ECRS securities account and submit a Subscription Undertaking for the purchase of Offer Bonds in the form set out below. The Subscription Undertaking must be submitted to the custodian by the end of the Offering Period. The investor may use any method that such investor's custodian offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the custodian, over the internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	LHV Group subordinated bond 29.10.2025
ISIN code:	EE3300110741
Amount of securities:	the number of Offer Bonds for which the investor wishes to subscribe
Price (per one offer Bond):	EUR 1,000
Transaction amount:	the number of Offer Bonds for which the investor wishes to subscribe multiplied by the Offer Price
Counterparty:	AS LHV Group
Securities account of counterparty:	99100539709
Custodian of the counterparty:	AS LHV Pank
Value date of the transaction:	29 October 2015
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

An investor may submit a Subscription Undertaking through a nominee account only if such investor authorizes the owner of the nominee account to disclose the investor's identity to the registrar of the ECRS in writing. The Subscription Undertakings submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor to the registrar of the ECRS in writing. Among other information it is also requested to disclose a permanent address and personal identification code in case of a natural person or a registration address for a legal entity. An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ECRS receives a duly completed transaction instruction from the custodian of the respective investor.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Offering Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

(i) accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Bonds;

(ii) confirms that it/he/she has read the Terms of the Bonds 29.10.2025 and that the Terms of the Bonds 29.10.2025 are fully understandable and acceptable to it/him/her;

(iii) acknowledges that the Retail Offering does not constitute an offer of the Offer Bonds by the Company in legal terms or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Bonds nor result in a contract for the sale of Offer Bonds between the Company and the investor;

(iv) accepts that the number of the Offer Bonds indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Offer Bonds, which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Bonds than the Maximum Amount (please see Section "Distribution and Allocation");

(v) undertakes to acquire and pay for any number of Offer Bonds allocated to it/him/her in accordance with these terms and conditions, up to the Maximum Amount;

(vi) authorizes and instructs its/his/her custodian to forward the registered transaction instruction to the registrar of the ECRS;

(vii) authorizes the custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify the number of the Offer Bonds to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Bonds allocated to the relevant investor.

An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Offering Period. To do so, the investor must contact its/his/her custodian through whom the Subscription Undertaking in question has been made, and carry out the procedures required by the custodian for amending or cancelling a Subscription Undertaking (such procedures may differ between different custodians).

4.6. Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its/his/her securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her ECRS securities account or its/his/her securities account to cover the whole transaction amount for that particular Subscription Undertaking.

4.7. Distribution and Allocation

The Company will decide on the allocation of the Offer Bonds after the expiry of the Offering Period, and no later than on 28 October 2015. The Offer Bonds will be allocated to the investors participating in the Offering in accordance with the following principles:

(v) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering;

(vi) the Company shall be entitled to prefer its existing shareholders and bondholders to other investors;

(vii) the allocation shall be aimed to create a solid and reliable investor base for the Company; and

(viii) under the same circumstances, all investors shall be treated equally.

The Company expects to announce the results of the allocation process, including the division of the Offer Bonds between the Institutional Offering and the Retail Offering, through the information system of the Nasdaq Tallinn Stock Exchange and at the Company's website www.lhv.ee/en/for-investors/ no later than on 28 October 2015.

4.8. Option to Increase Offering Volume

In case of over-subscription of the Offer Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 5,000 additional Offer Bonds as a result of which the total number of the Offer Bonds offered in the course of the Offering may be up to 15,000 and the total volume of the Offering up to EUR 15,000,000. The additional Offer Bonds will be allocated to the investors participating in the Offering in accordance with the principles described in Section "Distribution and Allocation".

4.9. Settlement and Trading

The Offer Bonds allocated to investors will be transferred to their securities accounts on or about 29 October 2015 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Bonds.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to it/him/her, the Offer Bonds allocated to such investor are transferred to such investor's securities accounts proportionally with the respective securities amounts set out in such investor's Subscription Undertakings. The number of the Offer Bonds to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Bonds is transferred to each securities account. If the transfer cannot be completed due to the lack of sufficient funds on the investor's cash account, the Subscription Undertaking of the respective investor will be rejected and the investor will lose all rights to the Offer Bonds allocated to such investor.

Trading with the Offer Bonds is expected to commence on the Nasdaq Tallinn Stock Exchange on or about 2 November 2015.

4.10. Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Bonds applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Bonds) will be released by the respective custodian on or about 29 October 2015. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

4.11. Cancellation of Offering

In addition to other cancellation rights, the Company has reserved the right to cancel the Offering in the part not subscribed for in the course of the Offering. Any cancellation of the Offering will be announced through the Nasdaq Tallinn Stock Exchange. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated at the moment when such announcement is made public.

4.12. Conflicts of Interests

According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

The primary purpose of the Offering is to strengthen the capital structure of the Group. The proceeds from the Offering will be used for the general corporate purposes to support the further growth and market position of the Group, increase the business volumes of the Group and ensure conservative capital buffer for the Group companies.

The Company is looking to engage additional capital in the amount of up to EUR 10 million and should the Company choose to exercise the right to increase the number of Offer Bonds and the volume of the Offering as described in Section "Option to Increase Offering Volume" in the amount of up to EUR 15 million. The total amount of costs related to the Offering is estimated to range between EUR 100,000 and EUR 200,000, which will be deducted from the proceeds of the Offering before using the proceeds as described above.

6. BONDS

6.1. Bonds 20.06.2024

Type and Class of Bonds

The Bonds 20.06.2024 are subordinated bonds with the nominal value of EUR 50,000. The Bonds 20.06.2024 represent unsecured debt obligation of the Company before the bondholder.

The Bonds 20.06.2024 were issued by the relevant resolutions of the Management Board, dated 27 May 2014 and 20 June 2014. The issue date of the Bonds 20.06.2024 was 20 June 2014.

Applicable Law

The Bonds 20.06.2024 were issued in accordance with and are governed by the laws of the Republic of Estonia.

Form and Registration

The Bonds 20.06.2024 are in dematerialised book-entry form and are not numbered. The Bonds 20.06.2024 are registered in the ECRS under ISIN code EE3300110550.

Currency

The Bonds 20.06.2024 are denominated in euro.

Ranking and Subordination

The Bonds 20.06.2024 have not been rated by any credit rating agencies.

The Bonds 20.06.2024 are subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds 20.06.2024 are not subordinated to the claims, which are subordinated to the Bonds 20.06.2024 or which rank *pari passu* with the Bonds 20.06.2024. The subordination of the Bonds 20.06.2024 means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds 20.06.2024 shall fall due in accordance with the Terms of the Bonds 20.06.2024 and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the bondholders of the Bonds 20.06.2024 are not entitled to any payments due under the Terms of the Bonds 20.06.2024 until the full and due satisfaction of all the unsubordinated claims against the Company. As long as there are no liquidation or bankruptcy proceedings initiated against the Company, all claims arising from the Bonds 20.06.2024 shall be satisfied in accordance with the Terms of the Bonds 20.06.2024 and the applicable law.

Rights Attached to Bonds

The rights attached to the Bonds 20.06.2024 have been established by the Terms of the Bonds 20.06.2024. The main rights of bondholders arising from the Bonds 20.06.2024 and the Terms of the Bonds 20.06.2024 are the right to the redemption of the Bonds 20.06.2024 and the right to interest.

In addition to the right to the redemption of the Bonds 20.06.2024 and the right to interest, according to the Terms of the Bonds 20.06.2024, the bondholders are entitled to access the annual and quarterly reports of the Company, which shall be made available at the website of the Company. Upon a delay in making any payments due under the Terms of the Bonds 20.06.2024, the bondholders are entitled to a delay interest at the rate of 0.05% per each day in delay.

The rights arising from the Bonds 20.06.2024 can be exercised by the bondholders in accordance with the Terms of the Bonds 20.06.2024 and the applicable law. According to the Terms of the Bonds 20.06.2024, any dispute between the Company and a bondholder shall be solved by amicable negotiations and if such negotiations have no positive outcome during a reasonable period of time, the dispute shall be settled by Estonian courts, whereas Harju County Court shall be the court of first instance. Claims arising from the Bonds 20.06.2024 shall expire in accordance with the statutory terms arising from applicable law.

After the contemplated listing of the Bonds 20.06.2024 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, information on the Company and the operations of the Group companies required to be disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange, including required financial statements, will be disclosed via the information system of the Nasdaq Tallinn Stock Exchange.

Interest and Yield

The Bonds 20.06.2024 carry an annual coupon interest at a rate of 7.25% per annum, calculated from the date of issue of the Bonds 20.06.2024, i.e. 20 June 2014, until the date of redemption. The interest is paid quarterly on the following dates – 20 March, 20 June, 20 September and 20 December. The interest on the Bonds 20.06.2024 is calculated based on 30-day calendar month and 360-day calendar year (30/360).

Maturity Date

The maturity date of the Bonds 20.06.2024 is 20 June 2024.

According to the Terms of the Bonds 20.06.2024, the Company is entitled to redeem the Bonds 20.06.2024 prematurely at any time after the lapse of 5 years as from the date of issue, i.e. at any time after 20.06.2019, by notifying the bondholders at least 30 days in advance. The Company is further entitled to redeem the Bonds 20.06.2024 prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds 20.06.2024 resulting in the Bonds 20.06.2024 being, in the opinion of the Company, excluded from the classification as own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds 20.06.2024, provided that the Company was not in a position to foresee such changes upon the issue of the Bonds 20.06.2024.

The Bonds 20.06.2024 may be redeemed prematurely by the Company on the above-described grounds only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 20.06.2024 as from 20.06.2019 only if the conditions of Article 78(1) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 20.06.2024 before 20.06.2019 only if the conditions of Article 78(4) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met[5].

The bondholders are not entitled to claim early redemption of the Bonds 20.06.2024 under any circumstances.

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[5] Article 78 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 regulates the conditions of granting supervisory permission for reducing own funds, whereas the aim of the regulation as a whole is to ensure due compliance with the capital adequacy requirements applicable in respect of credit institutions and investment firms.

Transferability

The Bonds 20.06.2024 are freely transferrable; however, any bondholder wishing to transfer the Bonds 20.06.2024 must ensure that any offering related to such transfer would not be qualified as a public offering in the essence of the applicable law. According to the Terms of the Bonds 20.06.2024, ensuring that any offering of the Bonds 20.06.2024 does not fall under the definition of public offering under the applicable law is the obligation and liability of the bondholder.

Agent

According to the Terms of the Bonds 20.06.2024, LHV Pank acts as the agent of the bond issue, being responsible for the arrangement of the subscription of the Bonds 20.06.2024, acting as the payment agent, ensuring due registration of the bonds and being responsible for the document management in respect of the documentation, which must be submitted by the Company under the Terms of the Bonds 20.06.2024.

LHV Pank as the agent acts as the representative of the Company and shall bear no liability before the bondholders for the due compliance with the Terms of the Bonds 20.06.2024 by the Company. The breach by LHV Pank of any of its undertakings as the agent of the bond issue shall be considered a breach by the Company of the Terms of the Bonds 20.06.20204 and the Company shall be liable for such breach before the bondholders. Under the Terms of the Bonds 20.06.2024, the bondholders acknowledge that LHV Pank is the subsidiary of the Company and confirm that they have no claims against the Company or LHV Pank arising from that fact.

6.2. Bonds 29.10.2025

Type and Class of Bonds

The Bonds 29.10.2025 are subordinated bonds with the nominal value of EUR 1,000. The Bonds 29.10.2025 represent unsecured debt obligation of the Company before the bondholder.

The Bonds 29.10.2025 will be issued by the relevant resolution of the Management Board, dated 21 September 2015. The issue date of the Bonds 29.10.2025 will be 29 October 2015.

Applicable Law

The Bonds 29.10.2025 will be issued in accordance with and are governed by the laws of the Republic of Estonia.

Form and Registration

The Bonds 29.10.2025 are in dematerialised book-entry form and are not numbered. The Bonds 29.10.2025 are registered in the ECRS under ISIN code EE3300110741.

Currency

The Bonds 29.10.2025 are denominated in euro.

Ranking and Subordination

The Bonds 29.10.2025 have not been rated by any credit rating agencies.

The Bonds 29.10.2025 are subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds 29.10.2025 are not subordinated to the claims, which are subordinated to the Bonds 29.10.2025 or which rank *pari passu* with the Bonds 29.10.2025. The subordination of the Bonds 29.10.2025 means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds 29.10.2025 shall fall due in accordance with the Terms of the Bonds 29.10.2025 and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the

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Company, the bondholders of the Bonds 29.10.2025 are not entitled to any payments due under the Terms of the Bonds 29.10.2025 until the full and due satisfaction of all the unsubordinated claims against the Company. As long as there are no liquidation or bankruptcy proceedings initiated against the Company, all claims arising from the Bonds 29.10.2025 shall be satisfied in accordance with the Terms of the Bonds 29.10.2025 and the applicable law.

Rights Attached to Bonds

The rights attached to the Bonds 29.10.2025 have been established by the Terms of the Bonds 29.10.2025. The main rights of bondholders arising from the Bonds 29.10.2025 and the Terms of the Bonds 29.10.2025 are the right to the redemption of the Bonds 29.10.2025 and the right to interest.

In addition to the right to the redemption of the Bonds 29.10.2025 and the right to interest. Upon a delay in making any payments due under the Terms of the Bonds 29.10.2025, the bondholders are entitled to a delay interest at the rate of 0.05% per each day in delay.

The rights arising from the Bonds 29.10.2025 can be exercised by the bondholders in accordance with the Terms of the Bonds 29.10.2025 and the applicable law. According to the Terms of the Bonds 29.10.2025, any dispute between the Company and a bondholder shall be solved by amicable negotiations and if the amicable negotiations have no outcome during a reasonable period of time, the dispute shall be settled by Estonian courts, whereas Harju County Court shall be the court of first instance. Claims arising from the Bonds 29.10.2025 shall expire in accordance with the statutory terms arising from applicable law.

After the contemplated listing of the Bonds 29.10.2025 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, information on the Company and the operations of the Group required to be disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange, including required financial statements, will be disclosed via the information system of the Nasdaq Tallinn Stock Exchange.

Interest and Yield

The Bonds 29.10.2025 carry an annual coupon interest at the rate of 6.5% per annum, calculated from the date of issue of the Bonds 29.10.2025, i.e. 29 October 2015, until the date of redemption. The interest is paid quarterly on the following dates – 29 January, 29 April, 29 June and 29 October. The interest on the Bonds 29.10.2025 is calculated based on 30-day calendar month and 360-day calendar year (30/360).

Maturity Date

The maturity date of the Bonds 29.10.2025 is 29 October 2025.

According to the Terms of the Bonds 29.10.2025, the Company is entitled to redeem the Bonds 29.10.2025 prematurely at any time after the lapse of 5 years as from the date of issue, i.e. at any time after 29.10.2020, by notifying the bondholders at least 30 days in advance. The Company is further entitled to redeem the Bonds 29.10.2025 prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds 29.10.2025 resulting in the Bonds 29.10.2025 being, in the opinion of the Company, excluded from the classification as own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds 29.10.2025, provided that the Company was not in a position to foresee such changes upon the issue of the Bonds 29.10.2025.

The Bonds 29.10.2025 may be redeemed prematurely by the Company on the above-described grounds only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 29.10.2025 as from 29.10.2020 only if the conditions of Article 78(1) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 29.10.2025 before 29.10.2020 only if the conditions of Article 78(4) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met[6].

The bondholders are not entitled to claim early redemption of the Bonds 29.10.2025 under any circumstances.

Transferability

The Bonds 29.10.2025 are freely transferrable; however, any bondholder wishing to transfer the Bonds 29.10.2025 must ensure that any offering related to such a transfer would not be qualified as a public offering in the essence of the applicable law. According to the Terms of the Bonds 29.10.2025, ensuring that any offering of the Bonds 29.10.2025 does not under the definition of public offering under the applicable law is the obligation and liability of the bondholder.

Agent

According to the Terms of the Bonds 29.10.2025, LHV Pank acts as the agent of the bond issue, being responsible for the arrangement of the subscription of the Bonds 29.10.2025, acting as the payment agent, ensuring due registration of the bonds and being responsible for the document management in respect of the documentation, which must be submitted by the Company under the Terms of the Bonds 29.10.2025.

LHV Pank as the agent acts as the representative of the Company and shall bear no liability before the bondholders for the due compliance with the Terms of the Bonds 29.10.2025 by the Company. The breach by LHV Pank of any of its undertakings as the agent of the bond issue shall be considered a breach by the Company of the Terms of the Bonds 29.10.2025 and the Company shall be liable for such breach before the bondholders. Under the Terms of the Bonds 29.10.2025, the bondholders acknowledge that LHV Pank is the subsidiary of the Company and confirm that they have no claims against the Company or LHV Pank arising from that fact.

6.3. Taxation

Introductory Remarks. This Section is meant to give an overview of the tax regime applicable to the bondholders and the Company. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. In order to establish particular tax consequences of the Offering or the ownership of the Bonds, each individual investor is strongly encouraged to seek specialist assistance.

Corporate Income Tax. The system of taxation of corporate income currently in force in Estonia differs from the traditional model of corporate income taxation in that it shifts the point of corporate taxation from the moment of earning to the moment of distribution. Therefore, in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution. Corporate income tax is charged on profit distributions such as dividends, payments in the course of

[6] Article 78 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 regulates the conditions of granting supervisory permission for reducing own funds, whereas the aim of the regulation as a whole is to ensure due compliance with the capital adequacy requirements applicable in respect of credit institutions and investment firms.

the reduction of share capital and redemption of own shares, as well as on implicit distributions such as fringe benefits, gifts and donations, expenditures and payments not related to the business activities of a company. All of the above profit distributions are taxed at the rate of 20/80 (25%) of the net amount of the distribution, i.e. 20% of the gross amount of the distribution. The corporate income tax charged on above profit distributions is payable only at the company level with the company being responsible for calculating, declaring and paying of the respective corporate income tax. Corporate income tax imposed on distributed profit is not a withholding tax and thus is not influenced by the applicable international tax treaties. Payments made in the course of the reduction of share capital and redemption of shares are taxable at the company level only to the extent such payments exceed the monetary and non-monetary contributions previously made by the shareholders into the company.

Capital Gains from Sale or Exchange of Bonds. Gains realized by an Estonian resident individuals upon the sale or exchange of securities (including the Bonds) are subject to income tax at the rate of 20%. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains realized by resident legal persons are not subject to immediate taxation. As a rule, capital gains received by non-residents from the sale or exchange of securities are not taxed in Estonia (except for certain securities related to Estonian real estate). The non-resident bondholders receiving capital gains from the sale or exchange of the Bonds may be subject to declaring and paying income tax in their respective countries of residence. For the purposes of capital gains taxation, the gain derived from the sale of securities (including the Bonds) is the difference between the acquisition cost and the sales price of such securities. The gain derived from the exchange of securities is the difference between the acquisition cost of securities subject to exchange and the market price of the property received as the result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains.

Taxation of Interest. Estonian resident individuals are subject to paying income tax (20%) on the interest received from loans, securities (including the Bonds) and other debt obligations. Therefore, interest (coupon payments) received by Estonian resident individuals from the Bonds is subject to income tax in Estonia. Since all earnings of resident legal persons are taxed only upon distribution (as described above), interest received by Estonian resident legal persons is not subject to immediate taxation. As a rule, interest payments received by non-residents are exempt in Estonia (i.e. no withholdings are made). Note, however, that non-resident bondholders receiving interest from the Bonds may be subject to declaring and paying income tax in their respective countries of residence.

Investment Account. Individuals may postpone the taxation of their investment income by using an investment account for the purposes of making transactions with financial assets (including the Bonds). An investment account is a monetary account opened with an European Economic Area or the Organisation for Economic Co-operation and Development (OECD) member state credit institution, through which the transactions with the financial assets, taxation of income from which (e.g. capital gains, interest, etc.) a person wants to postpone, shall be made. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e. the amount withdrawn from the account exceeds the amount which had been previously paid in to the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

6.4. Listing and Admission to Trading

The Company intends to apply for the listing and admission to trading of the Bonds 20.06.2024 and the Bonds 29.10.2025 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds 20.06.2024 is on or about 5 October 2015. The expected date of listing and the admission to trading of the Bonds 29.10.2025 is on or about 2 November 2015. While every effort will be made and due care will be taken in order to ensure the listing and the admission to trading of the Bonds by the Company, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. For the general information on the Nasdaq Tallinn Stock Exchange, please see Section "Estonian Securities Market".

7. GENERAL CORPORATE INFORMATION AND ARTICLES OF ASSOCIATION

7.1. General Corporate Information

The business name of the Company is AS LHV Group. The Company was registered in the Estonian Commercial Register on 21 January 2005 under the register code 11098261. The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term.

The contact details of the Company are the following:

Address: Tartu mnt 2, 10145 Tallinn, Estonia

Phone: +372 6 800 400

Fax: +372 6 800 410

E-mail: lhv@lhv.ee

According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2014, the field of activity of the Company was “activities of holding companies” (EMTAK[7] 64201). The consolidated fields of activity of the Group were “security and commodity contracts brokerage” (EMTAK 66121), “credit institutions (banks, granting loans)” (EMTAK 64191), “finance lease” (EMTAK 64911) and “fund management” (EMTAK 66301).

7.2. Articles of Association

The latest version of the Articles of Association of the Company was adopted by the respective resolution of the General Meeting of shareholders of the Company, dated 21 May 2014. The main terms of the Articles of Association of the Company are the following:

(i) the minimum amount of the share capital of the Company is EUR 15,000,000 and the maximum amount of the share capital of the Company is EUR 60,000,000, whereas within the minimum and maximum amount of share capital, the share capital of the Company may be increased and decreased without amending the currently effective version of the Articles of Association of the Company;

(ii) the Company has one type of shares only. The nominal value of the ordinary share of the Company is EUR 1 and each share grants the shareholder one vote at the General Meeting of shareholders;

(iii) the Shares may be paid in by monetary or non-monetary contribution into the share capital as determined by the General Meeting of shareholders of the Company;

(iv) the Shares are freely transferrable and may be pledged in accordance with applicable law;

(v) the Company may issue convertible bonds;

(vi) the Supervisory Board comprises of five to seven members elected for a period of five years; only persons with sufficient knowledge and professional experience for the position of a member of the Supervisory Board may be elected as members of the Supervisory Board; the Articles of Association

[7] EMTAK (the Estonian Classification of Economic Activities) is the basis for determining the fields of activity of Estonian companies. EMTAK is the national version of the international harmonised NACE classification. As of 1 January 2007, the Estonian companies are, instead of providing their fields of activity in the Articles of Association, required to report them in their annual reports using EMTAK classification.

further specify the persons who may not be appointed to the Supervisory Board and such persons are (i) members of management bodies of companies competing with the Company or with a Group company, members of audit committees or other committees of a credit institution, or auditors, except for intra-group positions; (ii) persons subject to restrictions on acting as a member of Supervisory Board or as an entrepreneur, imposed by a competent court; (iii) persons whose wrongful action or failure to act has, according to a ruling of a competent court, caused damage to a legal entity, resulted in a bankruptcy of a legal entity or the revocation of an activity license or a permit issued to a legal entity; (iv) persons who have committed a criminal offence in the field of economic activity or related to acting within a professional relationship, or an offence against property;

(vii) the Supervisory Board resolves the appointment and recalling the members of the Management Board and determines the strategy, general activity plan, risk management principles and annual budget of the Company and exercises regular supervision over the compliance with them; the Supervisory Board adopts resolutions in matters not placed into the competence of the General Meeting of shareholders of the Company and falling outside the everyday economic activities of the Company;

(viii) the Supervisory Board is entitled to establish committees and determine the existence, duties and role thereof within the corporate structure of the Company; the Supervisory Board establishes the audit committee and determines the rules of procedure thereof;

(ix) the Management Board comprises of one to five members elected for a period of five years, whereas the Articles of Association provide joint representation right of the members of the Management Board – the Company may be represented by the Chairman of the Management Board acting alone (if there is more than one member in the Management Board) or two members of the Management Board acting jointly;

(x) the financial year of the Company is the calendar year.

8. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

8.1. Share Capital and Shares

The current registered and fully paid-in share capital of the Company is EUR 23,356,005, which is divided into 23,356,005 ordinary shares of the Company (the Shares) with the nominal value of EUR 1. The Shares are registered in the ECRS under ISIN code EE3100073644. The Shares are not admitted to trading on any regulated market.

On 20 November 2012, the extraordinary General Meeting of shareholders of the Company resolved the issue of convertible bonds and the conditional increase of the share capital of the Company. The registered conditional amount of the share capital of the Company is EUR 23,769,331, whereas the outstanding amount of the share capital not paid in as at the date of this Prospectus is EUR 413,326. New Shares of the Company may be issued and conditional part of the share capital of the Company paid in in accordance with the terms and conditions of the convertible bonds issued by the Company (please see Section "Convertible Bonds" for further details).

8.2. Shareholders of Company

As at the date of this Prospectus, the Shareholders holding over 5% of all Shares in the Company are the following:

Name of Shareholder	Number of Shares	Proportion
AS Lõhmus Holdings (a company under the control of Mr Rain Lõhmus, the Chairman of the Supervisory Board of the Company)	3,357,920	14.4%
Mr Rain Lõhmus	2,978,367	12.8%
Mr Andres Viisemann	1,637,897	7.0%
Ambient Sound Investments OÜ	1,418,000	6.1%
OÜ Krenno (a company under the control of Mrs Mai Kaarepere)	1,210,215	5.2%

The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 38.6% of all the Shares, whereas approximately 28% of the Shares are held by Mr Rain Lõhmus and 10.6% by Mr Andres Viisemann.

The Management is as at the date of this Prospectus not aware of any arrangements or circumstances, which may at a subsequent date result in a change in control over the Company.

8.3. Rights of Shareholders

General Remarks. This Section "Rights of Shareholders" aims to provide general overview of the rights of shareholders arising from Estonian law applicable in respect of the Shareholders of the Company.

Right to Participate in Corporate Governance. The shareholders of a public limited company are entitled to take part in the corporate governance of such company through the general meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as the amendment of the articles of association, the increase and decrease of the share capital, the issue of convertible bonds, the election and removal of the members of the supervisory board and the auditor, the approval of annual reports and the distribution of profit, the dissolution, merger, division or transformation of the company, and certain other matters. The general meeting of shareholders is the highest governing body of a public limited company.

The ordinary general meeting of shareholders must be held once a year pursuant to the procedure and at the time set forth by the law and the articles of association. Despite the fact that according to the Estonian Commercial Code the ordinary general meeting of shareholders must be held within six months as from the end of a financial year, the Estonian Securities Market Act specifies that the audited annual report of a listed and publicly traded company must be made public within four months as from the end of a financial year. According to the Estonian Commercial Code, before the ordinary general meeting of shareholders is held, supervisory board must review the annual report and provide the general meeting of shareholders with a written report on the annual report, indicating whether the supervisory board approves the report or not but also providing information on how the supervisory board has organised and supervised the activities of the management of a public limited company in the respective year. In practice, the referred report is made available together with the notice on convening the general meeting of shareholders.

An extraordinary general meeting of shareholders must be convened in the cases set forth in the articles of association of a public limited company but also: (i) in the event where the net equity of the company decreases below the legally required minimum level, or (ii) if shareholders representing at least 1/10 of the share capital, the supervisory board, or the auditor request that a meeting is convened or (iii) if the meeting is required in the interests of the company. The Articles of Association of the Company do not include any deviation from the applicable law with respect to when the General Meeting of shareholders needs to be convened. If the management board of a public limited company fails to convene the extraordinary general meeting within one month after the receipt of the relevant request from shareholders (or from the supervisory board or from the auditor), the shareholders (or, respectively, the supervisory board or the auditor) have the right to convene the meeting themselves.

The notice of an upcoming general meeting of shareholders must be published and disclosed to shareholders three weeks in advance. The notice on convening the general meeting of shareholders must be published in at least one national daily newspaper in Estonia and, for issuers of listed instruments, through the information system of the Nasdaq Tallinn Stock Exchange. If there is a material breach of the requirements of convening a general meeting of shareholders, such meeting does not have the capacity to adopt resolutions, except if all the shareholders participate at the meeting.

As a rule, the agenda of a general meeting of shareholders is determined by the supervisory board. However, if the meeting is convened by the shareholders or by the auditor, the agenda is determined by them. Furthermore, the management board or the shareholders whose shares represent at least 1/20 of the share capital of a public limited company may demand the inclusion of a certain item into the agenda. An item which is initially not on the agenda of a general meeting of shareholders may be included in the agenda upon the consent of at least 9/10 of the shareholders who participate at the meeting if their shares represent at least 2/3 of the share capital of such company.

A general meeting of shareholders of a public limited company is capable of passing resolutions if more than 1/2 of the votes represented by all shares held by shareholders are present at the meeting. If this quorum requirement is not met, the management board is required to convene a new meeting not more than three weeks but not less than seven days after the date of the initial meeting. There are no quorum requirements for the newly convened general meetings of shareholders convened in such a manner.

Only those shareholders are eligible to attend and vote at a general meeting of shareholders who were on the list of shareholders as of the date falling seven calendar days before the meeting.

As a rule, the resolutions of a general meeting of shareholders require the affirmative vote of the majority of the votes represented at the meeting. Certain resolutions, such as amending the articles of association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, etc., require a qualified majority of 2/3 of the votes represented at the meeting of shareholders. In addition to such resolutions, there are resolutions which require an even higher rate of affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders, and squeeze-out of minority shares, which requires the affirmative vote of 95/100 of the votes represented at the general meeting of shareholders. Higher quorum and voting requirements compared to the ones described herein may be stipulated by the articles of association of a public limited company. The quorum and voting requirements set forth by the Articles of Association of the Company do not deviate from the ones set forth by the applicable law.

Right to Information. Pursuant to the Estonian Commercial Code, the shareholders of a public limited company have the right to receive information on the activities of the company from the management board at the general meetings of shareholders. However, management board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the company. In the event the management board refuses to give information, shareholders may require the general meeting of shareholders to decide on the legality of such refusal or submit a respective claim to the competent court.

Right to Subscribe for New Shares. Pursuant to the Estonian Commercial Code, existing shareholders of a public limited company have, upon the increase of the share capital of the company and the issue of the new shares of the company, the preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in the company. Such preferential right can be excluded by the respective resolution of the general meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders.

Right to Dividends. All shareholders of a public limited company have the right to participate in the distribution of profit of the company and have the right to receive dividends proportionally to their shareholding in the company. Resolving the distribution of profit and the payment of dividends is in the competence of the general meeting of shareholders. The resolution of the distribution of profit and the payment of dividends is adopted on the basis of the approved annual report for the preceding financial year, whereas the management board is under the obligation to make a proposal for the distribution of profit and the payment of dividends in the annual report or in a separate document accompanying the annual report, whereas such a proposal of the management board is subject to a review by supervisory board, which is in turn entitled to introduce amendments to the proposal. The resolution on the distribution of profit and on the payment of dividends must include the following information – (i) the amount of net profit; (ii) the payments into statutory capital reserve; (iii) the payments into other reserves if such exist according to the applicable law or the articles of association (which is not the case for the Company); (iv) the amount of profit being distributed among shareholders; and (v) using the profit for other purposes, if applicable. Shareholders who are entitled to participate in the distribution of profit and receive dividends shall be determined on the basis of the list of shareholders as maintained by the ECRS, which is fixed on the date determined by the general meeting of shareholders resolving the distribution of profit, whereas in respect of companies listed on the Nasdaq Tallinn Stock Exchange, such date may not occur earlier than on the tenth trading day after the general meeting of shareholders. While distributing profit and making dividend payments to shareholders, a public limited company is under the obligation to treat all shareholders equally.

8.4. Convertible Bonds

On 20 November 2012, the extraordinary General Meeting resolved the issue of 90 subordinated convertible bonds with the nominal value of EUR 50,000 each. The main terms of such bonds are the following:

Issuer:	the Company
Agent:	AS LHV Pank

Type of bond:	subordinated convertible bond
Number of bonds:	90
Nominal value	EUR 50,000 per bond
Total volume	EUR 4,500,000
Period:	8 years
Interest:	7% per annum (21.12.2012 – 20.12.2015); 7% + 3 months' EURIBOR (21.12.2015 – 20.12.2020)
Final Redemption Date:	20.12.2020
Early Redemption:	The Company is entitled to redeem the bonds prematurely any time after 21.12.2015.
Conversion to Shares:	The bondholder is entitled to convert the bonds to Shares during the period 21.12.2012 – 20.12.2015, provided that during that period new Shares of the Company are issued. The Share price for the bondholder upon conversion of the bond into a Share is discounted by 0-10% of the issue price, using liner accounting method according to which the discount is 0% on 21.12.2012 and 10% on 20.12.2015.

The subordinated convertible bonds are registered in the Estonian Central Register of Securities under the name "LHV Group subordinated convertible bond 20.12.2020" under ISIN code EE3300110311. As at the date of this Prospectus, there are altogether 15 outstanding bonds with the aggregated nominal value of EUR 750,000.

8.5. Shareholders' Agreements

According to the Management's knowledge, there are no shareholders' agreements executed between the Shareholders in respect of their shareholdings in the Company.

8.6. Management and Key Employees Share Option Program

On 29 April 2015, the ordinary General Meeting of the shareholders of the Group resolved to approve the management and key employees share option program. The main purpose of the share option program is to align the long-term interests of the members of the management bodies and key employees of the Company and the Group with the long-term interests of the Shareholders. The share option program was approved for the term of 5 years. The volume of the program is up to 2% of the total number of Shares per one calendar year. The determination of the persons eligible to participate in the program and the number of options granted to such persons was placed into the competence of the Supervisory Board upon a proposal made by the Remuneration Committee (please see Section "Remuneration Committee" for further details).

The main terms under which the options are granted to the members of the management and key employees are the following:

(i) options are granted for certain number of Shares and such number is not subject to change upon increase or decrease of the share capital of the Company (i.e. no anti-dilution protection is granted);

(ii) option price is determined in accordance with the Black-Scholes model, whereas the input for option price calculation is determined by the Supervisory Board;

(iii) option is granted with the term of three years to enjoy the benefits arising from the tax exemption applicable in respect of similar programs (according to Estonian tax laws, no income or social tax obligations arise from the exercise of employee options granted with the term of at least three years, whereas for the purposes of the tax exemption, members of management bodies are also considered employees);

(iv) options are granted personally to a members of management and employees and options may not be exchanged, transferred, pledged or otherwise disposed or encumbered; options are inheritable;

(v) exercise of options and issue of new Shares corresponding to options is carried out by increase of share capital of the Company and issue of new Shares, which is subject to relevant affirmative resolution of the General Meeting of shareholders;

(vi) the Company has retained a right to refuse to exercise options on the following grounds – (i) the General Meeting of shareholders does not adopt relevant resolution on share capital increase; (ii) option holder's professional relationship with relevant Group company is terminated upon the initiative of option holder or due to reasons arising from option holder; (iii) the results of operations of the Company or a relevant Group company have significantly deteriorated, if compared to previous period; (iv) option holder fails to comply with objectives set for his/ her position or fails to comply with requirements applicable in respect of a member of management or employee of a credit institution; (v) the Company or relevant Group company fails to comply with applicable prudential standards or the risks of relevant company are not adequately covered with own resources; (vi) option is granted relying on data, which turns out to be materially inaccurate or false;

(vii) option program is implemented in accordance with applicable requirements and restrictions, including restrictions arising from the Estonian Credit Institutions Act.

By the date of this Prospectus, the Company has granted options to altogether 691,157 Shares.

9. MANAGEMENT

9.1. Management Structure

In accordance with the Estonian law, the operational management of the Company is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and is eligible to represent the Company based on the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and for supervising the activities of the Management Board.

The address of operations of the Management Board and the Supervisory Board is the registered address of the Company - Tartu mnt 2, 10145 Tallinn, Estonia.

9.2. Management Board

Role. The Management Board of the Company is responsible for the day-to-day management of the Company's operations, the representation of the Company and for organising its accounting. Further, according to the Estonian Commercial Code, it is the obligation of the Management Board to draft the annual reports and submit the reports to the Supervisory Board's for review and to the General Meeting of shareholders for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

Duties. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least once every three months and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and the insolvency, due to the Company's financial situation, is not temporary, the Management Board must immediately submit a voluntary bankruptcy petition in respect of the Company.

The Management Board may only enter into transactions that lie outside the Company's ordinary scope of business with the consent of the Supervisory Board. According to the Articles of Association, the consent of the Supervisory Board is required for the following transactions:

(i) approval of annual business plan and budget;

(ii) approval of annual report and amendment of the proposal on the division of profit made by the Management Board;

(iii) acquisition or disposal of shareholdings in other entities;

(iv) resolving establishment or dissolution of a subsidiary of the Company;

(v) acquisition, disposal of an enterprise or termination of the operations thereof;

(vi) transfer or encumbering of real estate or registered property;

(vii) establishment or liquidation of a foreign branch;

(viii) making investments in the amount exceeding the budget for the respective financial year;

(ix) taking loans or assuming debt obligations in the amount exceeding the budget for the respective financial year;

(x) granting loans or securing debt obligations not within the Company's ordinary scope of business;

(xi) appointing and recalling a procurator;

(xii) appointing and recalling the members of the Management Board; appointing the Chairman of the Management Board;

(xiii) determining the duties of the members of the Management Board, exercising supervision over the activities of the Management Board and determining the principles of remunerating the work of the Management Board;

(xiv) resolving the execution of a transaction with a member of the Management Board, determining the terms of such a transaction, resolving the initiation of a legal dispute against a member of the Management Board, and determining the representative of the Company in such a transaction or a legal dispute;

(xv) resolving the execution of a transaction with a shareholder of the Company, determining the terms of such transaction, resolving the initiation of a legal dispute against a shareholder of the Company, and determining the representative of the Company in such a transaction or a legal dispute;

(xvi) appointing and recalling the members of the management bodies formed by the Supervisory Board, determining the work procedure rules of such bodies, unless the applicable law sets forth different requirements;

(xvii) resolving other matters placed into the competence of the Supervisory Board by the applicable law or the Articles of Association.

The work procedure rules, representation rights, restrictions and limitations on executing transactions in the name and on behalf of the Company, as well as the liability of the members of the Management Board are further specified by the Rules of Procedure of the Management Board approved by the resolution of the Management Board on 21 May 2014.

Members of Management Board. According to the Articles of Association, the Management Board comprises of one to five members who are appointed by the Supervisory Board for a term of five years. The Supervisory Board has decided to appoint one member of the Management Board – Mr Erkki Raasuke. The authorities of Mr Erkki Raasuke as the member of the Management Board will remain valid until 23 September 2018.

Mr Erkki Raasuke. Mr Raasuke was born in 1971. Mr Raasuke was awarded a degree in economics from the Tallinn Technical University in 1994. In 2005, he participated in the Advanced Management Program in one of the world's leading and largest graduate business schools INSEAD. Between 1994 and 2011 he worked for AS Swedbank (Estonia) and AB Swedbank (Sweden) holding different positions, whereas between 2005 and 2009 he served as the Chairman of the Management Board of AS Swedbank and from 2009 to 2011 as the CFO of AB Swedbank. From 2012 to 2013 Mr Raasuke served as an advisor to the Minister of Economic Affairs and Communications. Within the Group, in addition to holding the position of the Chairman of the Management Board of the Company, Mr Raasuke is the Chairman of the Supervisory Board of LHV Pank, LHV Varahaldus and Mokilizingas. Mr Raasuke is also a member of the Supervisory Board of AS TREV-2 Group, Eesti Energia AS and EfTEN Kinnisvarafond AS. Mr Raasuke also acts as the member of the Management Board of non-profit organisations MTÜ Soela Sadama Selts and the Estonian Cyclists Union.

9.3. Supervisory Board

Role. In accordance with the Estonian Commercial Code, the Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Supervisory Board is accountable to the Shareholders of the Company (acting through the General Meeting).

Duties. In accordance with the Estonian Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report but also providing information on how the Supervisory Board has organised and supervised the activities of the Company during the year. In practice, the referred report is made available along with the notice on convening the General Meeting of shareholders. The duties of the Supervisory Board members, as well as restrictions on serving as a member of the Supervisory Board and the work procedure of the Supervisory Board are further specified with the Rules of Procedure of the Supervisory Board approved by the Supervisory Board on 21 May 2015. The main purposes of establishing the Rules of Procedure were to ensure effective avoidance of conflicts of interests and to specify the work procedure of the Supervisory Board.

Members of Supervisory Board. According to the Articles of Association of the Company, the Supervisory Board consists of five to seven members who are appointed by the General Meeting of shareholders for a period of five years. The members of the Supervisory Board elect among themselves a Chairman of the Supervisory Board who is responsible for organising the activities of the Supervisory Board. According to the Articles of Association, only persons with sufficient knowledge and experience may be appointed to the Supervisory Board. According to the Articles of Association, meetings of the Supervisory Board are as a general rule held once a month or according to the actual necessity, but in any case at least once every three months. A meeting of the Supervisory Board has quorum if more than one half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is adopted if more than one half of the members of the Supervisory Board who participate in the meeting vote in favour. In case of a tied vote, the Chairman of the Supervisory Board has a casting vote. As at the date of this Prospectus there are seven members in the Supervisory Board of the Company – Mr Rain Lõhmus (the Chairman of the Supervisory Board), Mr Raivo Hein, Mr Heldur Meerits, Mrs Tiina Mõis, Mr Tauno Tats, Mr Andres Viisemann and Mr Sten Tamkivi. The authorities of all the referred persons as the members of the Supervisory Board will remain valid until 21 May 2017.

Mr Rain Lõhmus. Mr Lõhmus was born in 1966. He graduated from the Tallinn Technical University in 1988 where he obtained a degree in economics. In 1999, he attended the General Manager Program at the Harvard Business School. During his professional career, Mr Lõhmus has worked as an investment banker and served as a member of the Management Board of several different companies. He has been engaged with the Group since its establishment in 1999 and was one of the founders thereof. Currently Mr Lõhmus serves as the Chairman of the Supervisory Board of the Company and as a member of the Supervisory Board of LHV Pank and LHV Finance. He is also a member of the Management Board of AS Lõhmus Holdings and of OÜ Cuber Technology. He is a member of the Supervisory Board of Kodumajagrupi AS, Arco Vara AS, AS Audentes, AS Arhiivikeskus, Kodumaja AS and AS LH Capital.

Mr Raivo Hein. Mr Hein was born in 1966. Mr Hein holds a degree in road construction from the Tallinn Technical University awarded to him in 1991. He has worked as a member of the Management Board of AS Starman between 1997 and 1999 and again between 2001 and 2003. He has served as a member of the Management Board of AS CV Keskus between 2000 and 2008. He was the head of the entrepreneurship department of the City of Tallinn between 2000 and 2002. Within the Group, he also serves as a member of the Supervisory Board of LHV Pank. In addition to his participation in the management of the Group, he is a member of the Management Board of E-Finance OÜ, Higgsi Boson OÜ, Desoksüribenukleiinhape DNA OÜ, OÜ Kakssada Kakskümmend Volti, Lame Maakera OÜ, Kuu on Päike OÜ, Kõver Aegruum OÜ and non-profit organisation MTÜ Tallinn Vanalinn Rotary Klubi. He is a member of the Supervisory Board of AS Puumarket and of AS Fix Ideed Estonia.

Mr Heldur Meerits. Mr Meerits was born in 1959. Mr Meerits was awarded a degree in finance and credit from the University of Tartu in 1982. During his professional career Mr Meerits has worked for the Estonian National Bank (1988 – 1991 and 1995 –1997), whereas between 1991 and 1995 he worked for the predecessor of AS Swedbank (operating under the business names AS Hoiupank and AS Hansapank). From 1999 to 2002, Mr Meerits served as a state official working for the Government Office. Since 2002, he has been engaged in investing via Amalfi AS, an investment vehicle fully-owned by Mr Meerits. Within the Group, he serves, in addition to his position as a member of the Supervisory Board of the Company, as a member of the Supervisory Board of LHV Pank. Mr Meerits is a member of the Management Board of AS Altamira, AS Amalfi and SIA Valdemara Group and a member of the Supervisory Board of AS Audentes, Kodumaja AS, AS Smart City Group, Green Clay Manufactoring OÜ and non-profit organisations SA Avatud Eesti Fond, SA Dharma, SA Tähelaps and SA Põltsamaa Ühisgümnaasiumi Toetusfond.

Mrs Tiina Mõis. Mrs Mõis was born in 1957. Mrs Mõis holds the degrees in econometrics and organisation of service and economic engineering from the Tallinn Technical University awarded to her in 1980. During the years 1991 to 1999 she worked as the Chief Accountant and a member of the Management Board of the predecessor of AS Swedbank (operating under the business name AS Hansapank). Since 1999, she serves as a member of the Management Board and the managing director of AS Genteel, investment vehicle fully-owned by Mrs Mõis. Within the Group, she also serves as a member of the Supervisory Board of LHV Pank. In addition to that, she holds the position of a member of the Supervisory Board of AS Baltika and Green Clay Manufacturing OÜ.

Mr Tauno Tats. Mr Tats was born in 1975. Mr Tats holds the Masters' degree in economic science from the Tallinn Technical University awarded to him in 2003. He is currently working as a member of the Management Board of Ambient Sound Investments OÜ. Before assuming his current position in Ambient Sound Investments OÜ, he served as the undersecretary of the Ministry of Finance. In addition to Ambient Sound Investments OÜ, he is a member of the Management Board of InSkipFour OÜ, Kv1 OÜ, Kv3 OÜ, Ammende Hotell OÜ, InSkipSix OÜ, OÜ Perila-Perjatsi Põllud ja Metsad, OÜ Paisteväljа-Paistu Põllud ja Metsad and non-profit organisation MTÜ Plate torn. He is also a member of the Supervisory Board of AS Ecomet Invest, EfTEN KInnisvarafond AS and AS Redgate Capital.

Mr Sten Tamkivi. Mr Tamkivi was born in 1978. He holds a Masters' degree in management from the Standford University Graduate School awarded to him in 2013. Between 2005 and 2013 he served as a member of the Management Board of Skype Technologies OÜ. Between 2009 and 2012 he was a member of the Management Board of the Estonian Association of Information Technology and Telecommunications. Between 2009 and 2012 he worked as an advisor to the Office of the President of the Republic of Estonia. Between 2003 and 2008, he served as a member of the Management Board of Mercur ThinkTank OÜ. He also holds the position of a member of the Management Board of Seikatsu OÜ, Osaluste Hellalt Hoidmise OÜ, Teleport Technologies OÜ and Teleport, Inc. He serves as a member of the Supervisory Board of ASI Private Equity AS, Kristler-Ritso Eesti SA and non-profit organisations SA Poliitikauuringute Keskus Praxis and Seedcamp.

Mr Andres Viisemann. Mr Viisemann was born in 1968. Mr Viisemann obtained a degree in finance from the University of Tartu in 1992. He was awarded a MBA degree from one of the world's leading and largest graduate business schools INSEAD in 1997. During his professional career, Mr Viisemann has worked as an investment manager and served as a member of the Management Board of several different companies. He has been engaged with the Group since its establishment in 1999 and was one of the founders thereof. Within the Group, he serves, in addition to his position as a member of the Supervisory Board of the Company, as a member of the Supervisory Board of LHV Pank and LHV Varahaldus. He also holds the position of a member of the Management Board of OÜ Miura Investeeringud and Viisemann Holdings OÜ and the position of a member of the Supervisory Board of AS Fertilitas, Rocca al Mare Kooli AS and non-profit organisation Rocca al Mare SA.

9.4. Other Key Executive Personnel

Mr Jüri Heero. Mr Heero is a member of the Management Board and the Head of IT of LHV Pank. Mr Heero was born in 1977. Mr Heero holds a degree from the Faculty of Economics and Business Administration of the University of Tartu awarded to him in 1999. During his professional career, Mr Heero has worked as a software developer and consultant in several different companies.

Additionally, between 2000 and 2004, he held the position of a member of the Supervisory Board of AS Cognitive Dynamics, and from 2005 to 2009, he served as a member of the Management Board of OÜ Heero Invest. Mr Heero joined the Group in 2004 as the Head of IT and has been participating in the management of the Group since 2006. From 2006 to 2007, he served as a member of the Supervisory Board of LHV Pank, and since 2007, has been holding the position of a member of the Management Board of LHV Pank.

Mr Andre Kaldamäe. Mr Kaldamäe is the head of internal audit division of the Company. Mr Kaldamäe was born in 1984. Mr Kaldamäe holds Master’s degrees in Finance and Insurance Mathematics and Finance and Accounting from the University of Tartu. Before assuming the position of the head of internal audit division of the Company, Mr Kaldamäe worked as a senior consultant in Ernst & Young Baltic AS.

Mr Erki Kilu. Mr Kilu is the Chairman of the Management Board of LHV Pank. Mr Kilu was born in 1975. He holds a Bachelor's degree in international business administration majoring in banking and finance from the Estonian Business School awarded to him in 1998 and a Master's degree in business administration from the Faculty of Economics of the University of Tartu awarded to him in 2001. Before assuming the position of the Chairman of the Management Board of LHV Pank in 2008, Mr Kilu was the Chairman of the Management Board of SE Seesam Life Insurance Vienna Insurance Group. Within the Group, in addition to holding the position of the Chairman of the Management Board of LHV Pank, Mr Kilu serves as the member of the Supervisory Board of Mokilizingas, as the Chairman of Supervisory Board of LHV Finance and as the member of Supervisory Board of LHV Varahaldus. He is also the member of the Management Board of the non-profit organisations Estonian Banking Association and KÜ Pajusaare 16.

Mr Andres Kitter. Mr Kitter is a member of the Management Board and the Head of Retail Banking of LHV Pank. Mr Kitter was born in 1978. He was awarded a Master’s degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003. Between 2000 and 2007, Mr Kitter worked for AS SEB Ühisliising, holding several different positions in the company. Before assuming his current position in LHV Pank in 2013, he served as a payment operations manager and partner relations manager in Skype Technologies OÜ.

Mr Joel Kukemelk. Mr Kukemelk is a member of the Management Board of LHV Varahaldus and the Fund Manager of the LHV Persian Gulf Fund. Mr Kukemelk was born in 1986. In 2010, he graduated from the University of Tartu with a Master’s degree (*cum laude*) in Economics, specialising in finance and accounting. Additionally, Mr Kukemelk has successfully passed the CFA (Chartered Financial Analyst) Level I exam in 2009 and Level II exam in 2011. Mr Kukemelk has been working for the Group since 2006. Before attaining his current position in LHV Varahaldus, he worked as a stock market analyst and as a portfolio manager in LHV Pank.

Mr Indrek Nuume. Mr Nuume is a member of the Management Board and the Head of Corporate Banking of LHV Pank. Mr Nuume was born in 1976. Mr Nuume was awarded a Master’s degree from the Faculty of Economics and Business Administration of the University of Tartu in 2002. Before joining the team of LHV Pank, between 1998 and 2009, Mr Nuume worked for Danske Bank A/S Estonian Branch as the Head of Corporate Banking.

Mr Mihkel Oja. Mr Oja is the Chairman of the Management Board of LHV Varahaldus. He was born in 1983. Mr Oja obtained a degree in Economics and Business Administration with specialization in Finance from the Stockholm School of Economics in Riga in 2004. In 2015, he was awarded a MBA with Distinction form one of the world's leading business and management schools Edinburgh Business School, the Graduate School of Business of Heriot-Watt University. Before attaining his current position in LHV Varahaldus in 2007, he held the position of an associate in AS LHV Financial Advisory Services. In addition to his participation in the management of LHV Varahaldus, he is also a member of the

Management Board of the Estonian Fund Managers Association and non-profit organisation KÜ Narva mnt 70.

Mr Meelis Paakspuu. Mr Paakspuu is the member of the Management Board of and the Chief Financial Officer of LHV Pank. He was born in 1974. Mr Paakspuu graduated from the Tartu University in 1996 and obtained a degree in economics. During his professional career, Mr Paakspuu has worked as the chief analyst of the Banking Supervision of Eesti Pank (i.e. the Bank of Estonia) (1996-1998) and in different positions in the treasury department of Swedbank AS (formerly AS Hansapank) including Head of Treasury (1998-2012). Before joining the team of LHV Pank, Mr Paakspuu served as the Chief Financial Officer of DNB Pank AS from 2012 to 2015.

Mrs Nele Roostalu. Mrs Roostalu is a member of the Management Board of LHV Finance since 2013. Mrs Roostalu was born in 1983. She holds a Master's degree from the Faculty of Economics and Business Administration of the University of Tartu awarded to her in 2008. Mrs Roostalu joined LHV Group in 2011. Before attaining her current position, she served as the Product Manager of Retail Lending and the Head of Retail Lending of LHV Pank. Between 2007 and 2011, Mrs Roostalu held the positions of product manager and project manager in AS Swedbank.

Mr Martti Singi. Mr Singi is a member of the Management Board and the Chief Risk Officer of LHV Pank. Mr Singi was born in 1974. He holds a Master's degree in international business administration from the Estonian Business School awarded to him in 2009. Before assuming his current position in LHV Pank in 2012, Mr Singi served at AS Swedbank as the Head of Group Credit Risk Control from 2007 to 2009 and as the Head of Risk Control from 2009 to 2012. Between the years 2000 and 2007, Mr Singi held different positions in SEB Group.

9.5. Audit Committee

Role and Duties. The Audit Committee is an advisory body to the Supervisory Board in the fields of accounting, audit, risk management, internal control and internal audit, supervision, budgeting and compliance with legal requirements. The Audit Committee is responsible for making proposals to the Supervisory Board and providing recommendations for the appointment or removal of external and internal auditors, prevention or elimination of problems or ineffectiveness in the organisation and for the compliance with legislation and good professional practice. Pursuant to the Estonian Auditors' Activities Act, the duties of the Audit Committee include monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process for the audit of financial statements and the supervision over the activities of auditors.

Members of Audit Committee. According to the Rules of Procedure of the Audit Committee of the Group, as approved by the Supervisory Board on 27 August 2014, the Audit Committee of the Company consists of at least three members, whereas at least two of the members of the Audit Committee must be experts in accounting, finance or law. The members of the Audit Committee are elected for a term of one year by the Supervisory Board. Currently, the Audit Committee consists of three members – Ms Gerli Kilusk (the Chairman of the Audit Committee), Mrs Marilin Hein and Mr Tauno Tats.

Ms Gerli Kilusk. Ms Kilusk is the Chairman of the Audit Committee of the Company. Ms Kilusk was born in 1982. She has acquired a Master's degree at the Faculty of Law of the University of Tartu in 2004, and is a member of the Estonian Bar Association. Ms Kilusk is a partner and attorney at law at Red, Attorneys at Law. Before becoming a partner at Red, Attorneys at Law, she worked as an attorney in the law firms LAWIN (with the current business name COBALT) and Raidla & Partners (with the current business name Raidla Ellex). In addition to holding the position of a member of the Management Board of Red, Attorneys at Law (OÜ Advokaadibüroo Red), she is also a member of the Management Board of OÜ Lihtsalt Holding and a member of the Supervisory Board of Ridge Capital AS and of non-profit organisation SA Leiutajateküla.

Mrs Marilin Hein. Mrs Hein was born in 1971. Mrs Hein has obtained a degree in international financial management in the International University Audentes in 2000. Mrs Hein is the co-founder and the Chief Financial Officer of EfTEN Capital AS. Mrs Hein has previously served as the chief accountant in AS Arco Vara and in the law firm Luiga, Mody, Hääl, Borenius (with the current business name Borenius), as well as an accountant of Reval Rent OÜ and the Compensation Fund. She is also a member of the Management Board of EfTEN Kinnisvarateenuste OÜ, OÜ Kakssada Kakskümmend Volti, Astrum OÜ and a member of the Supervisory Board of Balti Kinnisvaraportfell AS.

Mr Tauno Tats. Mr Tats is the representative of the Supervisory Board in the Audit Committee. Please see Section "Supervisory Board" for his curriculum vitae information.

9.6. Remuneration Committee

Role and Duties. The Remuneration Committee is a corporate governance body formed by the Supervisory Board. The Remuneration Committee was formed for the purpose of assessing the principles of remuneration applied within the Group, developing a remuneration strategy for the members of the Management Board as well as for exercising supervision over the compliance with the applicable legal requirements in respect of risk management and capital adequacy.

Members of Remuneration Committee. In accordance with the Rules of Procedure of the Remuneration Committee as approved by the Supervisory Board on 21 May 2014, the Remuneration Committee comprises of at least three members of the Supervisory Board of LHV Pank as appointed by the Supervisory Board. Currently, the members of the Remuneration Committee are Mr Erkki Raasuke (Chairman of the Remuneration Committee), Mr Rain Lõhmus and Mr Andres Viisemann. Please see Sections "Management Board" and "Supervisory Board" for their curriculum vitae information.

9.7. Remuneration and Benefits

The total amount of remuneration and benefits paid to the members of the supervisory and management bodies of the Group companies during the financial year ended on 31 December 2014 was EUR 778 thousand (including all applicable taxes). In addition to monetary remuneration and benefits, several members of the management bodies have been issued share options under the management and key employees share option program described in detail in Section "Management and Key Employees Share Option Program". The Company has chosen not to disclose the amounts of remuneration and benefits of each single member of the supervisory and management bodies of the Group companies in order to protect the privacy and personal rights of the relevant persons.

9.8. Share Ownership

As at 30 June 2015, 56.3% of all the Shares, i.e. the total number of 13,142,501 Shares were held by the members of the management bodies of the Group companies or the related parties thereof.

9.9. Conflicts of Interests

According to the knowledge of the Management, there are no known actual or potential conflicts of interest between the duties of any of the members of the Management and the Supervisory Board to the Company or to any Group company, and their private interests or other duties.

9.10. Statement of Compliance with Corporate Governance

The Company complies with the corporate governance regime of the Republic of Estonia. Further to the compliance with the applicable laws and regulations, the Company has committed itself to adhere the highest standards of corporate governance within the Group companies for ensuing the transparent management of the Group companies and avoiding conflicts of interests. For these purposes, the Group companies have adopted work procedure rules for all corporate governance bodies to further specify the rules, requirements, limitations and liability of their members arising in general from the applicable law and the Articles of Association. The Company follows the principles of good corporate governance arising from the Good Corporate Governance Code as adopted by the FSA and the relevant reports are published as part of the annual reports of the Company. The Good Corporate Governance Code is binding on the basis of "comply or explain principle", whereas the requirements, which are currently not fully followed by the Company have been described in the latest Good Corporate Governance Report made available in the audited consolidated financial statements of the Group for the year ended on 31 December 2014.

9.11. External Auditors

According to the Articles of Association, the appointment of external auditors is in the competence of the General Meeting of shareholders, whereas the selection of candidates and making a proposal to the General Meeting of shareholders is done by the Audit Committee. The General Meeting of shareholders held on 29 April 2015 appointed AS PricewaterhouseCoopers (having its registered address at Pärnu mnt 15, 10141 Tallinn, Estonia) to act as the external auditors of the Group for the three subsequent financial years (2015 – 2017). AS PricewaterhouseCoopers is a member of the Estonian Auditing Board.

The annual Financial Statements have also been audited and the interim Financial Statements reviewed by AS PricewaterhouseCoopers.

10. PRINCIPAL MARKETS

Introductory Remarks. As at the date of this Prospectus, the Group is operating in three geographical markets, in the three Baltic countries – Estonia, Latvia and Lithuania. In Estonia, the Group is engaged in corporate and retail banking, asset management, securities brokerage and consumer financing. In Latvia, the Group operates through its registered branch and offers primarily retail securities brokerage services. In Lithuania, the Group operates through its joint venture Mokilizingas, which is engaged in offering consumer financing services. In addition to the above-mentioned geographical markets and business segments, LHV Pank is engaged in offering cross-border retail securities brokerage services.

Estonian Banking Market[8]. There are altogether nine licenced credit institutions in Estonia, and a further seven branches of foreign credit institutions operate in the Estonian banking market. The Estonian banking market is highly consolidated and is dominated by the credit institutions belonging to Nordic banking groups (Swedbank AS, AS SEB Pank, Nordea Bank AS Estonian branch and Danske Bank A/S Estonian branch). The two main metrics for assessing a banking market are the total volume of loan portfolios and the total volume of deposits. In Estonia, the four largest banking groups hold a 90% combined market share in loans and 88% combined market share in deposits. By the end of 2014, the total volume of the loan portfolios of the credit institutions operating in the Estonian market stood at EUR 15,067 million. The total volume of the loan portfolios of the credit institutions operating in the Estonian market can be broken down as follows - lending to private persons totalled EUR 7,055 million, lending to commercial undertakings EUR 6,562 million, lending to financial institutions EUR 910 million and lending to the government and the public sector EUR 540 million. The total volume of the loan portfolios in the Estonian banking market peaked in 2008, reaching EUR 16,640 million[9]. Following the global financial crisis and the economic recession of 2008-2009, the lending volumes started to decline, whereas from 2012 and onwards lending volumes are showing signs of modest growth. By the end of 2014, the total volume of deposits of the credit institutions operating in the Estonian market stood at EUR 14,878 million, which was divided between the deposits of private persons in the total volume of EUR 5,935 million, the deposits of commercial undertakings in the total volume of EUR 6,480 million, the deposits of financial institutions in the total volume of EUR 1,270 million and the deposits of the government and the public sector in the total volume of EUR 1,193 million. The total volume of deposits has been growing year by year for the past 15 years, forming a very stable funding source for the credit institutions operating in the Estonian banking market.

Estonian Asset Management Market[10]. The Estonian asset management market is relatively young and is rapidly growing. The growth is driven by the mandatory pension funds, which are also the largest business segment of the Estonian asset management market. During the year 2014, the total volume of the assets of the mandatory pension funds increased by altogether 24%. According to Estonian law, fund managers are subject to licensing by the FSA. There are altogether 17 local licensed fund managers in Estonia and in addition to that there are 40 market participants providing fund management services cross-border. The asset management market is traditionally measured by the total value of assets managed by the funds operating in the respective market. In Estonia, by the end of 2014, the total value of investment funds stood at EUR 2,895 million, whereas out of that number, EUR 2,204 million was managed by mandatory pension funds, EUR 330 million by equity funds, EUR 145 million by real estate funds, EUR 118 million by voluntary pension funds, EUR 69 million by debt funds and EUR 29 million by venture capital funds. The largest players in the Estonian asset management market

[8] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/public/turg_seisuga_2014_12_inglise.pdf
[9] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/failid/turg_seisuga_2008_12.pdf
[10] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/public/turg_seisuga_2014_12_inglise.pdf

are Swedbank Investeerimisfondid AS with a 39% market share, AS SEB Varahaldus with 19% market share, LHV Varahaldus with a 17% market share and Danske Capital AS with a 8% market share. Mandatory pension funds in Estonia are managed by altogether five licensed fund managers, whereas their respective market shares are the following – Swedbank Investeerimisfondid AS holds a 40% market share, AS SEB Varahaldus holds a 21% market share, LHV Varahaldus holds a 21% market share, Danske Capital AS holds a 10% market share and Nordea Pensions Estonia AS holds a 8% market share. The small size and low liquidity of the local securities market mean that investment funds and pension funds have so far invested predominantly into foreign assets, and more than three quarters of the total assets of investment funds currently consist of securities registered abroad. The share of external assets in the funds have not changed much over the past three years. The majority of the foreign assets are securities registered in other European countries, which provided 60% of the total at the end of 2014.

Estonian Securities Market[11]. The volumes and trading activity levels in the Estonian securities market are relatively small. The total capitalisation of all bonds and equity instruments listed and admitted to trading on the Estonian regulated market stood, in the end of 2014, at EUR 1,663 million, which forms 9% of the Estonian GDP for that year. The local bond market has been rather passive for the past five years. As no new bonds have been listed and admitted to trading on the local regulated market since 2010, there was no secondary market for bonds in Estonia in 2014. As of the end of 2014, the total capitalisation of the local equity instruments market (shares) was EUR 1,663 million, which is more or less the same as a year earlier. The number of issuers was 15 and secondary market transactions in shares was 43,227. The total traded volume was EUR 127 million. The fluctuations of share prices of the shares listed and admitted to trading in Nasdaq Tallinn Stock Exchange may, in 2014, be characterised by decrease (altogether by 7.7%). The beginning of 2015 has; however, indicated the signs of improvement – the share prices started to increase rather rapidly. Such positive tendency is driven by two main factors – firstly, the operating results of the listed companies have been better than expected; and secondly, the investor sentiment has been positive in all European securities markets due among other things to the expectations for the bond purchasing programme of the European Central Bank. The volume of foreign investments on the Nasdaq Tallinn Stock Exchange has fluctuated around 40%.

Estonian Consumer Financing Market[12]. In addition to the licensed credit institutions, consumer financing in the Estonian market is offered by several market participants who are not subject to as extensive financial supervision as licensed credit institutions. This is also the main reason why it is difficult to determine the exact size and the credit volumes of the Estonian consumer financing market. In the end of 2013, the Estonian Ministry of Economic Affairs and Communications estimated the total size of the Estonian consumer financing market to be around EUR 709 million, of which EUR 591 million was provided by licensed credit institutions and the remaining EUR 118 million by others. While the volume of consumer financing provided by the licensed credit institutions has remained at the same level over the past few years, the volumes provided by other creditors has grown by a significant 20-30% on an annual basis. There are over 100 credit firms and intermediaries operating in the Estonian market, but approximately 50% of the outstanding volume of non-licensed consumer financing is attributed to six largest market participants. The Estonian consumer financing market is undergoing

[11] Facts and data from the statistics of the Nasdaq Tallinn Stock Exchange, available at http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259; and from the statistics of the Estonian National Bank, available at http://www.eestipank.ee/sites/eestipank.ee/files/publication/en/FinancialStabilityReview/2015/ep_fsy_2015_1_eng_pdf.pdf

[12] Facts and data from the analysis of and proposal for the Estonian consumer credit market, available at https://www.mkm.ee/sites/default/files/kiirlanuturg_analyys_ja_ettepanekud.pdf

significant reforms, which is expected to lead to a better organised market and to better consumer protection. Namely, in March 2015, the Estonian Credit Providers and -Intermediaries Act was adopted by the Estonian Parliament. The referred piece of legislation establishes extensive restrictions on the operations of the currently unlicensed credit providers and intermediaries; most notably, credit intermediaries will be subject to licensing by the FSA. The same will be applicable in respect of foreign credit intermediaries operating in the Estonian market. The above-described reforms are estimated to decrease the number of credit intermediaries operating in the market, which in turn may lead to the improvement of the market position held by licensed credit institutions.

Latvian Securities Market[13]. The volumes and trading activity levels on the Latvian securities market are relatively small. The total capitalisation of bonds and equity instruments listed and admitted to trading on the Latvian regulated market stood, in the end of 2014, at EUR 2,672 million, which formed 11% of the Latvian GDP. The local regulated market is largely dominated by bonds. The total value of the corporate debt securities listed and admitted to trading on the Nasdaq Riga Stock Exchange stood, in the end of 2014, at EUR 727 million, comprising of a total of 33 bond issues. The total value of government debt securities stood, in the end of 2014, at EUR 1,085 million, comprising of 19 bond issues. Nevertheless, the trading activity with the listed bonds is relatively low. In 2014, there were 455 secondary market transactions with corporate debt securities and 273 transactions with government debt securities. In the end of 2014, the total capitalisation of the local listed equity instruments (shares) was EUR 860 million. The number of listed entities was 29 and the number of transactions with shares was 14,066. The total trading volume was EUR 17 million.

Lithuanian Securities Market[14]. The total capitalisation of bonds and equity instruments listed and admitted to trading on the Lithuanian regulated market stood, in the end of 2014, at EUR 5,718 million, which formed 16% of the Lithuanian GDP. As the end of 2014, the total capitalisation of the local equity instruments market (shares) was EUR 3,330 million. There were altogether 33 issuers. The annual turnover of trading with equity instruments was EUR 79 million. During 2014, the OMX Vilnius index increased by 7.3%. The combined Baltic equity instruments list (share list) is led by three Lithuanian companies if compared by market capitalisation, whereas five out of ten largest companies listed and admitted to trading on the combined Baltic equity instruments list (share list) are from Lithuania. In the end of 2014, the total market capitalisation of the Lithuanian listed bond market was EUR 2,388 million and there were altogether 26 bonds listed and admitted to trading on the Nasdaq Vilnius Stock Exchange. Nevertheless, the annual trading turnover was modest, being EUR 97 million.

Lithuanian Consumer Financing Market[15]. As of 31 December 2014, the public list of consumer credit providers in Lithuania included 60 companies (other than credit institutions) authorised to provide consumer credit by the Bank of Lithuania. The volume of consumer loans provided by those companies totalled 784 thousand at the end of 2014, an increase of 9% on 2013. The volume of credit extended to consumers totalled EUR 339 million as of 31 December 2014. Year-on-year, the credit portfolio increased by approximately 17%. As of late 2014, the largest share of loans granted to natural persons by consumer credit lenders was in consumer credits exceeding LTL 1,000 (approximately EUR 290), which totalled approximately EUR 162 million. The second largest category was credits provided under linked consumer credit agreements, which totalled approximately EUR 144 million, resulting in an increase of 11 on 2013. The balance of small consumer credits amounted to approximately EUR 31

[13] Facts and data from the Nasdaq Riga Stock Exchange, available at http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259
[14] Facts and data from the Nasdaq Vilnius Stock Exchange, available at http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259
[15] Facts and data from the Lithuanian National Bank, available at https://www.lb.lt/annual_report_2014

million at the end of 2014 and was virtually unchanged in annual terms. Substantial growth in the consumer credit market was fuelled by the increasing issuance of larger credits. Although the total number of credits issued in 2014 by consumer credit lenders decreased by approximately 2%, year-on-year, to EUR 1.14 million, the total amount of credits disbursed in that period increased by approximately 8% to approximately EUR 358 million, mostly due to an increase in consumer credits over LTL 1,000 (approximately EUR 290). Meanwhile, the market of small consumer credits is shrinking. In 2014, lenders granted approximately 706 thousand in small consumer credits (approximately 9% less, if compared to 2013) to borrowers and disbursed approximately EUR 78 million, i.e. 10% less than in 2013. As compared to late 2013, the number of delinquencies (with payments overdue by more than 60 consecutive days) increased by 8% to reach approximately EUR 180,000 at the end of the year, while the total amount of arrears (including interest charged for late payment, penalties and other amounts payable under agreements) increased by approximately 9%, to approximately EUR 91 million as of 31 December 2014.

11. BUSINESS OVERVIEW

11.1. History and Development of Group

The Group's history dates back to 1999 and by today the Group has developed into group of companies engaged in the provision of financial services based on local (Estonian) capital. The Group was originally established by Mr Rain Lõhmus and Mr Andres Viisemann who are continuously contributing to the management and further development of the Group.

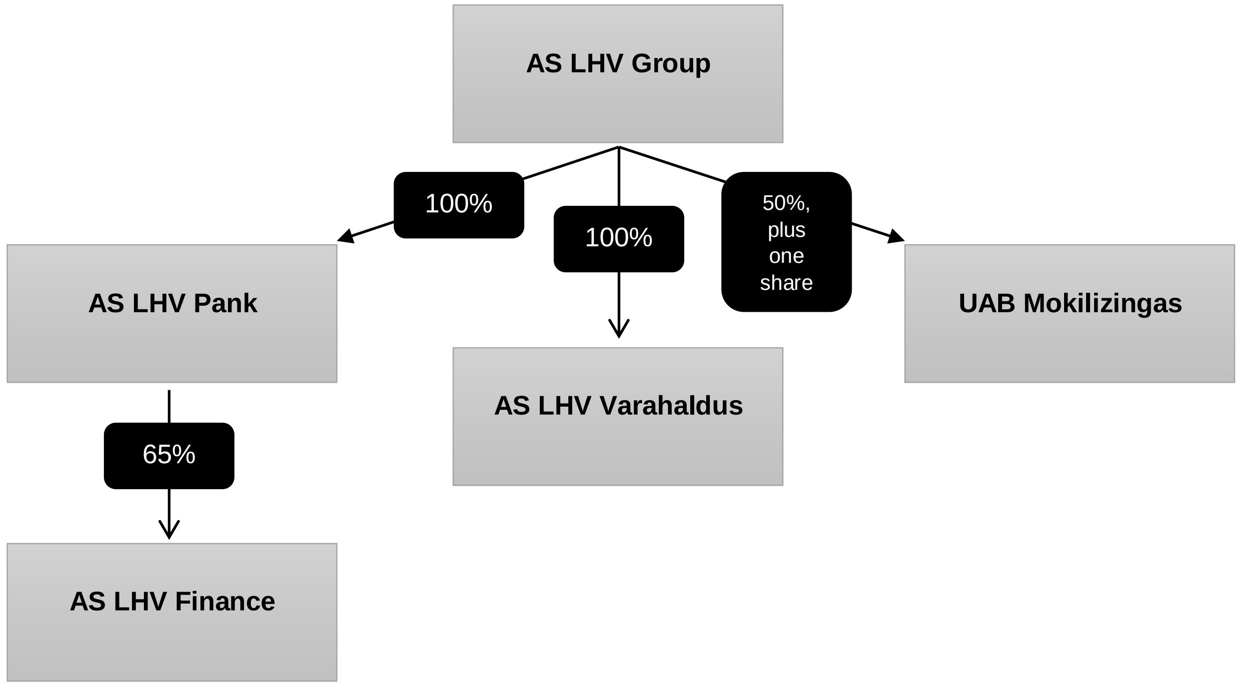
The milestones in the history of the Company and the development of the Group are summarised in the following table:

Year	Development
1999	LHV Pank was established as an investment firm, providing brokerage and portfolio management services; LHV Varahaldus was established
2002	Launch of cross-border services in Latvia by LHV Pank; LHV Varahaldus initiated pension funds management operations
2005	The Company was established; launch of cross-border services in Lithuania by LHV Pank
2009	Credit institution license was obtained and depository and corporate lending operations were initiated
2010	Launch of banking settlement services
2011	Launch of issuing of payment cards
2013	Establishment of LHV Finance and launch of hire-purchase services; acquisition of Mokilizingas
2014	Launch of payment acquiring services
2015	Establishment of Latvian branch of LHV Pank

11.2. Group Structure and Group Companies

<u>Group Structure</u>

As at the date of this Prospectus, the Group structure is the following[16]:



<u>Group Companies</u>

<u>AS LHV Group</u>. AS LHV Group (the Company) is the holding company of the Group with limited operations of its own. The Company is engaged in investor relations management and ensuring necessary capitalisation for the Group companies.

<u>AS LHV Pank</u>. AS LHV Pank is an Estonian licensed credit institution offering banking services to corporate and retail clients. The bank has client service venues in Tallinn, Tartu, Riga (Latvia) and Vilnius (Lithuania), whereas in Latvia the bank operates in the form of a local registered branch. The bank employs more than 200 people. Of the total number of clients of over 66,800, approximately 80% are private individuals and 20% are corporate clients. By the end of the second quarter of 2015, the total loan portfolio of the LHV Pank consolidation group (including LHV Finance) stood at EUR 354 million and the total amount of deposits was EUR 518 million. The greatest proportion of loans is in the real estate sector, an industry that is traditionally receiving the greatest share of financing by commercial banks in Estonia. As at 30 June 2015, 33% of the corporate credit portfolio of LHV Pank comprised of credit granted in the real estate sector. The real estate sector is followed by financial services and insurance sector, together forming 13% of the bank's corporate credit portfolio.

[16] The Company has 100% shareholding in an Estonian private limited company (in Estonian: *osaühing* or *OÜ*) in OÜ Cuber Technology (register code in the Estonian Commercial Register 12794962, registered address Tartu mnt 2, 10145 Tallinn, Estonia). The company was established only on 4 February 2015 and has no influence on the liabilities and the results of operations of the Company or the Group.

AS LHV Varahaldus. AS LHV Varahaldus is an Estonian licensed fund manager. LHV Varahaldus is currently acting as the fund manager for eight investment funds – five compulsory pension funds (LHV Pensionifond XS, LHV Pensionifond S, LHV Pensionifond M, LHV Pensionifond L and LHV Pensionifond XL), one voluntary pension fund (LHV Täiendav Pensionifond) and two UCITSs investing into equity instruments (SEF-LHV Persian Gulf Fund and LHV World Equities Fund). LHV Varahaldus employs 26 people. By 30 June 2015, the volume of assets managed by LHV Varahaldus reached EUR 528 million, which makes LHV Varahaldus the second or third largest funds manager in Estonia in terms of assets under management. The number of active clients of the compulsory pension funds is 129,000, which makes LHV Varahaldus the third largest compulsory pension funds manager in Estonia in terms of clients.

AS LHV Finance. LHV Finance is the subsidiary of the LHV Pank and is an Estonian financial institution offering hire-purchase services in the Estonian market. LHV Finance was established in 2013 as a joint venture in co-operation with Toveko Invest OÜ. By 30 June 2015, the volume of the hire-purchase service portfolio amounted to EUR 15.247 million and the company had 31,561 effective hire-purchase agreements.

UAB Mokilizingas. UAB Mokilizingas is a subsidiary of the Company, a Lithuanian financial institution offering hire-purchase and consumer loan services in the Lithuanian market. The Company acquired the controlling shareholding in Mokilizingas in 2013 and the company is currently operated as a joint venture of the Company and KŪB RAZFIN. By 30 June 2015, the volume of the loan portfolio of Mokilizingas amounted to EUR 33.2 million and the company had over 78,000 clients.

11.3. Business Segments

Banking Services. The Group's main business segment is the banking services business segment. The banking business segment operations are carried out by LHV Pank. As at the date of this Prospectus, LHV Pank is offering all classical banking services, such as the settlement of payments, issuing and acquiring bank cards and deposit services, financing services (loan, leasing, credit limit, overdraft, guarantee), securities brokerage and investment services. The banking services business segment can be further broken down into retail banking and corporate banking. The retail banking services are offered to private individuals, whereas the clients of the corporate banking services are small and medium-sized companies and institutional investors.

Asset Management. The Group's second largest business segment is the asset management business segment. The asset management services are provided by LHV Varahaldus. The essence of the asset management services is fund management.

Lithuanian Consumer Crediting Operations. Despite its limited contribution into the overall financial results of the Group, the Lithuanian consumer crediting operations as carried out by Mokilizingas is viewed as a separate business segment of the Group. Mokilizingas is offering hire-purchase services and is engaged in granting consumer loans.

11.4. Geographical Markets

As described in Section "Principal Markets", as at the date of this Prospectus, the Group is operating in three geographical markets, in the three Baltic countries – Estonia, Latvia and Lithuania. Until January 2015, the Group was also operating in the Finnish market through the local branch of LHV Pank and was engaged in the consumer lending business segment. On 9 January 2015, the local branch of LHV Pank entered into a sales agreement under which the consumer loan portfolio together with all the related assets were sold and transferred. As a result of the transaction described above, the Finnish operations of the Group were shut down and the local branch was liquidated.

11.5. Competitive Position and Competitive Strengths

Assessment of Competitive Position. The Group companies monitor and analyse their competitive position and the developments in the competitive situation on the markets where the Group companies operate on the basis of publicly available data and statistics, such as market analyses and statistics prepared by the FSA and the local national banks of the geographical markets where the Group companies operate. All statements made in this Prospectus in respect of the competitive position of the Group companies are based on the above-referred publicly available information.

Competitive Strengths. The Management believes the Group companies to have the following competitive strengths:

(i) simple and transparent products and services – the Group is focused on active and independent clients with an entrepreneurial mind-set. Therefore the Group companies make continuous efforts to make the products and services of the Group companies simple, transparent and easily accessible to its target clients to meet the exact needs of the clients;

(ii) modern communication – the Group has made significant investments to develop the modern communication facilities, the most notable example being the multifunctional internet and mobile banking system. In addition to the internet and mobile banking system, the Group companies are using modern communication means to interact with their clients and strive for smooth, fast and efficient trading and transacting activities. Despite the heavily regulated environment where the Group companies operate, continuous efforts are made to decrease the bureaucracy in their everyday business operations. A great example of such efforts is the extensive usage of electronic documentation and digital signing;

(iii) strong and innovative business partnerships – the Group companies are actively looking for new and innovative business opportunities and the preferred model of the respective business pursuit is to co-operate with strong partners with either local market knowledge and experience (such as KŪB RAZFIN, the joint venture partner of the Company in Lithuania; please see Section “Material Agreements” for further details) or with opportunities for creating new innovative products and business synergies (such as Tallinna Kaubamaja AS and Toveko Invest OÜ; please see Section “Material Agreements” for further details);

(iv) local investor base and management – the Group is a very local player, owned and governed by local investors, which gives it a significant competitive edge compared to the market leaders, the Nordic banking groups. Namely, all decision-making is done locally, considering local context and dynamics. The Group can interact with its core customers on the principal-to-principal basis, which means that all of the decisions are taken quickly and close to the customer. The Group is getting positive and encouraging feedback for its service practices and engagement. In the operations in the asset management business sector and most notably in the management of pension funds, the Group is taking a knowledgeable positive regional bias. In the fairly simple savings markets two products are growing fast and dominating: bank deposits and assets of the II pillar of the Estonian pension system. The Group is on the frontline to develop solutions which would allow to invest into local promising business initiatives and which would channel locally collected savings back into the local economy. As at today, the Group is co-operating closely with the largest private equity funds and other investment vehicles to achieve that goal;

(v) well-experienced and strong management team – considering its history, the Group companies believe to have access to stronger investment and enterprise experience than their competitors. The Group is one of the biggest brokers on the Nasdaq Baltic stock exchanges and the biggest broker for Baltic retail investors on international markets. Since the acquiring of the credit institution license in 2009, the Group has focused on building and development of credit knowledge and experience. LHV Pank built a strong credit team from the very early days and is proud to employ one of the most senior and experienced credit teams in the market. Most of the team members have over 10 years of experience from the credit origination, work-out and credit risk management areas. In addition to the initial thorough credit risk assessment, a lot of emphasis is put on actively managing the credit portfolio and on constant risk monitoring. In order to achieve its long-term goals and grow quicker than the rest of the market, the Group needs to attract the best people available. Its track record so far is strong. Over the past years, LHV Pank has been consistently nominated by different survey companies as one of the top 10 most attractive employers in Estonia;

(vi) strong shareholder base – the Company is striving to be a public company and is contemplating listing of the Shares on the Main List of Nasdaq Tallinn Stock Exchange in 2016. In addition to engaging additional capital for supporting its further growth, the Company wishes to provide everyone with an opportunity to become a shareholder of the Company and thus to widen the support of the current strong shareholder base;

(vii) fully deposit funded – the Group has decided to fund its lending operations as well as other relevant banking portfolios with customer deposits. Granual retail and SME deposits have proven to be the most stable, reliable and cost effective source for long term funding. Although the Group might from time to time decide to use special purpose funding for selected businesses, it intends to keep overall loans to deposit ratio always below 100%;

(viii) public recognition – in 2011, 2012 and 2013, LHV Pank was awarded member of the year of the Nasdaq Baltic stock exchange. In 2014, LHV Pank was awarded the title of "Dream Employer".

11.6. Investments

The Group companies have made no significant investments since date of the last published financial statements – the consolidated interim report of the Group for Q2 and 6 months of 2015 incorporated into this Prospectus.

The Group companies are continuously seeking for opportunities for the expansion of their business operations by investing into organic growth but also by considering mergers and acquisitions of other market players. Nevertheless, as at the date of this Prospectus, there are no firm commitments made to make any such investments.

As a general rule, the investments made by the Group companies are financed by own funds or by additional capital engaged from the shareholders or bondholders of the subordinated bonds of the Company.

11.7. Material Agreements

Introductory Remarks. The Group companies are not parties to any material agreements outside of their ordinary course of business, which may result in the Group companies obtaining rights or incurring obligations which may materially affect the Group companies' ability to perform their obligations or have a material adverse effect on the financial position or operations of the Group companies. Despite the foregoing, this Section "Material Agreements" provides a general description of several partnership agreements forming grounds for the Group's material partnership models. The level of detail of the information provided herein is limited due to the confidentiality provisions included in such agreements; however, the Management believes that the information provided is sufficient for comprehending the overall nature and essence of the agreements.

Joint Venture Agreement with KŪB RAZFIN. In conjunction with the joint acquisition of Mokilizingas (where the Company acquired controlling shareholding, i.e. 50% of all issued and outstanding shares, plus one share), the Company and KŪB RAZFIN entered into a joint venture agreement on 16 May 2013. The purpose of the agreements was to establish the principles of strategic co-operation between the Company and KŪB RAZFIN in managing their joint venture Mokilizingas. The joint venture agreement includes the parties' agreements on the conduct of business affairs, corporate governance, financing of operations, dividend policy, non-competition and restrictions on the transfer of shares of the company. In the opinion of the Management, the parties' agreements contained in the joint venture agreement are in compliance with the market practise for similar agreements and form solid grounds for the parties' co-operation. The agreement is well-balanced between the parties, considering the shareholdings of the parties in Mokilizingas. In accordance with the relevant agreement between the Company and KŪB RAZFIN, the operations of Mokilizingas are fully funded by LHV Pank.

Shareholders' Agreement regarding LHV Finance. On 23 January 2013, LHV Pank and Toveko Invest OÜ executed a shareholders' agreement, under which the parties thereto agreed upon the incorporation of LHV Finance and the principles of their co-operation as the shareholders of LHV Finance. Among other terms, the parties to the shareholders' agreement agreed upon the nature and essence of the business operations of LHV Finance and strategic objectives thereof, corporate governance principles, sources of financing and restrictions on the transfer of shares, customary to similar types of transactions. In the opinion of the Management, the parties' agreements contained in the shareholders' agreement are in compliance with market practise for similar agreements and form solid grounds for the parties' co-operation.

11.8. Trend Information

There has been no material adverse change in the prospects of Group since 30 June 2015.

11.9. Legal Proceedings

In the course of its everyday business operations, the Group companies are parties to several legal and administrative proceedings. In the legal proceedings, the Group companies act, as a general rule, as plaintiffs seeking to recover debts by defaulting borrowers and other customers of the Group companies. Considering the nature of the operations of the Group companies, legal proceedings initiated for debt recovery are part of everyday business operations of the Group companies. As at the date of this Prospectus, in all on-going legal proceedings, Group companies involved are acting as plaintiffs and all such proceedings concern debt recovery. Furthermore, since LHV Pank and LHV Varahaldus operate in the fields subject to extensive legal regulation, they are subject to numerous administrative proceedings initiated primarily by the FSA in the course of ordinary financial supervision. As of the date of this Prospectus, none of the legal or administrative proceedings to which a Group company is a party to (including any such proceedings which are pending or threatened of which the Management is aware) are considered likely to have any significant effects on the Group's financial position and there are no legal or administrative proceedings to which a Group company has been party to (including any such proceedings which are pending or threatened of which the Management is aware) during the 12 months preceding the date of this Prospectus which may have, or have had, significant effects on the Group's financial position or profitability.

12. SELECTED FINANCIAL INFORMATION

12.1. Introduction

The following summary of the selected consolidated financial information of the Group should be read in conjunction with the Financial Statements. The below tables present only certain selected audited consolidated financial data as of and for the years ended on 31 December 2013 and on 31 December 2014 and certain selected reviewed unaudited consolidated financial data as of 30 June 2015 and for the three and six month periods ended on 30 June 2015 and on 30 June 2014.

12.2. Selected Historical Financial Information

Consolidated Statement of Comprehensive Income

(in TEUR)	**2014**	**2013**	**2012**
Continuing operations			
Interest income	19,499	11,507	10,980
Interest expense	-3,025	-2,401	-4,923
Net interest income	**16,474**	**9,106**	**6,057**
Fee and commission income	13,691	10,099	7,277
Fee and commission expense	-1,143	-865	-889
Net fee and commission income	**12,548**	**9,234**	**6,388**
Net gains from financial assets measured at fair value	528	2 416	795
Foreign exchange rate gains/losses	-15	-23	-2
Other financial income	0	312	0
Net gains from financial assets	**513**	**2,705**	**793**
Other income and expense	-16	64	101
Staff costs	-8,554	-6,158	-5,017
Other operating expenses	-11,375	-8,952	-9,031
Profit before impairment losses on loans and advances	**9,590**	**5,999**	**-709**
Share of the other comprehensive income/loss of associates accounted for using the equity method	-14	10	26
Impairment losses on loans and advances	-1,680	-1,375	-1,074
Profit before taxes	**7,896**	**4,634**	**-1,757**
Income tax expense	-151	-84	0
Net profit for the year from continuing operations	**7,745**	**4,550**	**-1,757**
Profit from discontinued operations	**1,922**	**-205**	**0**
Net profit for the year	**9,667**	**4,345**	**-1,757**
Profit attributable to:			
Items that may be reclassified subsequently to profit or loss:			

Available-for-sale investments: Revaluation of available-for-sale financial assets	21	-27	0
Total comprehensive income for the year	**9,688**	**4,318**	**-1,757**
Total comprehensive income/loss attributable to:			
Owners of the parent	9,203	4,237	-1,757
Non-controlling interest	464	108	0
Total profit for the year	**9,667**	**4,345**	**-1,757**
Total comprehensive income/loss attributable to:			
Owners of the parent	9,224	4,210	-1,757
Incl. continuing operations	*7,302*	*4,415*	*-1,757*
Incl. discontinued operations	*1,922*	*-205*	*0*
Non-controlling interest	464	108	0
Total comprehensive income/loss for the year	**9,688**	**4,318**	**-1,757**

<u>Consolidated Statement of Financial Position</u>

(in TEUR)	**31.12.2014**	**31.12.2013**	**31.12.2012**
Assets			
Balances with central banks	45,427	133,839	77,965
Due from credit institutions	24,218	17,004	10,900
Due from investment companies	14,484	1,466	1,547
Available-for-sale financial assets	4,273	11,903	0
Financial assets at fair value through profit or loss	145,252	36,702	48,899
Assets of discontinued operations, classified as held for sale	15,473	0	67,965
Loans and advances to customers	301,032	206,768	106,067
Receivables from customers	1,566	1,507	641
Other assets	2,048	3,892	1,083
Goodwill	1,044	1,044	1,044
Tangible assets	308	491	635
Intangible assets	530	621	479
Investment in associates	36	131	69
Total assets	**555,691**	**415,368**	**317,294**

Liabilities			
Deposits from customers and loans received	475,013	356,381	284,150
Financial liabilities at fair value through profit or loss	302	433	656
Accounts payable and other liabilities	5,435	6,891	2,169
Liabilities of discontinued operations, classified as held for sale	220	0	603
Subordinated loans	16,688	19,716	8,634
Total liabilities	**497,658**	**383,421**	**296,212**
Equity			
Share capital	23,356	19,202	17,382
Share premium	33,992	21,871	18,827
Statutory reserve capital	435	223	223
Other reserves	132	-12	231
Accumulated deficit	-2,041	-11,032	-15,581
Total equity attributable to owners of the parent	**55,874**	**30,252**	**21,082**
Non-controlling interest	2,159	1,695	0
Total equity	**58,033**	**31,947**	**21,082**
Total liabilities and equity	**555,691**	**415,368**	**317,294**

Consolidated Statement of Cash Flows

(in TEUR)	**2014**	**2013**	**2012**
Cash flows from operating activities			
Interest received	19,109	11,163	10,980
Interest paid	-2,777	-3,619	-4,888
Fees and commissions received	13,233	10,187	7,378
Fees and commissions paid	-1,144	-865	-889
Other income received	0	64	0
Staff costs paid	-8,415	-6,026	-5017
Administrative and other operating expenses paid	-10,746	-8,447	-8485

Cash flows from operating activities before change in operating assets and liabilities	**9,260**	**2,457**	**-921**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio	-5	-636	-2
Loans and advances to customers	-110,526	-80,517	-40,728
Term deposits with other credit institutions	-1	2	9,176
Mandatory reserve at central bank	-1,101	-846	-767
Security deposits	-133	64	-90
Other assets	1,815	-942	-229
Net increase/decrease in operating liabilities:			
Demand deposits of customers	111,970	85,911	39,828
Term deposits of customers	-6,920	-12,128	30,996
Loans received and repayments	13,556	-19,820	-194
Financial liabilities held for trading at fair value through profit or loss	-131	-223	216
Other liabilities	-1,376	1,862	674
Net cash generated from / used in operating activities from continuing operations	**16,408**	**-24,816**	**37,959**
Cash generated from / used in operating activities from discontinued operations	1,865	-1,504	0
Net cash generated from/ used in operating activities	**18,273**	**-26,319**	**37,959**
Cash flows from investing activities			
Purchase of non-current assets	-530	-486	-256
Acquisition of subsidiaries	0	304	0
Acquisition and disposal of associates	78	-52	0
Acquisition of investment securities held to maturity	0	-2 790	-45,988
Proceeds from disposal and redemption of investment securities available for sale	7,730	61,130	8,295
Net changes of investment securities at fair value through profit or loss	-108,107	13,076	677

Net cash used in / from investing activities	**-100,829**	**71,182**	**-37,272**

Cash flows from financing activities

Paid in share capital	13,825	564	8,591
Non-controlling interest contribution to subsidiary´s share capital	0	175	0
Sale of treasury shares	0	1	-2
Subordinated loans received	15,900	15,450	4,500
Repayment of subordinated debt	-16,450	0	0
Net cash from financing activities	**13,275**	**16,190**	**13,089**
Net decrease/increase in cash and cash equivalents	**-69,281**	**61,053**	**13,776**
Cash and cash equivalents at the beginning of the year	148,912	87,859	74,083
Cash and cash equivalents at the end of the year	**79,631**	**148,912**	**87,859**

Consolidated Statement of Changes in Equity

(in TEUR)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	**Total equity attributable to owners of the parent**	Non-controlling interest	**Total equity**
Balance as at 01.01.2013	**17,382**	**18,827**	**223**	**232**	**-15,581**	**-1**	**21,082**	**0**	**21,082**
Conversion of subordinated bonds issued in 2010 to share capital	1,200	1,800	0	-210	0	0	2,790	0	**2,790**
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	1,293	0	**1,293**
Paid in share capital	187	377	0	0	0	0	564	0	**564**
Sale of treasury shares	0	0	0	0	0	1	1	0	**1**
Non-controlling interest contribution to subsidiary´s share capital	0	0	0	0	0	0	0	175	**175**
Non-controlling interest arising on business combination	0	0	0	0	312	0	312	1,412	**1,724**
Profit for the year	*0*	*0*	*0*	*0*	*4,237*	*0*	*4,237*	*108*	*4,345*
Other comprehensive income	*0*	*0*	*0*	*-27*	*0*	*0*	*-27*	*0*	*-27*
Total comprehensive income for 2013	0	0	0	-27	4,237	0	4,210	108	**4,318**
Balance as at 31.12.2013	**19,202**	**21,871**	**223**	**-12**	**-11,032**	**0**	**30,252**	**1,695**	**31,947**
Balance as at 01.01.2014	**19,202**	**21,871**	**223**	**-12**	**-11,032**	**0**	**30,252**	**1,695**	**31,947**
Conversion of subordinated bonds issued in 2012 to share capital	654	1,796	0	-15	0	0	2,435	0	**2,435**
Paid in share capital	3,500	10,325	0	0	0	0	13,825	0	**13,825**

Share options	0	0	0	138	0	0	138	0	**138**
Paid in statutory reserve capital	0	0	212	0	-212	0	0	0	**0**
Profit for the year	*0*	*0*	*0*	*0*	*9,203*	*0*	*9,203*	*464*	***9,667***
Other comprehensive income	*0*	*0*	*0*	*21*	*0*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	0	21	9,203	0	9,224	464	**9,688**
Balance as at 31.12.2014	**23,356**	**33,992**	**435**	**132**	**-2,041**	**0**	**55,874**	**2,159**	**58,033**

Key Ratios and Indicators

In the opinion of the Management, the key ratios and indicators are the most appropriate ratios and indicators, considering the markets where the Group companies operate. These ratios and indicators enable adequate evaluation of the profitability of the operations of the Group, considering business volumes of the Group companies.

(in MEUR)	**2014**	**2013**	**change**
Net profit	9.7	4.3	122%
Net profit attributable to owners of the parent	9.2	4.2	117%
Average equity	43.1	25.7	68%
Return on equity (ROE) % *	21.4	16.5	4.9
Average assets	485	366	33%
Return on assets (ROA) %	2.0	1.2	0.8
Net interest income	16.5	9.1	81%
Average interest earning assets	479	360	33%
Net interest margin (NIM) %	4.25	3.29	0.96
Spread %	4.16	3.22	0.94
Cost/ income ratio %	64.7	69.7	-5.0

Explanations

Ratio	Definition/ formula
Average equity (attributable to owners of the parent)	(equity of current year end + equity of previous year end) / 2 *Amount presents amount of equity available in average during relevant period.*
Return on equity (ROE)	net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100 *Ratio presents how much profit is an entity able to generate compared to equity on annual bases.*
Average assets	(assets of current year end + assets of previous year end) / 2 *Amount presents the amount of total assets available in average during relevant period.*

Return on assets (ROA)	net profit/average assets * 100 *Ratio presents how much profit an entity is able to generate compared to total assets.*
Net interest margin (NIM)	net interest income/ average interest earning assets * 100 *Ratio presents the margin an entity is in average using between funding and lending.*
Spread	yield on interest earning assets – cost of interest bearing liabilities *Ratio presents the difference between average earned yield and paid yield, whereas the underlying volumes are not taken into account*.
Yield on interest earning assets	interest income/average interest earning assets * 100 *Ratio presents the absolute average interest rate an entity earns from interest earning assets*.
Cost of interest bearing liabilities	interest expenses/ average interest bearing liabilities * 100 *Ratio presents the absolute average interest rate an entity pays for interest earning liabilities*.
Cost/ income ratio	total operating expenses/ total income * 100 (total income equals net interest income + net fee income + net profit from financial assets + other income) *Ratio presents effectiveness, i.e. how much an entity is spending for earning one euro.*

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12.3. Selected Interim Financial Information

Consolidated Statement of Comprehensive Income

(in TEUR)	Q2 2015	6M 2015	Q2 2014	6M 2014
Continued operations				
Interest income	6,485	12,699	4,560	8,677
Interest expense	-1,046	-2,038	-739	-1,494
Net interest income	**5,439**	**10,661**	**3,821**	**7,183**
Fee and commission income	4,057	7,794	3,272	6,439
Fee and commission expense	-457	-852	-208	-443
Net fee and commission income	**3,600**	**6,942**	**3,064**	**5,996**
Net gains/losses from financial assets measured at fair value	-362	120	150	368
Foreign exchange gains/losses	60	43	-5	-9
Other financial income	0	0	0	0
Net profit from financial assets	**-302**	**163**	**145**	**359**
Other income and expenses	34	35	-11	0
Personnel expenses	-2,725	-5,310	-2,138	-4,109
Operating expenses	-2,865	-5,728	-2,915	-5,602
Operating Profit	**3,181**	**6,763**	**1,966**	**3,827**
Impairment losses on loans	-105	-761	-498	-721
Income tax income and expenses	-67	-136	-23	-79
Net profit for the reporting period from continued operations	**3,009**	**5,866**	**1,445**	**3,027**
Profit from discontinued operations	**0**	**2,258**	**158**	**239**
Net profit for the reporting period	**3,009**	**8,124**	**1,603**	**3,266**
Other comprehensive income				
Entries which may be charged to the income statement:				
Revaluation of available-for-sale financial assets	7	-1	18	24
Total comprehensive income for the reporting period	**3,016**	**8,123**	**1,621**	**3,290**
Profit attributable to:				
Owners of the parent	2,796	7,699	1,549	2,975
Non-controlling interest	213	425	54	291
Total profit for the reporting period	**3,009**	**8,124**	**1,603**	**3,266**
Total comprehensive income attributable to:				
Owners of the parent	2,803	7,698	1,567	2,999

Non-controlling interest	213	425	54	291
Total comprehensive income for the reporting period	**3,016**	**8,123**	**1,621**	**3,290**
Basic earnings per share (in euros)	0.12	0.33	0.08	0.15
Diluted earnings per share (in euros)	0.12	0.33	0.08	0.15

Consolidated Statement of Financial Position

(in TEUR)	**30.06.2015**	**31.12.2014**
Assets		
Balances with central banks	56,241	45,427
Due from credit institutions	17,100	24,218
Due from investment companies	53,735	14,484
Available-for-sale financial assets	3,876	4,273
Financial assets designated at fair value through profit and loss	137,391	145,252
Assets of discontinued operations, classified as held for sale	0	15,473
Loans and advances to customers	357,574	301,032
Other receivables from customers	1,677	1,566
Other assets	2,693	2,048
Goodwill	1,044	1,044
Property, plant and equipment	334	308
Intangible assets	596	530
Investments in associates	36	36
Total assets	**632,297**	**555,691**
Liabilities		
Deposits of customers and loans received	532,184	475,013
Financial liabilities designated at fair value through profit and loss	218	302
Accrued expenses and other liabilities	16,884	5,435
Liabilities of discontinued operations, classified as held for sale	0	220
Subordinated liabilities	16,683	16,688
Total liabilities	**565,969**	**497,658**
Equity		
Share capital	23,356	23,356
Share premium	33,992	33,992
Statutory reserve capital	435	435
Other reserves	303	132
Retained earnings / accumulated deficit	5,658	-2,041
Total equity attributable to owners of the parent	**63,744**	**55,874**
Non-controlling interest	2,584	2,159
Total equity	**66,328**	**58,033**
Total liabilities and equity	**632,297**	**555,691**

Consolidated Statement of Cash Flows

(in TEUR)	Q2 2015	6M 2015	Q2 2014	6M 2014
Cash flows from operating activities				
Interest received	6,395	13,446	4,748	8,898
Interest paid	-924	-2,021	-677	-1,364
Fee and commission income and other income received	3,961	7,974	3,237	6,374
Fees and commissions paid	-459	-854	-208	-443
Personnel expenses paid	-2,639	-5,148	-1,951	-3,883
Administrative and other operating expenses paid	-3,025	-5,424	-2,761	-4,934
Income tax paid	-67	-136	-23	-79
Cash flow from operating activities before change in operating assets and liabilities	**3,242**	**7,837**	**2,365**	**4,569**
Net increase/decrease in operating assets:				
Net acquisition/disposal of trading portfolio	-35	-31	-265	-56
Loans and advances to customers	-31,104	-43,650	-21,648	-47,714
Term deposits with banks	0	0	0	-494
Mandatory reserve at central bank	-278	-583	-15	-78
Security deposits	-4	-111	-105	-305
Other assets	-263	-50	1,147	2,035
Net increase/decrease in operating liabilities:				
Demand deposits of customers	27,481	29,817	3,458	14,162
Term deposits of customers	-6,818	22,214	-2,273	-8,377
Loans received and repayments	5,294	4,898	308	108
Financial liabilities held for trading at fair value through profit and loss	-66	-84	-63	-62
Other liabilities	10,840	11,174	1,641	539
Cash flow from operating activities of discontinued operations	0	2,858	-692	-1,799
Net cash flow from operating activities	**8,289**	**34,289**	**-16,142**	**-37,472**
Cash flow from investing activities				
Purchase of non-current assets	-176	-363	-152	-251
Acquisition and disposal of subsidiaries and associates	0	0	79	79
Available-for-sale investments sold or redeemed	406	423	1,043	7,687
Net change of investments at fair value through profit or loss	4,745	7,971	-46,440	-61,115
Net cash flow from investing activities	**4,975**	**8,031**	**-45,470**	**-53,600**
Cash flow from financing activities				
Contribution in share capital	0	0	13,825	13,825
Loans received	0	0	15,900	15,900
Repayment of loans received	0	0	-15,450	-16,450
Net cash flow from financing activities	**0**	**0**	**14,275**	**13,275**

Effect of exchange rates changes on cash and cash equivalents	**60**	**43**	**-5**	**-9**
Change in cash and equivalents	**13,324**	**42,363**	**-47,342**	**-77,806**
Cash and cash equivalents at the beginning of the period	108,671	79,632	118,448	148,912
Cash and cash equivalents at the end of the period	**121,995**	**121,995**	**71,106**	**71,106**

Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	**Total equity attributable to owners of the parent**	Non-controlling interest	**Total equity**
Balance as at 1.01.2014	**19,202**	**21,871**	**223**	**-12**	**-11,032**	**30,252**	**1,695**	**31,947**
Conversion of subordinated bonds issued in 2012 to share capital	**627**	**1,723**	**0**	**-15**	**0**	**2,335**	**0**	**2,335**
Paid in share capital	**3,500**	**10,325**	**0**	**0**	**0**	**13,825**	**0**	**13,825**
Profit for the year	**0**	**0**	**0**	**0**	**2,975**	**2,975**	**291**	**3,266**
Other comprehensive income	**0**	**0**	**0**	**24**	**0**	**24**	**0**	**24**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**24**	**2,975**	**2,999**	**291**	**3,290**
Balance as at 30.06.2014	**23,329**	**33,919**	**223**	**-3**	**-8,057**	**49,411**	**1,986**	**51,397**
Balance as at 1.01.2015	**23,356**	**33,992**	**435**	**132**	**-2,041**	**55,874**	**2,159**	**58,033**
Share options	**0**	**0**	**0**	**172**	**0**	**172**	**0**	**172**
Net profit	**0**	**0**	**0**	**0**	**7,699**	**7,699**	**425**	**8,124**
Other comprehensive income	**0**	**0**	**0**	**-1**	**0**	**-1**	**0**	**-1**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**-1**	**7,699**	**7,698**	**425**	**8,123**
Balance as at 30.06.2015	**23,356**	**33,992**	**435**	**303**	**5,658**	**63,744**	**2,584**	**66,328**

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Key Ratios and Indicators

(in MEUR)	Q2 2015	Q1 2015	Quarter over quarter	Q2 2014	Year over year
Average equity (attributable to owners of the parent)	62.3	58.4	3.9	39.8	22.5
Return on equity (ROE), %	17.9	33.6	-15.7	15.6	2.4
Interest-bearing assets, average	578.9	559.4	19.5	408.5	170.4
Net interest margin (NIM) %	3.76	3.73	0.02	3.74	0.02
Price spread (SPREAD) %	3.68	3.66	0.02	3.68	0.00
Cost/ income ratio %	63.7	60.3	3.4	72.0	-8.3

Explanations

Quarterly ratios have been expressed on an annualised basis.

Ratio	Definition/ formula
Average equity (attributable to owners of the parent)	(equity as at the end of the reporting period + equity as at the end of the previous reporting period) / 2
Return on equity (ROE)	net profit for the quarter (share of owners of the parent) / average equity (attributable to owners of the parent) *100
Net interest margin (NIM)	net interest income / interest-bearing assets, average * 100
Price spread (SPREAD)	interest yield from interest-bearing assets – cost of external capital
Interest yield from interest-bearing assets	interest income / interest-bearing assets, average * 100
Cost of external capital	interest expenses / interest-bearing liabilities, average * 100
Cost/ income ratio	total operating expenses / total income * 100 (total income equals net interest income + net fee income + net profit from financial assets + other income)

12.4. Changes in Financial Position

There have been no significant changes in the financial or trading position of the Group since 30 June 2015.

12.5. Additional Remarks on Financial Statements

Introductory Remarks

There are certain inaccuracies in the Notes of the Financial Statements. Although the Management is of the opinion that such inaccuracies are not material for proper and adequate assessment of the results of operations or the financial position of the Group for the financial years ended on 31 December 2013 and 31 December 2014, for the sake of full disclosure such inaccuracies have been indicated in the following tables together with correct data. All the described inaccuracies have occurred due to arithmetical errors.

Financial Statements for Financial Year ended on 31 December 2014

Reference	Inaccurate Data	Correct Data
Page 9, Financial results, Table Key figures, Row „Net interest income“ for 2014	20.3	16.5
Page 9, Financial results, Table Key figures, Row „Net interest income“ for 2013	11.8	9.1
Page 25, Table Consolidated Statement of Changes in Equity, Row „Non-controlling interest arising on business combination“ for 2013 in column „Total equity attributable to owners of the parent“	0	312
Page 37, Note 3, Risk Management section 3.1 Capital Management, Table Own funds, Row „Subordinated loans“ as of 31.12.2013	19,600	19,635
Page 39, Note 3, Risk Management section 3.2.1 Distribution of credit risks, Table Maximum exposure to credit risk, Row "Financial assets at fair value (debt securities) (note 11)" as of 31.12.2013	32,466	32,026
Page 39, Note 3, Risk Management section 3.2.1 Distribution of credit risks, Table Maximum exposure to credit risk, Row "Exposures related to off-balance sheet items (note 23) exluding performance quarantees" as of 31.12.2013.	35,810	34,160
Page 45, Note 3, Risk Management, section 3.2 Credit risk, Table „Credit quality of off-balance sheet liabilities“ row „8 medium credit risk“ as of 31.12.2014	27,839	28,005
Page 45, Note 3, Risk Management, section 3.2 Credit risk Table „Credit quality of off-balance sheet liabilities“ row „7 medium credit risk" as of 31.12.2013	14,205	9,537
Page 45, Note 3, Risk Management, section 3.2 Credit risk, Table "Credit quality of off-balance sheet liabilities" row "Total (Note 23)" as of 31.12.2014	63,991	64,233

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Page 45, Note 3, Risk Management, section 3.2 Credit risk, Table “Credit quality of off-balance sheet liabilities” row “Total (Note 23)” as of 31.12.2013	38,834	34,160
Page 49, Note 3, Risk Management, section 3.3.1 Foreign currency risk, Table Open currency exposures, EUR open currency positions as of 31.12.2013	25,393	27,393
Page 62, Note 13, Loans and advances to customers, Table „Changes in impairments in 2013” row „Written off during the year“ column „Total“	1,494	1,373
Page 64, Note 18, “Non-financial liabilities” row “Subtotal as of 31.12.2014”	1,575	1,876
Page 67, Note 24, Transactions with related parties, Table “Balances” sub-section “Loans and receivables as at year-end” should refer to note	12	13
Page 70, Note 26, Separate financial statements of parent company, Table Statement of cash flows of parent, row „Increase/decrease in cash and cash equivalents“ for 2013	2,027	1,569
Page 70, row „Cash and cash equivalents at the beginning of the financial year“ for 2013	1,569	2,027
Page 71, row „Value of holdings under control and significant influence under equity method“ for 2013 in column “Total”	33,917	33,890

Financial Statements for Financial Year ended on 31 December 2013

Reference	**Inaccurate Data**	**Correct Data**
Page 20, Consolidated Financial statements, table Consolidated statement of comprehensive income, row “Net interest income for 2013”	6,388	6,057
Page 20, Consolidated Financial statements, table Consolidated statement of comprehensive income, row “Net fee and commission income for 2013”	6,057	6,388
Page 32, Note 2, Summary of significant accounting policies, section 2.13	Second row repeats first row	n/a
Page 37, Note 3, Risk Management, section 3.2.1 Distribution of credit risks Table a) Debt securities, Column FVTPL for 2012	68,965	67,965
Page 37, Note 3, Risk Management, section 3.2.1 Distribution of credit risks Table a) Debt securities, Column HTM for 2012	44,837	45,837
Page 37, Note 3, Risk Management, section 3.2.1 Distribution of credit risks Table a) Debt securities, Column FVTPL for 2012	FVTPL	HTM

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Page 37, Note 3, Risk Management, section 3.2.1 Distribution of credit risks Table a) Debt securities, Column HTM for 2012	HTM	FVTPL
Page 38, Note 3, Risk Management, section 3.2.1 Distribution of credit risks Table b) Loans and advances to central bank, credit institutions and investment companies should refer to note	8	10
Page 40, Note 3, Risk Management, section 3.2.2 Maximum credit risk exposure, row "Other financial assets at fair value (bonds)" for 2013"	44,369	43,929
Page 41, Note 3, Risk Management, section 3.2.2. Loans and advances to customers and banks as at 31.12.2012 row credit card and column „Neither past due nor impaired"	0	1,332
Page 41, Note 3, Risk Management, section 3.2.2. Loans and advances to customers and banks as at 31.12.2012 row "Total loans and advances to customers" column „Neither past due nor impaired"	91,121	98,146
Page 41, Note 3, Risk Management, section 3.2.2. Loans and advances to customers and banks as at 31.12.2012 row "Total (Notes 10 and 14)" column „Neither past due nor impaired"	181,533	188,588
Page 42, Note 3, Risk Management, section 3.2.2. Distribution of corporate loans by internal ratings as at 31.12.2012 row „8 higher-than-medium credit risk"	24,722	24,874
Page 42, Note 3, Risk Management, section 3.2.2. Distribution of corporate loans by internal ratings as at 31.12.2012 row „10 speculative rating"	5,916	6,214
Page 42, Note 3, Risk Management, section 3.2.2. Credit quality of off-balance sheet liabilities to corporates as at 31.12.2013 doesn't equal with Note 25.	n/a	357 was added to corporates
Page 46, Note 3, Risk Management, section 3.3.1 Table Open currency exposures, Liabilities bearing currency risk, "Deposits from customers and loans received (Note 18)" total amount as at 31.12.2013 do not reconcile with Note 18 information	n/a	Subordinated loans also included, row should refer to Notes 18 and 21
Page 46, Note 3, Risk Management, section 3.3.1 Table Open currency exposures as at 31.12.2012	17,683	17,638
Page 46, Note 3, Risk Management, section 3.3.1 Table Open currency exposures, Liabilities bearing currency risk, "Deposits from customers and loans received" total amount as at 31.12.2012 do not reconcile with Note 18 information	n/a	Subordinated loans also included, row should refer to Notes 18 and 21
Page 46, Note 3, Risk Management, section 3.3.1 Table Open currency exposures, Liabilities bearing currency risk, "Accrued	2,825	2,169

expenses and other liabilities" total amount as at 31.12.2012 do not reconcile with Note 19 information		
Page 50, Note 3, Risk Management, section 3.4 Table Assets and liabilities by contractual maturity dates, for 31.12.2012 row "Other liabilities up to 3 months"	2,008	2,080
Page 50, Note 3, Risk Management, section 3.5 Risk Concentration, Table Assets and liabilities distribution by geography row "Loans and advances to customers column Lithuania for 31.12.2013"	25,897	26,897
Page 55, Note 5, Subsidiaries and associated companies, goodwill, table includes inaccuracies	Cash and cash equivalents 1,404 Current financial lease and consumer loan receivables 15,233	Cash and cash equivalents 1,414 Current financial lease and consumer loan receivables 15,332
Page 57 Operating expenses, Operating lease payments doesn't equal to Note 23 for 2013	864	851
Page 59, Note 14, Loans granted row "Written off during the year" 2013 column "Total"	1,494	1,373
Page 67, Note 27, Separate financial statements of parent company, table Statement of cash flows of the parent for 2012, row "Payment to share capital"	8,951	8,591
Page 67, Note 27, Separate financial statements of parent company, table Statement of cash flows of the parent for 2013, row "Increase/decrease in cash and cash equivalents"	2,027	1,569
Page 67, Note 27, Separate financial statements of parent company, table Statement of cash flows of the parent for 2013, row "Cash and cash equivalents at the beginning of the financial year"	1,569	2,027
Page 68, Note 27, Separate financial statements of parent company, table Statement of changes in shareholders' equity, row "Balance at 01.01.2012"	Accumulated losses -13,824 Total 14,228	Accumulated losses -3,234 Total 24,818
Page 68, Note 27 Separate financial statements of parent company, table Statement of changes in shareholders' equity, row "Balance at 31.12.2013"	Treasury shares 37,821 Adjusted unconsolidated equity -11,032 Total 30,252	Treasury shares 0 Adjusted unconsolidated equity -11,031 Total 30,253

13. ESTONIAN SECURITIES MARKET

13.1. Nasdaq Tallinn Stock Exchange

Nasdaq Tallinn Stock Exchange is the only regulated securities market in Estonia. The ultimate owner of the Nasdaq Tallinn Stock Exchange is Nasdaq, Inc. Nasdaq is the world's largest exchange company, providing trading, exchange technology and public company services across six continents, with over 3,500 listed companies. Nasdaq group offers multiple capital raising solutions to companies around the globe, including its U.S. listings market, Nasdaq Nordic and Nasdaq Baltic including Nasdaq First North, and the U.S. 144A sector and Nasdaq Private Market. The company offers trading across multiple asset classes including equities, derivatives, debt, commodities, structured products and ETFs.

Nasdaq technology supports the operations of over 70 exchanges, clearing organizations and central securities depositories in more than 50 countries. Nasdaq Nordic and Nasdaq Baltic are not legal entities but describe the common offering from NASDAQ OMX Group exchanges in Helsinki, Copenhagen, Stockholm, Reykjavik, Tallinn, Riga, and Vilnius.

Nasdaq stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market, the core idea of which is to minimize to the extent possible the differences between the three Baltic markets in order to facilitate cross-border trading and attract more investments to the region. This includes sharing the same trading system and harmonizing rules and market practices, all with the aim of reducing the costs of cross-border trading in the Baltic region.

Nasdaq Tallinn is a self-regulated organization, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures. It is licensed and supervised by the Financial Supervisory Authority of Estonia.

Nasdaq Tallinn uses the Nasdaq trading platforms INET Nordic and Genium INET, which are also used by exchanges in Sweden, Finland, Denmark, Iceland, Latvia and Lithuania.

13.2. ECRS and Registration of Securities

The shareholders' registers of all public limited companies (and some private limited companies who opted to register their shares) including those that are traded on the Nasdaq Tallinn Stock Exchange are held in the Estonian Central Register of Securities (the ECRS). The ECRS also contains book entry records of all securities, pension accounts, registered bonds and all other electronic securities and transactions. This register is maintained by a securities market infrastructure enterprise AS Eesti Väärtpaberikeskus that is owned by NASDAQ OMX Tallinn AS and belongs to the Nasdaq group.

Every person, whether natural or legal person, has the right to open an account with the ECRS, where all securities are registered in book entry form on the securities accounts of their owners. All transactions are recorded and can be performed only through account administrators. Account administrators may be either investment companies or credit institutions operating in Estonia, or other certified entities. For shares registered in the ECRS, no physical share certificates are issued.

In addition to regular securities accounts, professional participants of the securities market (account holders) can open a nominee account. This account type gives the account holder the right to hold securities in its own name but on behalf of another person (a client). The client retains the right to dispose of the securities and use rights arising therefrom.

13.3. Listing Securities on Nasdaq Tallinn Stock Exchange

The Baltic stock exchanges have a common presentation of all listed Baltic companies on a common list, the companies in which are grouped in the lists described below. In legal terms, the companies are listed on their home market, i.e. the exchange in Tallinn, Riga or Vilnius and supervised by the local financial supervisory authority.

The structure of the lists of securities traded on the Nasdaq Tallinn, Riga and Vilnius exchanges is as follows:

(i) Baltic Main List;

(ii) Baltic Secondary List;

(iii) Baltic Bond List;

(iv) Baltic Fund List;

(v) First North (alternative marketplace, multilateral trading facility, not a regulated market).

Baltic Main List. The Baltic Main List is a line-up of all blue-chip companies listed on the Tallinn, Riga and Vilnius stock exchanges. To be eligible for inclusion, a company must have 3 years of operating history, an established financial position, market capitalisation of not less than EUR 4 million, with reporting according to the International Financial Reporting Standards, and a free float of 25% or worth at least EUR 10 million.

Baltic Secondary List. The Baltic Secondary List comprises companies that do not meet quantitative admission requirements (free float, capitalization) for the Baltic Main List.

Baltic Funds List. The Baltic Funds List contains the investment fund units or shares of collective investment subjects that are listed and traded on the Baltic exchanges in a similar manner to equities.

Baltic Bond List. The Baltic fixed-income instruments are presented in a joint Baltic Bond List. The fixed-income instruments include Latvian and Lithuanian government bonds, and corporate and mortgage bonds of different maturities. Listing of and trading in fixed-income instruments is possible in EUR and in certain other currencies.

First North. Nasdaq First North is a multilateral trading facility (MTF), also known as an alternative market, operated by the different exchanges within Nasdaq. It does not have the legal status of a regulated market. Companies on First North are subject to the rules of First North and not the legal requirements for the admission to trading on a regulated market. The Baltic First North is divided into two separate lists – First North Baltic Share List and First North Baltic Bond List, whereas the first list is for trading in shares and the second one for trading in bonds.

13.4. Trading on Nasdaq Tallinn Stock Exchange

Nasdaq Baltic Stock Exchanges employ two trading systems:

(i) INET Nordic – the electronic trading system used for trading in equity-market instruments traded on the regulated market and the alternative market place First North;

(ii) Genium INET – the electronic trading system used for trading in fixed-income instruments on the regulated market, as well as for the execution of auctions and special procedures, such as tender offers, public share sales, IPOs.

Commonly recognized as the most sophisticated trading platform in the world, INET is the proprietary core technology utilized across Nasdaq's global markets.

Transactions can be effected in two ways – automatic matching, which means that buy and sell orders are matched by the trading system automatically according to price, displayed volume and time priorities; and manual trades – trades negotiated between stock exchange members outside of the trading system, with brokers entering the deal in the trading system within three minutes after its conclusion.

13.5. Financial Supervision

The operations of the Nasdaq Tallinn Stock Exchange are supervised by the Estonian FSA with the purpose of ensuring the compliance with the rules and requirements applicable in respect of the operations of regulated markets.

13.6. Abuse of Securities Market

According to the Securities Market Act, the abuse of a securities market is defined as either the misuse of inside information or as market manipulation. The provisions of the Securities Market Act relating to the abuse of securities market also apply to such securities that are not traded on the Estonian securities market or in any of the Member States of the European Economic Area but the value of which depends on the financial instruments traded on those markets.

According to the Estonian Securities Market Act, "inside information" is defined as specific information that directly or indirectly relates to an issuer or to its securities and that, if disclosed, may likely materially influence the security of derivate security of the issuer. Among numerous other things, this includes information on operations and future prospects of the issuer, insofar as not yet officially disclosed. When such information is made public, there is an increased risk of fluctuations in the price of the relevant security and of related derivative instruments. Inside information can only be possessed by "insiders". As defined in the Securities Market Act, an insider is a member of the management of the issuer, a person who obtains access to inside information in discharge of his/her professional duties or due to a shareholding in the issuer, as well as third persons who obtain inside information and are aware or should be aware that the information obtained is inside information by its nature. Inside information is usually regarded to be misused when used as basis for transactions (or as basis for advise to third parties) or disclosed to the public. In order to reduce the risk of the abuse of inside information, each issuer whose securities are listed on a regulated market is required to establish internal information rules, extending also to individuals who are related to the issuer.

As to market manipulation, the Securities Market Act sets forth a non-exhaustive list of actions that qualify as market manipulation, such as transactions that are misleading in respect of bid or ask price of a security, actions and transactions distorting the price of a security, disclosing misleading information, etc.

The Estonian Securities Market Act establishes a number of administrative offences related to misuse of inside information and market abuse that are punishable with fines of variable gravity. Dependant on the circumstances of the offence, misuse of inside information and market manipulation may be qualified as criminal offences under the Estonian Penal Code.

14. GLOSSARY

Term	Definition
Articles of Association	shall mean the Articles of Association of the Company effective as at the date of this Prospectus.
Bonds	shall mean any and all the Bonds 20.06.2024 and the Bonds 29.10.2025.
Bonds 20.06.2024	shall mean the bonds issued by the Company in accordance with the resolutions of the Management Board, dated 27 May 2014 and 20 June 2014, registered in the ECRS under the name of “LHV Group subordinated bond 20.06.2024” and ISIN code EE3300110550.
Bonds 29.10.2025	shall mean the bonds issued by the Company in accordance with the resolution of the Management Board, dated 21 September 2015, registered in the ECRS under the name of “LHV Group subordinated bond 29.10.2025” and ISIN code EE3300110741.
Bond Terms	shall mean the Terms of Bonds 20.06.2024 and the Terms of Bonds 29.10.2025.
Company	shall mean AS LHV Group, an Estonian public limited company, registered in the Estonian Commercial Register under register code 11098261, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
EBA	shall mean the European Banking Authority, an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.
ECRS	shall mean the Estonian Central Register of Securities, operated by AS Eesti Väärtpaberikeskus, registered in the Estonian Commercial Register under register code 10111982, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
EUR	shall mean the official currency of Eurozone countries, including Estonia, Latvia and Lithuania, the euro.
Eurozone	shall mean the economic and monetary union (EMU) of the European Union member states, which have adopted euro as their single official currency.

Financial Statements	shall mean the audited consolidated financial statements of the Group for the two years ended on 31 December 2013 and 31 December 2014 and the reviewed unaudited interim consolidated financial statements for the three and six months ended on 30 June 2015 as included in this Prospectus.
FSA	shall mean the Estonian Financial Supervision Authority, a financial supervision institution with autonomous competence and a separate budget which conducts supervision over credit institutions, insurance companies, insurance intermediaries, investment firms, management companies, investment and pension funds as well as the payment service providers, e-money institutions and the securities markets that have been authorised by the Financial Supervision Authority in the name of the state and which is independent in its activities and decisions.
GDP	shall mean gross domestic product, the market value of all officially recognized final goods and services produced within a country in a year, or another given period of time.
General Meeting	shall mean the General Meeting of shareholders of the Company, the highest governing body of the Company.
Group	shall mean the Company and all its Subsidiaries.
IFRS	shall mean the International Financial Reporting Standards as adopted by the European Union.
Institutional Offering	shall mean the offering of the Offer Bonds to institutional investors worldwide in reliance on certain exemptions found in the national securities legislation of each relevant country, which does not constitute a public offering of the Offer Bonds in any jurisdiction.
LHV Finance	shall mean AS LHV Finance, an Estonian public limited company, registered in the Estonian Commercial Register under register code 12417231, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LHV Pank	shall mean AS LHV Pank, an Estonian public limited company and licensed credit institution, registered in the Estonian Commercial Register under register code 10539549, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LHV Varahaldus	shall mean AS LHV Varahaldus, an Estonian public limited company and licensed fund manager, registered in the Estonian Commercial Register under register code 10572453, having its registered address at Tartu mnt 2, 10145 Tallinn, Estonia.
LTL	shall mean the official currency of Lithuania until 1 January 2015, the lita.

Management	shall mean the Management Board and the Supervisory Board of the Company.
Management Board	shall mean the Management Board of the Company.
MEUR	shall mean millions of euro.
Mokilizingas	shall mean UAB "Mokilizingas", a Lithuanian private limited company, registered in the Lithuanian Commercial Register under register code 124926897, having its registered address at Lvovo g. 25, Vilnius, Lithuania.
Nasdaq Tallinn Stock Exchange	shall mean the only regulated market operated by NASDAQ OMX Tallinn AS (register code 10359206).
Offer Bonds	shall mean up to 10,000 Bonds 29.10.2025 that are being offered to investors in the course of the Offering. In case of over-subscription of the Offer Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 5,000 additional Offer Bonds as a result of which the total number of the Offer Bonds offered in the course of the Offering may be up to 15,000 and the total volume of the Offering up to EUR 15,000,000.
Offer Price	shall mean the final price per each Offer Bond, which shall be a fixed price of EUR 1,000.
Offering	shall mean the Retail Offering and the Institutional Offering together.
Offering Period	shall mean the period within which investors will have the opportunity to submit Subscription Undertakings starting from 5 October 2015 (included) and ending on 26 October 2015 (included).
Prospectus	shall mean this document, including the registration document of the Company and the securities notes of the Bonds.
Retail Offering	shall mean the offering of the Offer Bonds to institutional and retail investors in Estonia, which is a public offering of securities within the meaning of the Estonian Securities Market Act.
Section	shall mean a section of this Prospectus.
Share	shall mean the ordinary shares of the Company with the nominal value of EUR 1, registered in the ECRS under ISIN code EE3100073644.
Shareholder	shall mean natural or legal person(s), holding the Share(s) of the Company at any relevant point of time.
Subscription Undertaking	shall mean the order submitted by an investor for the purchase of the Offer Bonds in accordance with the terms and conditions of the Offering.

Subsidiaries	shall mean LHV Pank, LHV Varahaldus, LHV Finance and Mokilizingas.
Supervisory Board	shall mean the Supervisory Board of the Company.
Summary	shall mean the summary of this Prospectus.
Terms of Bonds 20.06.2024	shall mean the terms of the Bonds 20.06.2024 as approved by the Management Board with the respective resolutions, dated 27 May 2014 and 20 June 2014.
Terms of Bonds 29.10.2025	shall mean the terms of the Bonds 29.10.2025 as approved by the Management Board with the respective resolution, dated 21 September 2015.
TEUR	shall mean thousands of euro.
UCITS	shall mean undertakings for the collective investment in transferable securities, i.e. are investment funds regulated at EU level mainly by the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

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COMPANY

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)

LEGAL COUNSEL TO COMPANY

OÜ Advokaadibüroo Red

(Liivalaia 13, 10118 Tallinn, Estonia)

AUDITORS

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, 10141 Tallinn, Estonia)

AS LHV Group

Consolidated Annual Report 2013

(translation of the Estonian original)

Consolidated Annual Report	**01.01.2013 – 31.12.2013**

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

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MANAGEMENT REPORT

Managing Director's Statement

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

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

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

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

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

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

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

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

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

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

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

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

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

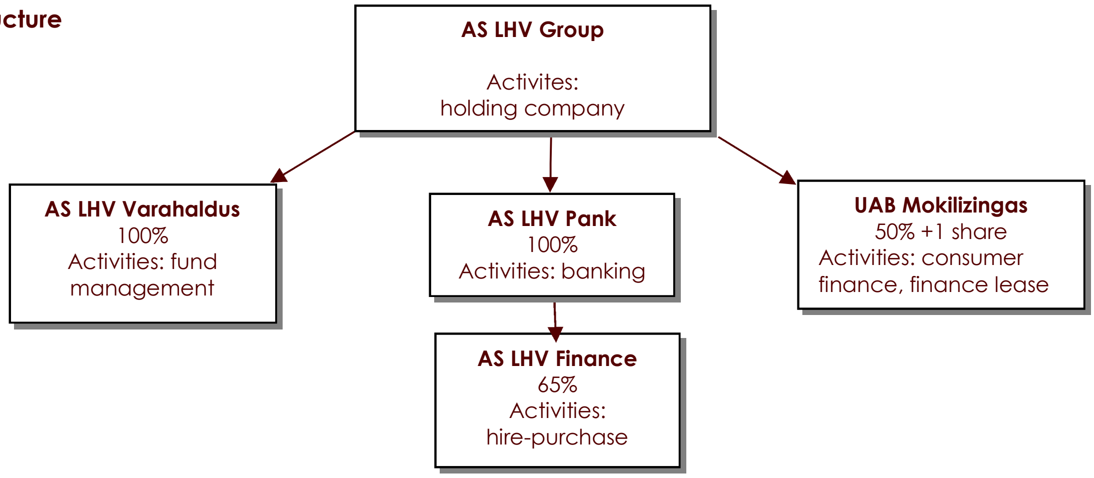
Erkki Raasuke

Overview of the Group

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

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

Group structure



Key events in 2013:

- **Group´s structure**

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

- **Group´s management**

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

- **Changes in share capital**

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

- **Issuing subordinated bonds**

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

Strategy directions

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

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

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

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

Shareholders

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

As at 10.03.2014 AS LHV Group had 155 shareholders:

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

Ten biggest shareholders as at 10.03.2014:

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

Financial results of the Group

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

Overview of the Group's subsidiaries in 2013

AS LHV Varahaldus

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

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

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

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

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

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

Financial results

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

Management

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

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

AS LHV Pank

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

Business volumes

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

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

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

Profitability

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

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

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

Development

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

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

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

Financial results

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

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

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

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

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

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

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

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

UAB Mokilizingas

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

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

Products and marketing

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

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

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

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

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

Financial results

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

Management

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

Governance of the Group

Supervisory board

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

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

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

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

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

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

Management board

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

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

Supervisory and Management Boards of the Subsidiaries

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

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

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

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

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

Corporate governance report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Supervisory Board

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

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

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

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

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

3.1. Audit committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Declaration of conformity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk management of the Group

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

(in thousands of euros)

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

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

Consolidated statement of Financial Position

(in thousands of euros)

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

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

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PricewaterhouseCoopers, Tallinn

Consolidated statement of cash flows

(in thousands of euros)

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

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

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PricewaterhouseCoopers, Tallinn

LHV

Consolidated statement of changes in equity

(in thousands of euros)

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

More detailed information is provided in Note 22.

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

Notes to the consolidated financial statements

NOTE 1 General information

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

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

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

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

NOTE 2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

a) Adoption of New or Revised Standards and Interpretations

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

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

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

b) New accounting pronouncements

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

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

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

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

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

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

2.2 Consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 Foreign currency translation

(a) Functional and presentation currency
The functional and presentation currency of the entities in the Group is euro.

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

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

2.6 Financial assets

The Group classifies its financial assets into the following categories:

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

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

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

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

Financial assets at fair value through profit or loss include

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

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

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

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

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

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

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

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

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

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

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

(c) Available-for-sale financial assets

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

(d) Loans and advances

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

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

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

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

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

2.7 Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

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

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

2.8 Tangible assets

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

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

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

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

2.9 Intangible assets

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

2.10 Financial guarantees

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

2.11 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

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

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

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

2.12 Payables to employees

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

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

2.13 Provisions and contingent liabilities

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

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

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

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

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

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

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

2.15 Revenue and expenses

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

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

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

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

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

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

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

2.16 Asset management services

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

2.17 Leases - Group as the lessee

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

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

2.18 Taxation and deferred income tax

Corporate income tax in Estonia

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

Corporate income tax in other countries

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

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

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

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

2.19 Offsetting

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

2.20 Statutory reserve capital

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

NOTE 3 Risk management

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

3.1 Capital management

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

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

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

Capital adequacy

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

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

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

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

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

3.2 Credit risk

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

3.2.1 Distribution of credit risks

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

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

a) Debt securities

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

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

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

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

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

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

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

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

c) Leverage loans

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

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

d) Corporate loans

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

e) Consumer loans

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

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

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

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

f) Credit cards

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

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

g) Leasing

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

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

h) Hire-purchase

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

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

i) Mortgage loans

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

3.2.2 Credit quality

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

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

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

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

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

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

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

Distribution of internal ratings of corporate loans:

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

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

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

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

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

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

Distribution of internal ratings for other loan products:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Structure of loans impaired according to past due time:

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

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

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

3.3 Market risk

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

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

3.3.1 Foreign currency risk

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

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

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

Open currency exposures

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

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

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

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

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

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

3.3.2 Price risk

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

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

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

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

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

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

3.3.3 Interest rate risk

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

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

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

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

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

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

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

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

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

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

3.4 Liquidity risk

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

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

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

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

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

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

3.5 Risk concentration

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

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

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

LHV

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

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

Distribution of loans granted by industry (gross):

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

3.6 Fair value of financial assets and financial liabilities

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

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

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

Levels used in hierarchy:

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

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

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

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

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

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

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

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

3.7 Operating risk

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

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

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

NOTE 4 Significant management estimates and assumptions

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

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

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

NOTE 5 Subsidiaries and associated companies, goodwill

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

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

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

As at 31.12.2013, the Group's associates include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 6 Net interest income

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

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

NOTE 7 Net fee and commission income

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

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

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

NOTE 8 Gain/loss from financial assets

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

NOTE 9 Operating expenses

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

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

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

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

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

NOTE 11 Available-for-sale financial assets

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

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

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

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

NOTE 13 Held-to-maturity financial investments

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

NOTE 14 Loans granted

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

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

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

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

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

Net and gross investments on finance leases

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

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

NOTE 15 Receivables from customers

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

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

NOTE 16 Other assets

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

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

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

NOTE 17 Tangible and intangible assets

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

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

NOTE 18 Deposits from customers and loans received

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

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

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

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

NOTE 19 Accrued expenses and other liabilities

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

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

NOTE 20 Provisions

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

NOTE 21 Subordinated loans

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

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

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

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

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

NOTE 22 Shareholders' equity in the public limited company

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

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

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

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

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

NOTE 23 Finance and operating lease

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

NOTE 24 Assets under management

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

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

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

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

NOTE 25 Contingent liabilities

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

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

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

NOTE 26 Transactions with related parties

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

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

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

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

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

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

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

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

NOTE 27 Separate financial statements of parent company

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

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

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

Statement of financial position of the parent

(in thousand euros)

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

Statement of cash flows of the parent
(in thousand euros)

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

Statement of changes in shareholders' equity

(in thousands of euros)

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

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Kuupäev/date 28.04.14
PricewaterhouseCoopers, Tallinn

Signatures of the Management Board to the Consolidated Annual Report

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

28.04.2014

Rain Lõhmus /signed/

Erkki Raasuke /signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Group

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

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

AS PricewaterhouseCoopers

/signed/	/signed/
Ago Vilu Auditor's Certificate No. 325	Verner Uibo Auditor's Certificate No. 568

28 April 2014

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

Proposal for profit distribution

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

Signatures of the Supervisory Board to the consolidated annual report

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

30.04.2014

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

Allocation of income according to EMTA classificators

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

AS LHV Group
Consolidated Annual Report 2014
(translation of the Estonian original)

Consolidated Annual Report **01.01.2014 – 31.12.2014**

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

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Statement of Managing Director

2014 was a successful year for the LHV Group (LHV). The majority of targets set at the start of the year were achieved and in many cases surpassed. At the same time there was and always will be room for improvement and further development. Looking back at 2014, one can say that the economic climate remained favourable and supporting for our business, in spite of the general perception of fragility and risk exposure. It is clear that the repercussions of the global financial crisis can still be felt. Because of measures taken by central banks for stabilizing the European economy and promoting growth, we are now operating in a totally new situation. Base interest rates and deposit interest rates have fallen to non-existing levels, and commercial banks are essentially forced to pay for holding a liquidity buffer. In spite of slow growth of credit offering, enterprises are reluctant to invest and remain very careful in launching new projects. Because during the crisis the recession of Baltic economies was one of the steepest and fastest in Europe, it is understandable that the convergence with a more developed Europe that has been stalling is again growing and picking up speed. This is reflected mainly in relatively rapid domestic wage growth (5-7% a year) and, as a result, the strengthening of consumer confidence and purchasing power. The sharp drop in fuel prices in the second half of the year contributed to the process. In our opinion it is these short-term developments that have been clearly supporting the local financial market. All three Baltic economies are displaying strong growth of savings and relatively low credit losses. In its financial activities, LHV has been sailing in moderate tailwind.

The net profit of LHV in 2014 was EUR 9.7 million. Business volumes and profits of all our main businesses increased significantly. We have become a visible and strong market participant in our areas of activity.

To support the growth and development of LHV, last summer we carried out a share issue in the course of which we issued 3.5 million new stock. Together with the swap of convertible bonds to shares we increased the share capital of LHV by EUR 16.2 million. During the year as a whole, the equity of LHV increased by EUR 26.1 million, and amounted to EUR 58 million.

The profit of LHV Pank, the largest business unit of LHV, increased and amounted to EUR 6.2 million. By the year-end, loan volumes totalled EUR 312 million and customer deposits stood at EUR 461 million. Growth was mainly driven by corporate banking that finances small and medium-sized enterprises in Estonia. Professional customer service of the LHV team enabled to significantly increase the loan portfolio. Favourable economic climate together with active risk management kept credit losses very low. 2014 was a successful year for the majority of our customers.

In retail banking we launched a service for accepting card payments which essentially completes the basic banking offering of LHV. With the help of LHV Pank, private persons and small and medium-sized enterprises can handle their everyday financial matters and do it rapidly and very cost-efficiently.

The profit of LHV Varahaldus reached EUR 3.6 million. The volume of second-pillar pension plans continues to grow rapidly in Estonia. During the year, pension funds managed by LHV Varahaldus increased 31%, totalling EUR 471 million. LHV has been successfully managing pension funds in the long term and is posting the highest returns in the whole market. One of the cornerstones of our investment philosophy is the objective to avoid larger one-off losses. In the opinion of our fund managers, the global economy was too fragile and vulnerable in 2014, and they correspondingly reduced risks. In the short term, this has meant earning slightly lower returns than the market average and, consequently, slower growth of customers.

The development of the LHV Persian Gulf Fund was directly influenced by a sharp fall in commodity prices. Rapid growth in the start of the year turned to a decline in the second half. The fund ended the year with the volume of EUR 33 million and the return of 12%.

The annual profit of Mokilizingas was EUR 0.6 million and the financing portfolio amounted to EUR 30 million. After the acquisition in 2013 and restructuring the operations, the business is doing well. We are one of the largest service providers in the Lithuanian market of consumer financing and have a very positive image. We see good opportunities for expanding our business in a balanced way and to offer our customers more varied possibilities for better management of short-term cash flow.

For LHV, 2014 was a year of hard work and we ended it with good results. From the start, we have managed to offer good return for the capital provided by our shareholders – LHV's average return of equity was 20% in 2014 (without the positive impact of deferred tax assets). We are clearly focused on growth, but focus only on businesses where we see the possibility to achieve our targets for return of equity. During the year, we analysed several business expansion opportunities through acquisitions, but decided not to close the deals yet. We see good possibilities for natural growth and speed up growth by acquisitions only if it enables us to make strong progress without making unnecessary compromises in returns and risks.

The goals of LHV for the near-term future have not changed:

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

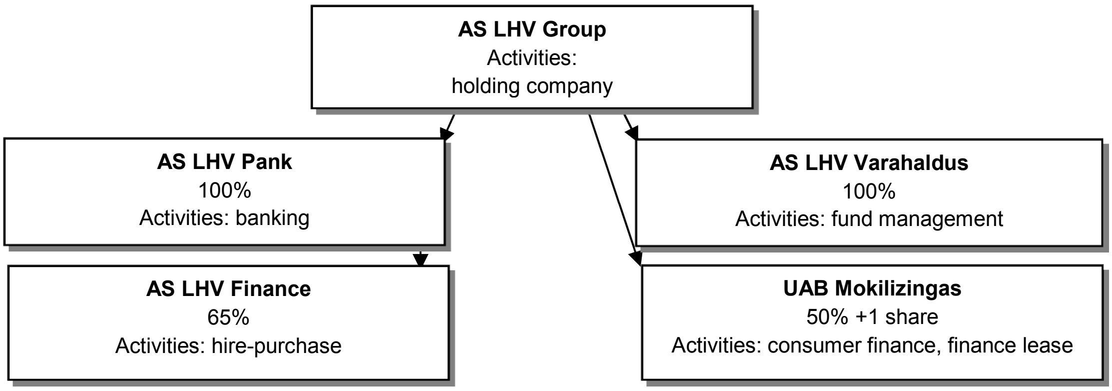
- We wish to conduct business in a manner that we achieve a return on equity employed in excess of 20% per annum;
- We aim to become a public company with publicly listed shares on a local securities exchange.

Erkki Raasuke

Management Report

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

LHV was established in 1999 by people with long experience in investing and entrepreneurship. LHV-s offices for client servicing are located in Tallinn, Tartu, Riga and Vilnius. Over 200 people work in LHV. Over 60 000 customers use banking services offered by LHV and the LHV's pension funds have over 130 000 clients.



Key events in 2014:

- **Group´s structure**

In 2014 the Group sold its 40% share in AS LHV Capital and 10% share in SIA EUVECA Livonia Partners.

- **Changes in share capital**

In 2014 the Group's share capital was increased in total amount 4.2 million euros. The capital paid in was 16.3 million euros, including the share premium.

- **Issuing subordinated bonds**

In 2014 subordinated bonds in the amount of 16.45 million euros were redeemed and bonds in the amount of 2.45 million were converted into stock. New subordinated bonds were issued in the amount of 15.9 million euros and due date of the bonds is 10 years.

Strategy directions

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

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

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

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

Shareholders

AS LHV Group has 23 256 005 common shares with par value of 1 euro.
AS at 31.12.2014 AS LHV Group had 263 shareholders:

- 13 370 738 shares (57.2%) belonged to the members of the supervisory board and management board and to their related parties.
- 9 173 290 shares (39.3%) belonged to Estonian entrepreneurs and investors and to their related parties.
- 811 977 shares (3.5%) belonged to current and previous employees of LHV and to their related parties.

Ten biggest shareholders as at 31.12.2014:

Number of shares	Percentage	Name of the shareholder
3 357 920	14,4%	AS Lõhmus Holdings
3 178 367	13,6%	Rain Lõhmus
1 637 897	7,0%	Andres Viisemann
1 418 000	6,1%	Ambient Sound Investments OÜ
1 210 215	5,2%	OÜ Krenno
995 000	4,3%	AS Genteel
931 978	4,0%	AS Amalfi
696 297	3,0%	OÜ Kristobal
653 165	2,8%	SIA Krugmans
576 667	2,5%	Bonaares OÜ

Business Environment

Relativity is the keyword best characterizing the current global economic environment. The 7% economic growth of China is out of reach for all other major economies, nevertheless there is concern about a slow-down in the Chinese economy. Economic growth of the United States has been positive for several years, however it has been out shadowed by weakness of the Eurozone and geopolitical tensions. The decline in the oil price is beneficial to all oil-importing countries but too fast of a decline will affect the outlook of the Middle East and is essentially crippling the Russian economy.

Among larger economies of the Eurozone, economic activity is improving in Spain while Germany and France are still waiting for improvement and the Italian economy is still in a recession. On the backdrop of a 3% global economic growth, the 1% economic growth forecast for the Eurozone seems poor. Although some underlying trends indicate potential improvement – European economic growth should improve on the back of growth in domestic consumption and increased employment – earlier expectations have been higher. This has led to a situation where forecasts are being made on the basis of improving trends.

Given the IMF warning about the increase in the probability of economic recession of the Eurozone and the increase in deflationary risk, the policy rates lowered by the European Central Bank to the lowest level in history in September 2014 and the monetary policy that has become sharply more expansionary at the start of 2015, are understandable. The quantitative easing programme is good news for companies that are still only contemplating investment decisions due to weak foreign demand or an unstable environment. For banks, however, it puts pressure on profit as the decline in financing cost cannot fully offset the decline in interest income.

Supported by domestic consumption, the Swedish economy remains relatively strong, although economic growth forecasts have been substantially cut there also due to weakness in exports.

Strength in Sweden, the economies of Finland and Russia are showing clear signs of weakness. Finland has gone through three consecutive years of recession, however the extent of recession has improved with each year. For 2015, economic growth is generally forecast for the Finnish economy, however expectations have recently been moderated by the sanctions related to Russia that impact the country.

In Russia it is likely that the economy will contract by more than the 4-5% that has been forecast for the year 2015. Added to the weakening of the ruble against the euro to the extent of 40% in 2014, further declines are expected with regard to the volume of goods and services exported to Russia.

The economies of Estonia, Latvia and Lithuania are influenced by various collective factors but at the same time the processes ongoing domestically are somewhat different. Estonia is falling behind both Lithuania and Latvia in terms of improvement of several important macroeconomic indicators and both of these countries are projected to have significantly better economic growth.

The economic outlook for Lithuania is strong. Consumption remains robust and is broad-based, supporting an increase in the loan volume. Growth is related to an improvement in employment and growth in real wages with a positive impact also from the adoption of the euro at the start of 2015. As a result, the positive trends are expected to continue throughout the year 2015, an expectation that was recently confirmed by the Central Bank of Lithuania raising their forecasts for economic growth and related forecasts for consumer expenditure. The biggest risk is the geopolitical situation as compared to the other Baltic States the share of Lithuania's export to Russia is the highest.

There is also concern about Russia in Latvia, although unlike Lithuania the Central Bank of Latvia has significantly its cut economic expectations. The expected economic growth for the year 2015 has been lowered to 2%. The economy of Latvia is being led by domestic demand through consumption and construction whereas manufacturing, transport and warehousing are weakening.

The Estonian economy is characterised by the continuation of the previous year's trends in the year 2015. There will be a slowdown in the growth in average wage but it will nevertheless exceed 5%, supporting both consumption and companies geared to domestic consumption. In addition to growth in the minimum wage, another source of wage growth is shortage of labour supply, forcing companies to increasingly compete for labour. Wage pressures jointly with sluggish external demand have led to a decline in the profits and productivity of companies, therefore the current slump in investment is justified. Businesses are nonetheless able to adapt to the current situation and use the favourable interest rate environment and weakening of the euro, which improves the sales potential of the export sector, for making investments.

Financial Results

EUR million	2010	2011	2012	2013	2014
Volume of deposits	**114**	**208**	**279**	**352**	**457**
Volume of loans	**38**	**67**	**106**	**207**	**316**
Volume of funds	**85**	**144**	**252**	**374**	**504**
Net interest income	1,3	3,5	6,1	11,8	20,3
Net fee income	4,5	5,3	6,5	9,5	12,8
Net financial income	-0,3	-1,1	0,8	2,7	0,5
Net income	5,5	7,7	13,4	24,0	33,6
Expenses	8,4	13,5	14,0	16,7	21,7
Operating profit	-2,9	-5,9	-0,7	7,3	11,9
Loan provisions	0,0	2,6	1,1	2,9	2,6
Income tax expense	0,0	0,0	0,0	0,1	-0,4
Profit	**-2,9**	**-8,5**	**-1,8**	**4,3**	**9,7**
including attributable to owners of the parent	**-2,7**	**-8,5**	**-1,8**	**4,2**	**9,2**

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

The Group's pre-tax profit for 2014 amounted to EUR 9.3 million and net profit totalled EUR 9.7 million, which is 122% more than a year earlier (EUR 4.3 million). Net interest income grew 72% and net fee income increased 36%. Financial income were 81% lower than in the previous year when the profit of the bond portfolio held for sale was realized and enabled to earn higher profit.

By the end of December, the total volume of the Group's loan portfolio less impairments amounted to EUR 316 million (December 2013: EUR 207 million). The volume of portfolios increased 53% in a year. In the loan portfolio, the majority is corporate loans that increased 62% in a year to EUR 214 million (2013: EUR 133 million). The portfolio of retail loans increased 35% in a year, amounting to EUR 107 million (2013: EUR 79 million).

The volume of Group's deposits increased 30% in a year and totalled EUR 457 million by the year-end (2013: EUR 352 million). The share of demand deposits of all deposits increased and reached 60% (31.12.2013: 46%).

Operating expenses increased 30% in a year which can be expected in the rapid growth phase.

By business units, in consolidated figures in 2014, AS LHV Pank earned profit of EUR 6.2 million, LHV Varahaldus earned EUR 3.6 million and UAB Mokilizingas earned a profit of EUR 0.6 million. LHV Group itself ended the year with a loss of EUR 0.7 million due to the fact that it has no separate profit-making unit and the main expense in the Group is the interest expense from subordinated liabilities.

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the Group, calculated according to the definitions of the Basel Committee, was 190% at the end of December (31.12.2013: 169%). The Group includes cash and bond portfolios, accounting for 41% of the balance sheet total, among its liquidity buffer (31.12.2013: 47%). The Group's loan-to-deposit ratio at the end of 2014 was 70% (31.12.2013: 60%).

The Group's level of own funds as at 31.12.2014 was EUR 72,5 million (31.12.2013: EUR 44,9 million). The Group is well-capitalised as at the end of the reporting period with a capital adequacy level of 22,8% (31.12.2013: 23,0%) and Tier 1 capital ratio of 17,6% (31.12.2013: 15,3%).

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 31.12.2014 was

31.12.2014 8,5%. Leverage ratio is calculated as Group's total Tier 1 own funds divided by Group 's total risk exposure measure (incl risk position on assets and off the balance sheet liabilities). As at the end of the reporting period, the leverage ratio is arithmetic mean of the monthly leverage ratios over the last quarter.

Key figures, EUR million	**2014**	**2013**	**change**
net profit	9,7	4,3	122%
net profit attributable to owners of the parent	9,2	4,2	117%
average equity	43,1	25,7	68%
return on equity (ROE) % *	21,4	16,5	4,9
average assets	485	366	33%
return on assets (ROA) %	2,0	1,2	0,8
net interest income	20,3	11,8	72%
average interest earning assets	479	360	33%
net interest margin (NIM) %	4,25	3,29	0,96
spread %	4,16	3,22	0,94
cost/income ratio %	64,7	69,7	-5,0

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

Explanations

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

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

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

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

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

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

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

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

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

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

Capital base	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	19 202
Share premium	33 992	21 871
Statutory reserves paid in from net profit	435	223
Accumulated deficit	-11 244	-15 581
Intangible assets (subtracted)	-1 574	-1 665
Net profit for accounting period	9 203	4 206
Non-controlling interests	1 727	1 695
Total Tier 1 capital	**55 895**	**29 951**
Subordinated loans	16 650	19 600
Total Tier 2 capital	**16 650**	**19 600**
Exceeding limitations of subordinated loans and preferred stock	0	-4 625
Net own funds for capital adequacy calculation	**72 545**	**44 927**
Capital requirements		
Credit institutions and investment companies under standard method	8 237	3 726
Companies under standard method	153 250	83 034
Retail claims under standard method	101 741	73 483
Overdue claims under standard method	5 438	3 661
Investment funds' shares with standardised approach	5 608	4 216
Other assets under standard method	5 675	5 638
Total capital requirements for covering the credit risk and counterparty credit risk	**279 949**	**173 758**
Capital requirement against foreign currency risk	5 735	4 315
Capital requirement against interest position risk	2 028	4 139
Capital requirement against equity portfolio risks	96	60
Capital requirement for operational risk under base method	30 066	13 307
Total capital requirements for adequacy calculation	**317 874**	**195 579**
Capital adequacy (%)	**22,82**	**22,97**
Tier 1 Capital Ratio (%)	**17,58**	**15,31**

Overview of the Group's subsidiaries in 2014

AS LHV Pank consolidation group

AS LHV Pank is based on Estonian capital. The Bank's clients include private individuals, small and medium-sized companies and institutional investors. The branch offices of LHV Pank are located in Tallinn, Tartu, Riga and Vilnius. LHV Pank employs over 200 people. More than 60 000 clients use the Bank's services. The Bank has stronger investment and enterprise experience than other banks. LHV Pank is one of the largest brokers on NASDAQ OMX Baltic stock exchanges and the largest broker for Baltic retail investors in international markets. The Bank owns 65% of the subsidiary AS LHV Finance that provides hire-purchase service.

Business activities

Growth of deposits and loans in the year 2014 was according to expectations.

The volume of deposits grew by 38% year-on-year and reached 462 million euros by year-end (356 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. Thus, the proportion of demand deposits has increased, accounting for 60% of all deposits as at the end of December (46% one year ago).

The loan portfolio volume grew by 53% year-on-year and amounted to 313 mln euros at the end of December. The majority of the loan portfolio is made up of loans to businesses, which grew by 62% year-on-year to 214 million euros (133 million euros). The retail loan portfolio grew by 49% year-on-year to 75 million euros (50 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 27 million euros (24 million euros). The biggest source of growth was real estate related activity, an industry that is traditionally financed to the greatest extent by commercial banks. Compared to the previous year, loans and guarantees for activities related to real estate grew by 38,8 million euros (+82%). In addition to activities related to real estate, the company experienced the most loan growth to sport federations that are classified as part of recreational industries (14,7 million euros; +210%) and professional and scientific activities (9,1 million euros; +173%).

In the second half of the year, the bank limited the conditions of issuing consumer loans in Finland, expedited the write-offs of loans and sold a portfolio of non-performing loans. The bank initiated negotiations with potential acquirers for the sale of the consumer-lending business in Finland and conducted a due diligence process. At 09.01.2015, the bank sold its consumer-lending business in Finland to the Swedish company JSM Financial Group AB. According to the sales agreement, the entire business of the Finnish branch was transferred to the new owner together with assets and liabilities. The transaction involved employment contracts with 8 employees and contracts with third parties. The size of the loan portfolio that changed ownership was approximately 15 million euros.

Development

From 1 February, the bank adopted the SEPA *Single Euro Payments Area* system. Instead of the former retail payment system of the central bank of Estonia, the company now uses the Single Euro Payments Area system. International IBAN bank account numbers were adopted, as well as new formats for bulk import of payments and bank account statements and direct debits were replaced by a service for e-invoice payment via standing order. The bank joined the SEPA payments system as an indirect member of the EBA Clearing payment infrastructure provider, however in order to ensure more efficient operation of the payments service the bank decided in the second half of the year to become a direct member of EBA, which will become effective from March 2015.

As its biggest developments, the bank introduced "Au-clients" customer loyalty programme and a gold card for individual customers and launched services for acceptance of card payments for merchants. In mid-year, the company completed an option to select the LHV electronic start-up accounts account when electronically registering a company. The company introduced a Russian-language website, online banking and mobile banking. LHV started providing insurance to hire purchase customers upon entry into contracts.

Substantial developments related to information technology included the transfer of the core of the banking system to a new version and a new and modern lending system was completed for the administration of corporate loans.

In the beginning of the year, the bank won the Member of the Year Award at the Baltic Market Awards for the third year running. LHV launched a partnership with Allfunds Bank, S.A., one of the largest fund distribution platforms in the world, in the field of investment services. Allfunds distributes more than 36,000 funds of more than 450 fund managers.

Financial results

The profit before tax of LHV Pank in 2014 amounted to 5,6 million euros and net profit amounted to 6,2 million euros, up 173% compared to the previous year (2,3 million euros). Net interest income grew by 61% and net fee and commission income increased by 19%. Finance income was lower by 85% compared to the previous year as in the prior year a realised profit was recognised on its bond portfolio classified as available-for-sale, therefore income was higher.

The large increase in net interest income is attributable to a growth in business 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 21% year-on-year, which was expected given the current phase of high growth.

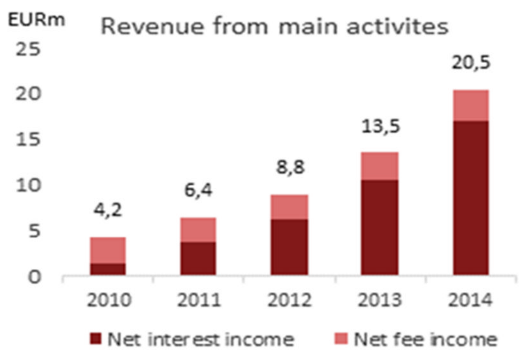
During the year, the bank switched to a new methodology of collective provisioning, which accounts for the credit rating attributed to each company in forming collective provisions. As a result of the change in methodology and supplementary historical experience, the collective provision rate of business loans increased from 0,5% to 0,7% of the portfolio.

Loan provisions costs were 25% lower compared to the previous year as a result of the sale of the portfolio of non-performing loans in Finland, which was previously more conservatively valued in the balance sheet, causing a partial reversal of provisions due to the sale.

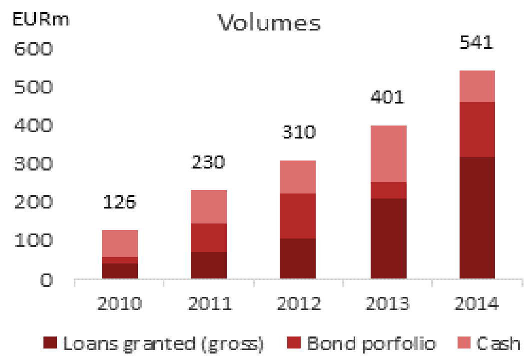
Organisatsion

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).

Statement of comprehensive income, EUR million	**2014**	**2013**	**change**
net interest income	16,90	10,50	61%
net fee and commission income	3,56	2,98	19%
net gains from financial assets	0,34	2,34	-85%
total net operating revenues	20,80	15,82	32%
other income	0,03	0,06	-52%
operating expenses	-13,30	-10,99	21%
loan losses	-2,97	-2,62	-25%
net income	5,56	2,27	145%



Volumes, EUR million	**31.12.2014**	**31.12.2013**	**change**
loan portfolio	312,8	204,6	53%
bond portfolio	142,5	42,7	234%
deposits	462,0	356,3	30%
equity	45,2	26,9	68%
number of customers holding assets in bank	61 170	48 863	25%



AS LHV Varahaldus

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

In 2014, the main activity of the Company was the provision of fund management services to five compulsory pension funds, one voluntary pension fund and two UCITSs investing in equities.

During the year the Company's operating income increased 46%. The volume of fund assets managed by the Company increased 35% - from 374 million euros to 504 million euros. The number of active clients of compulsory pension funds increased from 122 thousand to 129 thousand (market share of 20,5%).

In terms of the number of clients, the Company is the third largest compulsory pension fund management company in Estonia and second largest by the volume of funds' assets in 2014. The returns of the compulsory pension funds of LHV varied between 1,26% (LHV pf XL) and 5,51% (LHV pf XS). The return of LHV Supplementary Pension Fund was 1,68%. Bond markets, where LHV had invested throughout the year, performed better than expected. Bond markets both in the Eurozone and USA expanded throughout the 2014. In the United States, the return of a ten-year government bond decreased from the 3% level at the start of the year to 2.2%. In Germany, the respective figures were 1.9% and 0.5%. Among fundamental factors, the bond market has been supported mainly by falling inflation – while inflation in the Eurozone was still 0.8% at the start of 2014, inflation fell for the rest of the first half and because of cheaper oil prices, it decreased to -0.2% by the end of the year. In addition to fundamental indicators, the movement of bond markets after the last financial crisis has been strongly influenced by extraordinary measures taken by central banks. Because of such expectations, the yield of German two-year government bond fell to -0.1% at the end of the year. At the start of 2015, the European Central Bank announced that it will start buying mainly governments bonds in the volume of EUR 60 billion a month.

After making no new investments in 2013 because of falling bond prices, asset management made significant changes in its bond portfolios already at the start of 2014 by acquiring new Latvian 7-year and Lithuanian 10-year international bonds from both the initial issue and also from the aftermarket, making them into the two largest positions in the bond portfolio. Of more significant positions, also Bulgarian and Romanian bonds were acquired during the summer and autumn, while Lithuanian bonds denominated in the local currency were acquired before the country's accession to the Eurozone. These investments also contributed the most to the annual growth of returns in portfolios.

In 2014, global equity markets continued positively, although some stock exchanges performed better than others. United States equity markets ended the year with an increase of more than 10%. For European investors, growth was more than 25% because of the strengthening of the US Dollar. Returns of stock markets in other developed markets such as Western Europe and Japan was between 5% and 10% (in euros). The biggest losses were posted by regions that are heavily dependent on commodity prices such as Russia and Latin America. Stock prices in the Baltic countries continued to slide and by the end of the year, the stock index was 7.7% lower.

Contrary to expectations, the global economy did not turn to growth also in 2014. A positive surprise was the US economic growth in the second and third quarter, but it remained the only good news. During the year, growth forecasts were adjusted downward in Europe, Japan, China and emerging markets. However, the expectation for 2015 remains again optimistic, especially in Europe where economy should get a boost from lower energy prices and the QE by the European Central Bank.

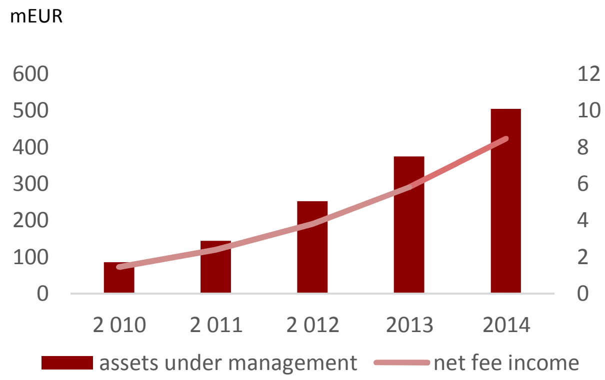
During the year, no significant changes were made in the investment strategy of pension funds. In the opinion of fund managers, equity prices are still not matching financial results of listed companies whereas stock indices are mainly driven up by high expectations on measures imposed by central banks. Therefore, direct positions in equities remain low and the main focus is mainly on Baltic equities. As compared to equity markets, alternative investments are offering better long-term growth prospects. In 2014, the first such investment was made in the local forest fund. In addition, positions in the commercial real estate were strengthened and investments were made in several private capital funds in the Balkan and Baltic regions.

The Company manages two UCITS compliant funds – LHV World Equities Fund and LHV Persian Gulf Fund. The latter has been very popular among foreign investors who own the majority of fund units. To further increase the marketing of the fund and increase tax effectiveness, the Company decided to redomicile the Fund to Luxembourg. The Swedbank Group platform has been chosen as the most optimal alternative for redomicilation. The redomicilation will occur through a cross border merger with a Luxembourg-based fund. The Financial Supervision Authority gave the permission to merge the two funds on the 23th of February 2015 and on the 13th of April 2015 SEF – LHV Persian Gulf Fund as the merging fund and LHV Persian Gulf Fund as the receiving fund will be merged together. Zawya Thomson Reuters awarded the fund "The Best Equity GCC Fund of 2013" second year in a row on the 1st of June 2014. On the 25th of November 2014, LHV Persian Gulf Fund won the International Finance Magazine award for the fastest growing GCC region equity fund. The same ceremony acknowledged the Company as the Best Fund Management Company in Estonia.

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

Financial results

EUR million	2014	2013	change
net fee income	8,5	5,8	46%
other financial income	0,2	0,2	-2%
total net operating revenues	8,6	6,0	44%
operating expenses	-5,0	-4,3	18%
profit	3,6	1,7	108%
assets under management	504	374	35%
number of clients in pension funds (thousands)	132	124	7%



UAB Mokilizingas

The Lithuanian economy continues to expand, driven mainly by the growth in domestic demand and, in particular, private consumption. After estimated growth of 2.9% in 2014, GDP is forecast to grow also in 2015 at 3.11%. Inflation remains very low and stable, as the price of goods in world markets continues to be favourable for consumers and inflation in the Eurozone area is low. Concerns for geopolitical instability are also visible in the Lithuanian economy, reflected in weaker household consumption and lack of investments by enterprises. As a result, growth in domestic demand that has been exceeding the long-term average for some time is now converging.

Hire-purchase

The objectives that Mokilizingas set for itself for 2014 included continued active cooperation with partners with a focus on stronger integration, better efficiency and synergy as well as increasing business volumes and offering consumers the best solutions in the market.

The number of active partners has increased about 9% a year as compared to 2013 and exceeded 1,200 by the end of 2014. The portfolio of instalment loans is growing about 30% a year, similarly to sales growth that amounted to almost EUR 31 million in 2014 and the portfolio volume was EUR 21 million by the end of the year.

The market of instalment loans is growing in parallel with the recovery of private consumption in the economy. Successful sales in 2014 have enabled Mokilizingas to strength its position in the market.

Although the number of competitors in the market remains small, competition in the market remains tough and is mostly driven by price. Figures reported by our partners show that the market has been waiting for the country's accession to the Eurozone, as shown by the termination of litas-denominated contracts, resulting in the declining share of instalment financing in the sale of retail loans. Customers have been using the investment opportunity to buy goods for Lithuanian litas, instead of using instalment as a way to maintain their savings.

Mokilizingas works closely with partners and clients to offer innovative solutions that would allow achieving efficiency, save time and which would be useful and simple to use. Mokilizingas introduced an updated purchase protection to its clients, which was first offered in 2013. In 2014 the list of categories that could be covered by this protection was expanded. In order to ease periodic payment process and save time, Mokilizingas introduced a direct debit service. Customers can sign the direct debit agreement whilst signing the agreement with Mokilizingas at the partner premises – the client does not need to contact his / her bank.

Consumer loans

The aim and goal set for 2014 was to continue the work started in 2013 – to successfully compete and increase the share in the intensive consumer credit market by offering innovative and effective solutions to our partners and clients.

In 2014, the revenue of consumer loans amounted to EUR 8 million, an increase of 21% as compared to 2013. Consumer loan portfolio increased by 17% to 9 million euros. As for the market of consumer loans, it is expected to grow much faster than the market of instalment loans. The market of small loans (up to EUR 290) seems to have reached its volume and is growing slowly.

Starting from May 2013, consumer loans, which are transferred to the client‘s bank account, are issued at PayPost units. Given the demand for cash loans, starting from August 2014 we have introduced cash-based consumer loans available at PayPost units.

Competition in the consumer credit market remains particularly intense, however, the market is expanding and it attracts new players. Alongside existing market participants, there are new active companies that operate using the same principles or new alternative financing providers issuing consumer loans using completely different financing models. Large expenses are incurred in order to attract clients using traditional channels (TV, radio, web). However, continuous noise in the information space makes it necessary to look for new innovative channels no one has used before. If compared with main competitors, Mokilizingas external marketing expenditure in 2014 was comparably small. The objective is to offer an effective and useful solution for the best price possible. However, even with prices usually smaller than those of our direct competitors, reaching the client through this marketing noise is difficult. Thus, a challenge for 2015 will be to encourage clients to look for the best available option.

Financial results

The loan portfolio increased 15% in 2014. As at the end of 2014, the total loan portfolio stood at EUR 30 million and the number of customers was 78 thousand. Net interest income during the accounting period was EUR 3.8 million and net income from fees was EUR 0.8 million. Operating expenses totalled EUR 3.2 million, loan provisions amounted to EUR 0.7 million, corporate income tax was EUR 0.1 million and the profit for the period was EUR 0.6 million.

Governance of the Group

Supervisory board

Rain Lõhmus is a founder of LHV and the chairman of the supervisory board. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and AS Arco Vara and a member of the management boards and supervisory boards of other companies. Rain Lõhmus graduated from Tallinn University of Technology and management program of Harvard Business School. He is a member of Estonian Business Association. Rain Lõhmus owns 3 178 367 and AS Lõhmus Holdings owns 3 357 920 shares of AS LHV Group.

Raivo Hein is the owner and a member of management board of OÜ Kakssada Kakskümmend Volti. He is a member of the supervisory board of AS LHV Pank and a member of management boards and supervisory boards of other companies. Raivo Hein graduated from Tallinn University of Technology. Raivo Hein does not own shares of AS LHV Group. OÜ Kakssada Kakskümmend Volti owns 536 651 shares of AS LHV Group.

Heldur Meerits is the owner and a member of the management board of AS Amalfi. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and Kodumaja AS and a member of the management boards and supervisory boards of other companies. Heldur Meerits graduated from the Faculty of Economics and Business Administration of Tartu University. He is a member of the supervisory boards of SA Avatud Eesti Fond, SA Dharma and other foundations. Heldur Meerits does not own shares of AS LHV Group. AS Amalfi owns 931 978 shares of AS LHV Group.

Tiina Mõis is the owner and manager of AS Genteel. She is a member of the supervisory boards of AS LHV Pank, AS Baltika, AS Nordecon International and other companies. Tiina Mõis graduated from Tallinn University of Technology. She is a member of management board of Estonian Chamber of Commerce and Industry and a member of Estonian Accounting Standards Board. Tiina Mõis does not own any shares of AS LHV Group. AS Genteel owns 995 000 shares of AS LHV Group.

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

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

Management board

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

Erkki Raasuke is the chairman of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS Eesti Energia and a member of the supervisory board of EfTEN Kinnisvarafond AS and AS TREV-2 Group. Previously he has worked as an advisor to the Minister of Economic Affairs, as the chairman of the supervisory board of AS Estonian Air, as CFO of AB Swedbank and as the chairman of the management board, the CEO and CFO of AS Swedbank. Erkki Raasuke graduated from Tallinn University of Technology and management programs of INSEAD and BICG. Erkki Raasuke owns 80 000 shares of AS LHV Group and share options to aquire 25 391 shares in 2017.

Supervisory and Management Boards of the Subsidiaries

AS LHV Pank

Supervisory Board: Rain Lõhmus (chairman), Raivo Hein, Heldur Meerits, Tiina Mõis, Erkki Raasuke, Hannes Tamjärv, Andres Viisemann

Management Board: Erki Kilu (chairman), Jüri Heero, Andres Kitter, Martin Lengi, Indrek Nuume, Martti Singi

AS LHV Varahaldus

Supervisory Board: Erkki Raasuke (chairman), Erki Kilu, Andres Viisemann

Management Board: Mihkel Oja (chairman), Joel Kukemelk

UAB Mokilizingas

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

Management Board: Khalid Bouzerda, Erki Kilu, Erkki Raasuke, Alvydas Žabolis

CEO: Jurgis Rubaževičius

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.

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. Share options were granted to 36 people in the total amount of 645 thousand euros. The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options 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.

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.

Corporate Governance report

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

1. General meeting

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

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

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

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

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

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

In 2014, the company called one annual general meeting and no extraordinary general meetings. The annual general meeting of shareholders held on 21.05.2014 approved the annual report of the 2013 financial year, changed the statute, called back all the previous memberes of the supervisory board and elected new members, approved the compensation policy for supervisory board members, approved the share options program ja resolved to increase share capital. The general meeting was held in Estonian.

In 2014 the chair of the general meeting was an independent person Sven Papp, who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board about the company’s activities.

In 2014 member of the management board Erkki Raaseke, chairman of the supervisory board Rain Lõhmus, members of the supervisory board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein and Tauno Tats and auditors Ago Vilu and Verner Uibo attended the general meeting of shareholders. If any members of the supervisory board are up for election at the general meeting who have not previously been supervisory board members of LHV and the auditor, the persons up for election shall attend the relevant general meeting. In 2014, an additional member of the supervisory board, Rain Lõhmus, was elected, who attended the general meeting.

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

Shareholders with significant interest are Rain Lõhmus and persons related to him with 28.0% and Andres Viisemann and persons related to him with 10.6%.

2. Management Board

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

Management board member is Erkki Raasuke. The supervisory board has entered into a service contract with Erkki Raasuke. The supervisory board sets the compensation policy for management board members.

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

Management board members submit an annual declaration of economic interests and conflicts of economic interests. In 2014, no business transactions took place between LHV and its management board members, their close relatives or persons related to them.

Erkki Raasuke is not a management board member of other issuers. Erkki Raasuke is the chairmen of supervisory board of AS Eesti Energia.

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

3. Supervisory Board

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

Supervisory board members are Rain Lõhmus (chairman), Andres Viisemann, Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Tauno Tats. The general meeting of shareholders has set the compensation policy of supervisory board members at 500 euros per each supervisory board meeting attended.

Supervisory board members submit an annual declaration of economic interests and conflicts of economic interests. In 2014, no business transactions took place between LHV and its supervisory board members, their close relatives or persons related to them.

In 2014, there were 11 regular supervisory board meetings and two extraordinary meetings. As part of supervisory board meetings, the supervisory board was regularly briefed on the operating and financial results of LHV's subsidiaries. The supervisory board formed the audit committee and compensation committee, approved the rules of procedure for the supervisory board, audit commitee, compensation commitee and internel audit, policy of capital management and capital goals as well as risk management policy, the 2012 annual report, share options program and increase of share capital before these were presented to the annual general meeting of shareholders for approval, premature redemption of subordinated and issuances of new subordinated bonds, dispossession of ownership interests in associates AS LHV Capital and EuVECA Livonia Partners SIA and the financial plan of LHV and internel audit workplan for 2015.. Hannes Tamjärv attended less than half of supervisory board meetings.

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

3.1. Audit committee

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

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

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

Audit committee members are Gerli Kilusk (chair), Marilin Hein and Tauno Tats. The compensatation for audit committee members is 100 euros per month.

3.2. Compensation committee

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

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

The members of the compensation committee are Erkki Raasuke (chair), Rain Lõhmus and Andres Viisemann. No compensation is paid for the members of the compensation committee.

4. Cooperation of the management and supervisory boards

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

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

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of material developments equally.

LHV has an investor relations website. LHV publishes on its website a financial calendar containing the publication dates of the annual report and interim reports and the date of the annual general meeting of shareholders.

In 2014, meetings with investors were held as needed and based on investor requests.

6. Financial reporting and auditing

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

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

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

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

Declaration of conformity

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

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

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

"*2.2.1. The Management Board shall have more than one (1) member and a Chairman elected by its members.*

The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for co-operation between members of the board shall also be established.

The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions "

LHV management board has one member. LHV is a holding company without any day-to-day business activities. The major subsidiaries of LHV have Management Boards consisting of several members.

"2.2.2. Member of the Management Board cannot be simultaneously a member of management boards of more than two issuers nor a chairman of the supervisory board of another issuer. Member of the Management Board can be chairman of the Supervisory Board of an issuer that belongs to the same Group."

Erkki Raasuke is the Chairman of the Supervisory Board of Eesti Energia. Eesti Energia has not issued bonds on the Tallinn Stock Exchange, but has issued bonds on the London Stock Exchange.

"*2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.*

The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and *changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore*."

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

(in thousands of euros)	Note	2014	2013
Continuing operations			
Interest income		19 499	11 507
Interest expense		-3 025	-2 401
Net interest income	6	**16 474**	**9 106**
Fee and commission income		13 691	10 099
Fee and commission expense		-1 143	-865
Net fee and commission income	7	**12 548**	**9 234**
Net gains from financial assets measured at fair value	11	528	2 416
Foreign exchange rate gains/losses		-15	-23
Other financial income		0	312
Net gains from financial assets		**513**	**2 705**
Other income and expense		-16	64
Staff costs	8	-8 554	-6 158
Other operating expenses	8	-11 375	-8 952
Profit before impairment losses on loans and advances		**9 590**	**5 999**
Share of the other comprehensive income/loss of associates accounted for using the equity method		-14	10
Impairment losses on loans and advances	13	-1 680	-1 375
Profit before taxes		**7 896**	**4 634**
Income tax expense	5	-151	-84
Net profit for the year from continuing operations		**7 745**	**4 550**
Profit from discontinued operations	12	**1 922**	**-205**
Net profit for the year		**9 667**	**4 345**
Profit attributable to:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Revaluation of available-for-sale financial assets	10	21	-27
Total comprehensive income for the year		**9 688**	**4 318**
Total comprehensive income/loss attributable to:			
Owners of the parent		9 203	4 237
Non-controlling interest		464	108
Total profit for the year		**9 667**	**4 345**
Total comprehensive income/loss attributable to:			
Owners of the parent		9 224	4 210
Incl. continuing operations		*7 302*	*4 415*
Incl. discontinued operations		*1 922*	*-205*
Non-controlling interest		464	108
Total comprehensive income/loss for the year		**9 688**	**4 318**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

Consolidated Statement of Financial Position

(in thousands of euros)	Note	31.12.2014	31.12.2013
Assets			
Balances with central banks	9	45 427	133 839
Due from credit institutions	9	24 218	17 004
Due from investment companies	9	14 484	1 466
Available-for-sale financial assets	10	4 273	11 903
Financial assets at fair value through profit or loss	11	145 252	36 702
Assets of discontinued operations, classified as held for sale	12	15 473	0
Loans and advances to customers	13	301 032	206 768
Receivables from customers	14	1 566	1 507
Other assets	15	2 048	3 892
Goodwill	5	1 044	1 044
Tangible assets	16	308	491
Intangible assets	16	530	621
Investment in associates	5	36	131
Total assets		**555 691**	**415 368**
Liabilities			
Deposits from customers and loans received	17	475 013	356 381
Financial liabilities at fair value through profit or loss	11	302	433
Accounts payable and other liabilities	18	5 435	6 891
Liabilities of discontinued operations, classified as held for sale	12	220	0
Subordinated loans	20	16 688	19 716
Total liabilities		**497 658**	**383 421**
Equity			
Share capital	21	23 356	19 202
Share premium		33 992	21 871
Statutory reserve capital		435	223
Other reserves	10, 21	132	-12
Accumulated deficit		-2 041	-11 032
Total equity attributable to owners of the parent		**55 874**	**30 252**
Non-controlling interest		2 159	1 695
Total equity		**58 033**	**31 947**
Total liabilities and equity		**555 691**	**415 368**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(in thousands of euros)	Note	2014	2013
Cash flows from operating activities			
Interest received		19 109	11 163
Interest paid		-2 777	-3 619
Fees and commissions received		13 233	10 187
Fees and commissions paid		-1 144	-865
Other income received		0	64
Staff costs paid		-8 415	-6 026
Administrative and other operating expenses paid		-10 746	-8 447
Cash flows from operating activities before change in operating assets and liabilities		**9 260**	**2 457**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio		-5	-636
Loans and advances to customers		-110 526	-80 517
Term deposits with other credit institutions		-1	2
Mandatory reserve at central bank		-1 101	-846
Security deposits		-133	64
Other assets		1 815	-942
Net increase/decrease in operating liabilities:			
Demand deposits of customers		111 970	85 911
Term deposits of customers		-6 920	-12 128
Loans received and repayments		13 556	-19 820
Financial liabilities held for trading at fair value through profit or loss		-131	-223
Other liabilities		-1 376	1 862
Net cash generated from / used in operating activities from continuing operations		**16 408**	**-24 816**
Cash generated from / used in operating activities from disconinued operations		1 865	-1 504
Net cash generated from/ used in operating activities		**18 273**	**-26 319**
Cash flows from investing activities			
Purchase of non-current assets	16	-530	-486
Acquistion of subsidiaries		0	304
Acquisition and disposal of associates		78	-52
Acquisition of investment securities held to maturity		0	-2 790
Proceeds from disposal and redemption of investment securities available for sale		7 730	61 130
Net changes of investment securities at fair value through profit or loss	11	-108 107	13 076
Net cash used in / from investing activities		**-100 829**	**71 182**
Cash flows from financing activities			
Paid in share capital	21	13 825	564
Non-controlling interest contribution to subsidiary´s share capital		0	175
Sale of treasury shares		0	1
Subordinated loans received	20	15 900	15 450
Repayment of subordinated debt	20	-16 450	0
Net cash from financing activities		**13 275**	**16 190**
Net decrease/increase in cash and cash equivalents		**-69 281**	**61 053**
Cash and cash equivalents at the beginning of the year	9	148 912	87 859
Cash and cash equivalents at the end of the year	**9**	**79 631**	**148 912**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	**Total equity attributable to owners of the parent**	Non-controlling interest	**Total equity**
Balance as at 01.01.2013	**17 382**	**18 827**	**223**	**232**	**-15 581**	**-1**	**21 082**	**0**	**21 082**
Conversion of subordinated bonds issued in 2010 to share capital	1 200	1 800	0	-210	0	0	2 790	0	**2 790**
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	1 293	0	**1 293**
Paid in share capital	187	377	0	0	0	0	564	0	**564**
Sale of treasury shares	0	0	0	0	0	1	1	0	**1**
Non-controlling interest contribution to subsidiary´s share capital	0	0	0	0	0	0	0	175	**175**
Non-controlling interest arising on business combination	0	0	0	0	312	0	0	1 412	**1 724**
Profit for the year	*0*	*0*	*0*	*0*	*4 237*	*0*	*4 237*	*108*	*4 345*
Other comprehensive income	*0*	*0*	*0*	*-27*	*0*	*0*	*-27*	*0*	*-27*
Total comprehensive income for 2013	0	0	0	-27	4 237	0	4 210	108	**4 318**
Balance as at 31.12.2013	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**	**1 695**	**31 947**
Balance as at 01.01.2014	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**	**1 695**	**31 947**
Conversion of subordinated bonds issued in 2012 to share capital	654	1 796	0	-15	0	0	2 435	0	**2 435**
Paid in share capital	3 500	10 325	0	0	0	0	13 825	0	**13 825**
Share options	0	0	0	138	0	0	138	0	**138**
Paid in statutory reserve capital	0	0	212	0	-212	0	0	0	**0**
Profit for the year	*0*	*0*	*0*	*0*	*9 203*	*0*	*9 203*	*464*	***9 667***
Other comprehensive income	*0*	*0*	*0*	*21*	*0*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	0	21	9 203	0	9 224	464	**9 688**
Balance as at 31.12.2014	**23 356**	**33 992**	**435**	**132**	**-2 041**	**0**	**55 874**	**2 159**	**58 033**

Notes on pages 26 to 71 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 2014 for AS LHV Group (the "Group") and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank. AS LHV Finance was incorporated January 23, 2013.

AS LHV Group is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu Road 2, Tallinn. AS LHV Group is a holding company whose subsidiary AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and Finland (discontinued operation). There are offices for client servicing in Tallinn, Tartu, Riga and Vilnius. The business activity of the LHV Pank branch office in Helsinki has been sold after the balance sheet date. AS LHV Finance offers hire-purchase services to merchants. AS LHV Varahaldus offers fund management services for pension funds and other funds to clients in Estonia. UAB Mokilizingas offers consumer finance and finance lease services in Lithuania. As at 31.12.2014 the Group employed 281 full-time employees, incl 17 non-active (31.12.2013: 252 employees, incl non-active).

The consolidated annual report (incl. financial statements) was approved by the Management Board on 25 March 2015. Rain Lõhmus, who owns 28,0% of the voting rights and Andres Viisemann, who owns 8,9% of the voting rights (see also Note 21), 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 companies, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as: "financial assets and liabilities at fair value through profit or loss", including derivatives and assets available for sale.

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

The financial year started at 1 January 2014 and ended at 31 December 2014. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these financial statements which became mandatory for the Group's accounting periods beginning on or after 1 January 2014. 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 2014.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet these objectives, the new standard requires disclosures in a number of areas, including;

- significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities;
- extended disclosures on share of non-controlling interests in group activities and cash flows;
- summarised financial information of subsidiaries with material non-controlling interests; and
- detailed disclosures of interests in unconsolidated structured entities.

Further information regarding application of the standard is disclosed in note 5.

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 2014 that have a material impact to the Group.

(b) **New accounting pronouncements**

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2015, 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
- assets to be measured subsequently at fair value through profit or loss.

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.

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 2014 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its

subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank.

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 the cost cannot be recovered.

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

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

In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 26), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

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

2.3 Associates

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

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

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

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

At each balance sheet date, it is assessed whether there is any indication that the recoverable amount of the investment has fallen below its carrying amount, If any such indications exist, an impairment test is performed. To determine the recoverable amount of the investment, the principles described in section 2.9 are used as the basis.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

The Group classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition. Refer to note 4 for information about reclassification of held-to-maturity financial investments to available-for-sale assets. As of March 2013 the group has no held-to-maturity financial investments, refer to Note 10.

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

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

Financial assets at fair value through profit or loss include

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

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

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

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

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

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

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

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

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

- investments designated as fair value through profit or loss upon their initial recognition;
- investments classified as available-for-sale assets; 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 acquisities and they are subsequently measured at amortised cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line "Net profit/loss from financial assets" in the statement of comprehensive income.

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial instruments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available-for-sale are carried at fair value.

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Other changes in fair values of these financial assets are recognised in other comprehensive income.

(d) Loans and advances

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

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

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

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

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

2.7 Impairment of financial assets carried at amortised cost

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past

experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. The Group regularly reviews future cash flow assessment methods and assumptions, in order to reduce potential differences between loss estimates and actual losses.

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

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

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

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

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

2.8 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. The disposal group is recognized at carrying amount or fair value less costs related to the transaction of sale, depending on which is lower. The carrying amount of the assets of LHV Finnish brach, which are recognized as discontinuing operations at the end of 2014, is equal to its fair value. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented. Intergroup transactions between discontinued and countuing operations are eliminated depending on whether the transactions will continue after the transaction of sale.

2.9 Tangible assets

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

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

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

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

2.10 Intangible assets

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

2.11 Financial guarantees and performance guarantees

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

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

2.12 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

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

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

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

2.13 Payables to employees

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

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

2.14 Share-based payments

AS LHV Group operates a share-based compensation plan, under which the company receives services from group employees as consideration for equity instruments (options) of LHV Group. The fair value of the employee services received in exchange for the grant of the options is recognised during the shared-based compensation program as group's staff expense and as an increase in the equity (retained earnings). The total amount to be expenses 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. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

2.15 Provisions and contingent liabilities

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

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

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

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

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

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

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

2.17 Revenues and expenses

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

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

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

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

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

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

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

2.18 Asset management services

The Group is engaged in providing asset management services (Note 22). Such assets have been given to the Group to be managed by third parties and these assets are recorded off-balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.19 Leases - Group as the lessee

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

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis

over the lease term. The Group primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of comprehensive income as "Operating expenses".

2.20 Taxation and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate as of 01.January 2015 is 20/80 (21/79 until 31.12.2014) on net dividends paid. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Corporate income tax in other countries

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

Corporate income tax rates	2014	2013
Latvia	15%	15%
Lithuania	15%	15%
Finland	20%	24.5%

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

A deferred income tax liability in respect of the Group's available equity which would accompany the payment of available equity as dividends, is not reported in the balance sheet. The maximum amount of income tax payable, which would arise paying out the retained earnings as dividends, is disclosed in the Note 21 to the financial statements.

2.21 Offsetting

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

2.22 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until 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 the risks, to measure them appropriately and to manage them. More broadly, the aim of risk management is to increase the value of the company 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 segments, 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 organisation. Risk management principles, requirements and areas of responsibility are described in policies and procedures. In accordance with the capital management principles that the Group has adopted, it must have adequate capital to support risks.

3.1 Capital management

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

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

The amount of capital that the Group managed as of 31.12.2014 was 72 545 thousand euros (31.12.2013: 44 927 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 adquatly capitalized at all times, ensuring the necessary capital to ensure economic preservation and enables financing of new profitable growth opportunities;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorbe losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided in two: 1) regulative minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowerinf of the regulative minimumcapital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will esure economic preservation even in the event of severe negative riskscenrio;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires marinating higher capital buffer.

Own funds	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	19 202
Share premium	33 992	21 871
Statutory reservs paid in from net profit	435	223
Accumulated deficit	-11 244	-15 581
Intangible assets (subtracted)	-1 574	-1 665
Net profit for accounting period	9 203	4 206
Non-controlling interests	1 727	1 695
Total Level 1 own funds	**55 895**	**29 951**
Subordinated loans	16 650	19 600
Total Level 2 own funds	**16 650**	**19 600**
Exceeding limitations of subordinated loans and preferred stock	0	-4 625
Total net own funds	**72 545**	**44 927**

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). At the start of the year 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 Group's Supervisory Board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks arising from fast growth. Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

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

The own funds of LHV Varahaldus as the fund manager need at any given time exceed the minimum amount of share capital laid down in the Investment Funds Act (3 000 thousand euros). The net own funds of a fund manager, who is managing pension funds with the market value of over EUR 125 million, must be at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million. In addition, the fund manager must maintain additional own funds equal to 0.02% of the portion of the market value of all managed funds, which exceeds EUR 250 million.

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

3.2 Credit risk

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

3.2.1 Distribution of credit risks

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

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

LHV

Maximum exposure to credit risk	31.12.2014	31.12.2013
Loans and advances to banks and investment companies (note 9)	84 129	152 309
Held for sale financial assets (note 10)	4 273	11 903
Financial assets at fair value (debt securities) (note 11)	139 146	32 466
Loans and advances to customers (note 13)	301 032	206 768
Receivables from customers (note 14)	1 566	1 507
Other assets (note 15)	783	650
Total assets	**537 035**	**409 839**
Loans and advances of discontinued operations, classified as held for sale (note 12)	14 813	0
Exposures related to off-balance sheet items (note 23), excluding performance guarantees	64 233	35 810
Total maximum exposure to credit risk	**616 081**	**445 649**

a) Debt securities

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

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:

Rating	FVTPL	AFS	Total 31.12.2014	FVTPL	AFS	Total 31.12.2013
AAA	110 645	3 261	113 906	15 462	9 198	24 660
AA- to AA+	13 667	0	13 667	2 842	189	3 031
A- to A+	6 094	609	6 703	6 602	599	7 201
BBB- to BBB+	8 740	403	9 143	6 807	1 917	8 724
B- to BB+	0	0	0	313	0	313
Total (note 10, note 11)	**139 146**	**4 273**	**143 419**	**32 026**	**11 903**	**43 929**

b) Loans and advances to banks

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 31.12.2014	Credit institutions	Inv. companies	Total 31.12.2013
Central bank	45 427	0	45 427	133 839	0	133 839
AA- to AA+	1 899	0	1 899	1 140	0	1 140
A- to A+	19 881	14 268	34 149	13 480	1 359	14 839
BBB to BBB+	164	0	164	569	0	569
Non-rated	2 274	216	2 490	1 815	107	1 922
Total (Note 9)	**69 645**	**14 484**	**84 129**	**150 843**	**1 466**	**152 309**

c) Leverage loans

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

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

As of 31.12.2014 LHV Pank has one leverage loan in the amount of 18 thousand euros with a collateral value of 0 and the loan has been fully impaired (31.12.2013:18 thousand euros).

d) Corporate loans and overdraft

Issuance of corporate loans is regulated by AS LHV Group Credit Policy, Credit Policy of LHV Pank and other internal rules. The maximum limit of a loan issued to a customer by LHV Pank is 25% of net own funds.

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, cashflows 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, dispersion 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 preffered collateral is always such, 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. See Note 3.2.2. for more detailed information on the credit quality of loans.

e) Consumer loans without collateral

The Group offers consumer loans in Lithuania and until 9th of January 2015 consumer loans were also offered in Finland, which in this report of consolidated financial statements is considered as discontinued operations. Consumer loans are issued only to individuals against future income.

The credit scoring model is being used to assess clients credit behaviour. In addition to the customer's previous payment behaviour and income, the credit scoring model also takes into account other statistical parameters, which have previously been collected by types of customer.

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the classic method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Lithuanian 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. Due to default rate volatility and uncertain data quality a conservative buffer of 20% shall be imposed for both product PD and LGD rates. PD and LGD values are updated at least once a year with new historical data in order to maintain adequate provision levels on portfolio. If necessary, additional impairments will be made in the balance sheet. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

As at 31.12.2014, the group-based impairment reserve makes up 11,2% of consumer loans and the related interest receivables (31.12.2013:Lithuania and Finland combined 11,7%).

f) Credit cards

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

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2014, the group-based impairment reserve amounted to 3.1% of credit card loans and related receivables (31 December 2013: 3.6%).

g) Leasing

In autumn 2012, LHV Pank started to offer leasing products for individuals and legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2014, the group-based impairment reserve amounted to 0.9% of leasing portfolio (31.12.2013: 1.0%).

Also in Lithuania leasing products are offered for individuals as well as for legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans.

Provision for finance lease is calculated using following methodology: net book value of portfolio minus net present value of portfolio. Net present value is calculated from future cash flows discounted by effective interest rate and adjusted for coefficient of possible losses. In addition to homogenous impairment, some problem loans are assessed individually based on the market/stress-sale value of the underlying assets.

As of 31 Decembrer 2014, the group-based impairment reserve amounted to 4,1% of leasing portfolio (31.12.2013: 7,0%).

h) Hire-purchase

In 2013 subsidiary LHV Finance started to offer hire-purchase services for merchants. The creditworthiness of customers is assessed by using scoring models, which mainly consist of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 Decembrer 2014, the group-based impairment reserve amounted to 1,6% of hire-purchase (31.12.2013: 1,4%).

The Group offers hire-purchase to private indivudals in Lithuania. The creditworthiness of customers is assessed and provisions are made based on the same framework as for Lithuanian consumer loans. As of 31 Decembrer 2014, the group-based impairment reserve amounted to 4,1% of hire-purchase (31.12.2013: 7,4%).

i) Mortgage loans

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

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

Loans and advances to customers 31.12.2014	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Col-lective impair-ment	Indi-vidual impair-ment	**Net**
Loans to legal persons							
Corporate loans (incl corporate overdraft)	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**
Leverage loans	4 164	0	0	**4 164**	0	0	**4 164**
Leasing	22 986	1 429	54	**24 469**	-236	-19	**24 214**
Mortgage loans	0	0	0	**0**	0	0	**0**
Credit card loans	61	0	0	**61**	-1	-1	**59**
Loans to individuals							
Consumer loans (incl corporate overdraft)	6 666	1 556	1 248	**9 470**	-623	-433	**8 414**
Hire-purchase	29 407	3 258	1 421	**34 086**	-664	-403	**33 019**
Leverage loans	5 014	0	18	**5 032**	0	-18	**5 014**
Leasing	4 255	138	0	**4 393**	-38	0	**4 355**
Mortgage loans	5 980	0	0	**5 980**	0	0	**5 980**
Credit card loans	2 753	96	49	**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 13)	**290 234**	**8 965**	**5 900**	**305 099**	**-2 840**	**-1 227**	**301 032**
Consumer loans (discontinued operations) (Note 12)	7 863	5 922	2 528	**16 313**	-869	-634	**14 810**
Total	**298 097**	**14 887**	**8 428**	**321 412**	**-3 709**	**-1 861**	**315 842**

Loans and advances to customers 31.12.2013	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Col-lective impair-ment	Indi-vidual impair -ment	**Net**
Loans to legal persons							
Corporate loans	125 067	1 408	2 344	**128 819**	-639	-231	**127 949**
Overdraft	3 918	0	0	**3 918**	0	0	**3 918**
Leverage loans	4 218	0	0	**4 218**	0	0	**4 218**
Leasing	12 394	2 473	32	**14 899**	-310	-9	**14 580**
Mortgage loans	43	0	0	**43**	0	0	**43**
Credit card loans	47	0	0	**47**	-2	0	**45**
Loans to individuals							
Consumer loans	13 226	7 270	3 295	**23 791**	-1 582	-1 194	**21 015**
Hire-purchase	18 091	3 254	1 757	**23 102**	-695	-721	**21 686**
Leverage loans	5 721	0	18	**5 739**	0	-18	**5 721**
Leasing	3 083	229	157	**3 469**	-25	-13	**3 431**
Mortgage loans	1 948	0	0	**1 948**	0	0	**1 948**
Credit card loans	2 083	107	61	**2 251**	-54	-27	**2 170**
Overdraft	29	0	0	**29**	0	0	**29**
Other loans to individuals	0	15	0	**15**	0	0	**15**
Total (Note 13)	**189 868**	**14 756**	**7 664**	**212 288**	**-3 307**	**-2 213**	**206 768**

Loans are individually impaired when the payment delay has been longer than 90 days. In the consolidated annual report of 2013 loans were individually impaired from the first day of payment delay. In consolidated annual report of 2014 the comparative data is corrected according to the 90-day delay principle.

As part of risk analysis the Group is performing regularly stress tests and sensitivity analysis regarding credit risk and its components (such as probability of default (PD), loss given default (LGD)). In collective impairment credit assessment the Group is basing on potential loss calculation. The Group has performed stress test in cases when PD and LGD estimations will both increase 10 percent (for example, from 1,0% to 1,1%). The impact of the described stress test to impairments is aggregated in the table below.

Impact to impairment as at 31.12.2014 (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 persons			
Corporate loans	214 377	-1 865	-324
Leasing	24 468	-306	-53
Loans to individuals			
Consumer loans	9 722	-1 280	-222
Hire-purchase	33 515	-1 199	-208
Leasing	4 713	-138	-24
Credit card loans	2 898	-108	-19
Total	**289 693**	**-4 896**	**-850**

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

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

Distribution of internal ratings of corporate loans:

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

- rating of rating agencies must be equivalent to at least A- (Moody's A3).
- 5 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB+ (Moody's Baa1).
- 6 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB (Moody's Baa2).
- 7 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB- (Moody's Baa3).
- 8 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB (Moody's Ba2).
- 9 – heightened credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB- (Moody's Ba3).
- 10 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B+ (Moody's B1).
- 11 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B- (Moody's B3).
- 12 – non-satisfactory rating . Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least C (Moody's Caa3).
- 13 – insolvent – the entity is insolvent. The entity is 90 days past due or is subject in a restructuring or bankruptcy procedure. Average rating of rating agencies must be equivalent to at least D (Moody's C).

Distribution of corporate loans 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**

Distribution of corporate loans by internal ratings as of 31.12.2013	**Neither past due nor impaired**	**Past due but not impaired**	**Individually impaired**	**Total**
4 low credit risk	1 139	0	0	1 139
5 low credit risk	350	0	0	350
6 low credit risk	8 286	0	0	8 286
7 medium credit risk	34 284	215	0	34 499
8 medium credit risk	40 054	0	0	40 054
9 heightened credit risk	20 463	121	0	20 584
10 high credit risk	15 205	0	0	15 205
11 high credit risk	5 286	0	0	5 286
12 non-satisfactory rating	0	871	2 344	3 215
13 insolvent	0	201	0	201
Total	**125 067**	**1 408**	**2 344**	**128 819**

The Group considers the loan as non-performing and writes it down when the loan payments have not been collected by the due date and/or the expected cash flows from the reanotetion of collateral are not sufficient for covering the carrying amount of the loan principal and interest payments. The Group evaluates these loans individually. In case of individual evaluation, the amount of the impairment loss is the difference between the residual value of the receivable and expected cash flows discounted at the effective interest rate. In 2014, the Group provisioned corporate loans in the total amount of EUR 671 thousand (2013: 858 thousand).

Borrowers 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 61 334 thousand euros at 31.12.2014 (31.12.2013: 32 629 thousand euros), see Note 23.

In the following table there are presented unused portions of corporate loans and financial guarantee limits. In addition to that as at 31.12.2014 the Group has also committed to grant mortgage loans in total amount of 242 thousand euros (31.12.2013: 351 thousand euros). No impairment provisions have been made for off-balance sheet liabilities because the value of collateral exceeds the value of potential liabilities.

Credit quality of off-balance sheet liabilities	**31.12.2014**	**31.12.2013**
4 low credit risk	0	2 129
5 low credit risk	5 055	2 950
6 low credit risk	5 344	9 581
7 medium credit risk	18 384	14 205
8 medium credit risk	27 839	5 486
9 heightened credit risk	6 366	3 887
10 high credit risk	1 003	10
12 non-satisfactory rating	76	580
Total (Note 23)	**63 991**	**38 834**

Distribution of internal ratings for other loan products:

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

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 (31.12.2013: 15 thousand). Corporate overdrafts in 2014 have been classified according to the rating scale of companies and presented as part of corporate loans together with the corporate loan portfolio. In 2013, the overdraft of individuals and companies is presented on a combined basis in the table below.

As of 31.12.2014	**Finance leverage**	**Credit cards**	**Leasing**	**Consumer loans**	**Hire-purchase**	**Over-draft**	**Mortgage loans**	**Total**	**Discontinued operations**
Neither past due nor impaired									
Excellent	9 178	0	0	0	0	0	0	**9 178**	0
Good and very good	0	2 814	27 241	6 666	29 471	92	5 980	**72 264**	7 863
Past due but not impaired									
Good	0	75	1 125	1 021	2 277	0	0	**4 498**	3 810
Satisfactory	0	15	279	322	657	0	0	**1 273**	1 518
Weak or doubtful	0	6	163	213	324	0	0	**706**	594
Individually impaired									
Weak or doubtful	18	49	54	1 248	1 421	0	0	**2790**	2 528
Total	**9 196**	**2 959**	**28 862**	**9 470**	**34 150**	**92**	**5 980**	**90 709**	**16 313**

As of 31.12.2013	Finance leverage	Credit cards	Leasing	Hire-purchase	Over-draft	Mortgage loans	Consumer loans	Total
Neither past due nor impaired								
Excellent	9 939	0	0	0	0	0	0	**9 939**
Good and very good	0	2 130	15 476	18 092	3 947	1 991	13 226	**54 862**
Past due but not impaired								
Good	0	81	2 425	2 520	0	0	4 684	**9 710**
Satisfactory	0	18	236	593	0	0	1 941	**2 788**
Weak or doubtful	0	8	41	140	0	0	646	**835**
Individually impaired								
Weak or doubtful	18	61	189	1 757	0	0	3 295	**5 320**
Total	**9 957**	**2 298**	**18 367**	**23 102**	**3 947**	**1 991**	**23 792**	**83 454**

Loans against collateral as at 31.12.2014	Corporate loans (including overdraft)	Leverage loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	9 196	0	0	0	0	9 196
Unlisted equity securities	29 179	0	0	0	0	0	29 179
Mortgages, real estate	131 308	0	0	0	0	6 085	137 393
Guarantee of KredEx and Rural Development Foundation	13 839	0	0	0	0	0	13 839
Pledges of rights of claim	26 712	0	0	0	0	0	26 712
Deposits	3 338	0	0	0	0	0	3 338
Leased assets	0	0	0	28 862	34 150	0	63 012
Others	8 825	0	0	0	0	0	8 825
Unsecured loans	1 176	0	12 429	0	0	0	13 605
Total	**214 377**	**9 196**	**12 429**	**28 862**	**34 150**	**6 085**	**305 099**

Loans against collateral as at 31.12.2013	Corporate loans (including overdraft)	Leverage loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	9 939	0	0	0	0	9 939
Unlisted equity securities	14 765	0	0	0	0	0	14 765
Mortgages, real estate	84 411	0	0	0	0	2 035	86 446
Guarantee of KredEx and Rural Development Foundation	11 937	0	0	0	0	0	11 937
Pledges of rights of claim	7 283	0	0	0	0	0	7 283
Deposits	4 104	0	0	0	0	0	4 104
Leased assets	0	0	0	18 367	23 102	0	41 469
Others	9 086	0	0	0	0	0	9 086
Unsecured loans	1 151	18	26 090	0	0	0	27 259
Total	**132 737**	**9 957**	**26 090**	**18 367**	**23 102**	**2 035**	**212 288**

Unsecured loans in the year 2014 include credit card loans and Lithuanian consumer loans and in 2013 Finnish consumer loans. The latter were excluded from the table in 2014 as discontinued operations, but they were unsecured in 2014 as well. Unsecured corporate loans were issued to the government sector.

Collaterals for leverage loans are monitored on daily basis and in case of collateral value falling immediate measures are taken to avoid credit losses. As of 31 December 2014, all leveraged loans and repurchase loans are over-collateralized, except one leveraged loan in the amount of EUR 18 thousand (2013: 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. 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 very conservatively (personal sureties, commercial pledges). Under-collateralized are mainly loans with higher risk, for which the Group carries out monthly monitoring in credit committee, in order to hedge potential credit losses. Under-collateralized loans include contracts more than 90 days overdue totalling 602 thousand euros with a collateral value of 543 thousand euros.

Corporate loans and corporate credit lines	Over-collateralized loans Balance sheet value	Over-collateralized loans Fair value of collateral	Under-collateralized loans Balance sheet value	Under-collateralized loans Fair value of collateral
As at 31.12.2014	164 587	311 982	49 790	31 543
As at 31.12.2013	99 887	212 692	34 169	16 636

Structure of past due and 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 last scheduled payment):

As at 31.12.2014	**Corporate loans**	**Financial leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Consumer loans**	**Total**	**Discontinued operations**
No past due payments	2 432	0	0	0	0	0	**2 432**	0
Past due receivables								
1-30 days	412	0	75	1 125	2 277	1 021	**4 910**	3 810
31-60 days	55	0	15	279	657	322	**1 328**	1 518
61-90 days	2 008	0	6	163	365	213	**2 755**	594
91-180 days	570	0	13	19	573	362	**1 537**	1 220
181-360 days	108	0	18	2	431	400	**959**	1 308
more than 360 days	0	18	18	33	376	486	**931**	0
Total	**5 585**	**18**	**145**	**1 621**	**4 679**	**2 817**	**14 865**	**8 450**

As at 31.12.2013	**Corporate loans**	**Financial leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Consumer loans**	**Total**
No past due payments	2 344	0	0	0	0	0	**2 344**
Past due receivables							
1-30 days	639	0	81	2 425	2 520	4 683	**10 364**
31-60 days	0	0	18	236	593	1 941	**2 788**
61-90 days	769	0	8	41	140	646	**1 605**
91-180 days	0	0	61	43	163	1 381	**1 648**
181-360 days	0	0	0	96	184	1 396	**1 676**
more than 360 days	0	18	0	49	1 411	518	**1 996**
Total	**3 752**	**18**	**168**	**2 891**	**5 011**	**10 566**	**22 420**

Credit quality of other receivables	**31.12.2014**	**31.12.2013**
Receivables not impaired and not past due	1 365	1 405
Receivables past due (not impaired)	201	102
incl. receivables from individuals	*34*	*17*
incl. receivables from legal persons	*167*	*85*
Total (Note 14)	**1 566**	**1 507**

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 taking in financial resources. Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. Internal judgement is used to assess potential losses. In order to mitigate market risk, conservative limits have been established for the trading portfolio and open foreign currency exposures.

LHV Varahaldus invests most of its available resources into his own managed pension funds. The management of LHV Varahaldus is responsible for monitoring of the market risk.

3.3.1 Foreign currency risk

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

As at 31.12.2014 the LTL position was insignificant due to Lithuania's euro adoption as of 1'st of January 2015.

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	2014	2013
USD exchange rate +/- 10%	+/-0	+/-4
SEK exchange rate +/- 10%	+/-0	+/-1

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in EUR equivalent in respective columns, according to the exchange rate prevailing at the financial statement/ei ole kindel kas suure algustähega või mitte date. Derivatives reported at fair value in the balance sheet have been included at contractual amounts under contingencies and commitments. Open currency exposure and the volume of financial assets and liabilities of the Group at the balance sheet date do not significantly differ from the average exposure during the year. 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 contingencies and commitments; also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

31.12.2014	EUR	LTL	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	79 917	826	576	538	1 507	765	**84 129**
Financial assetsat fair value	102 888	2 970	0	2	43 664	1	**149 525**
Loans and receivables from customers	271 057	29 019	6	19	915	16	**301 032**
Other receivables from customers	1 390	174	0	0	2	0	**1 566**
Other assets	149	0	0	0	634	0	**783**
Total assets bearing currency risk	**455 401**	**32 989**	**582**	**559**	**46 722**	**782**	**537 035**
Liabilities bearing currency risk							
Deposits from customers and loans received	416 865	808	275	521	55 866	678	**475 013**
Interest rate swaps	302	0	0	0	0	0	**302**
Accrued expenses and other liabilities	747	3 321	305	35	133	314	**4 855**
Subordinated loans	16 688	0	0	0	0	0	**16 688**
Total liabilities bearing currency risk	**434 602**	**4 129**	**580**	**556**	**55 999**	**992**	**496 858**
Off-balance sheet asstes at contractual value	33 608	0	0	0	9 275	0	**42 883**
Off-balance sheet liabilities at contractual value	9 275	33 608	0	0	0	0	**42 883**
Open foreign currency position	**45 132**	**-4 748**	**2**	**3**	**-2**	**-210**	**40 177**

31.12.2013	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	140 417	1 703	410	313	7 784	1 683	**152 309**
Financial assets at fair value	48 280	4	0	1	319	1	**48 605**
Loans and receivables from customers	179 493	26 224	295	15	708	33	**206 768**
Other receivables from customers	1 293	213	0	0	1	0	**1 507**
Muud varad	93	16	0	0	558	0	**667**
Total assets bearing currency risk	**369 575**	**28 160**	**705**	**329**	**9 370**	**1 717**	**409 856**
Liabilities bearing currency risk							
Deposits from customers and loans received	343 573	685	841	332	9 333	1 617	**356 381**
Interest rate swaps	433	0	0	0	0	0	**433**
Accrued expenses and other liabilities	3 463	3 302	9	10	73	34	**6 891**
Other assets	19 716	0	0	0	0	0	**19 716**
Total liabilities bearing currency risk	**367 185**	**3 987**	**850**	**342**	**9 406**	**1 651**	**383 421**
Off-balance sheet asstes at contractual value	25 003	0	0	0	0	0	**25 003**
Off-balance sheet liabilities at contractual value	0	25 003	0	0	0	0	**25 003**
Open foreign currency position	**25 393**	**-830**	**-145**	**-13**	**-36**	**66**	**26 435**

3.3.2 Price risk

Financial instruments bearing price risk at Group are securities held in the trading portfolio and investment portfolio (Note 10, 11). At the Group, limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for bonds in the investment portfolio. The risk management unit monitors the compliance with limits.

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

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

AS LHV Pank does not hold significant amounts of equity securities in its position, due to which the sensitivity to change in the market value of these positions is marginal.

Pank's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 0.9% (2013: 0.7%).

Sensitivity analysis of the impact to net result from the risk exposures of the Group's largest enity LHV Pank (bonds 142,5 mln and shares and fund units 0,02 mln EUR) against reasonable possible change (in thousands euros):

Impact on comprehensive income	2014	2013
Equity securities +/-10%	+/-2	+/-2
Debt securities +/-0.9% (+/-0.7%)	+/-1 273	+/-287

3.3.3 Interest rate risk

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

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

- cash flow interest rate risk whereby in case of a 1% change in market interest rates, a change in annual net interest income is limited as compared to the estimated actual

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

The balance sheet and margins on assets and deposits are assumed to be constant over time.The deposits interest rates did not change in 2014 remaining at the level of up to 1,0 % (up to 1,0 % in 2013).

The interest rates for leverage loans granted are changed at most once a month according to fluctuations in market interest rates. In 2014, the interest rate on loans received for specific purposes was 1,4% (2013: 1,5%). The effective interest rate of subordinated loans entered into in 2012 was 7,25% (2013: 7,27%) and the effective interest rate of subordinated loans entered into in 2014 was 7,44%. The information about contractual interest rates is provided in Note 20 .

As at 31.12.2014, stress tests were performed to the biggest interest sensitive subsidiary of the group: AS LHV Pank. An increase of 1% percentage point in interest rates would affect the bank's annual net interest income and profit by EUR +2 114 thousand (2013: EUR +1 841 thousand). In the same time, a decrease of 1% percentage point in interest rates would affect the bank's annual net interest income (profit) by EUR -1 766 thousand (2013: - 860 thousand). A 1% percentage point t increase in market interest rates would raise the bank's economic value, i.e. equity, by EUR 3 318 thousand (2013: EUR 3 117 thousand). A 1% percentage point decrease in market interest rates would decrease the bank's economic value (equity) by EUR -1 452 thousand (2013: EUR -644 thousand). Effect on the bank's economic value is positive due to the fact that the bank has invested pikemaajalisest in current assets and because of the nature of demand deposits, hence the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

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

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 time deposits.

31.12.2014	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest-earning assets					
Balances with other banks and inv. companies	84 129	0	0	0	**84 129**
Finantsial assets at fair	72 562	55 921	8 729	2 792	**140 004**
Loans and advances to customers	93 549	147 176	59 081	3 827	**303 633**
Total	**250 240**	**203 097**	**67 810**	**6 619**	**527 766**
Interest-bearing liabilities					
Deposits from customers and loans received	72 138	180 589	219 525	2 269	**474 521**
Subordinated loans *	0	750	0	15 900	**16 650**
Total	**72 138**	**181 339**	**219 525**	**18 169**	**491 171**
Interest pricing gap	**178 102**	**21 758**	**-151 715**	**-11 550**	**36 595**

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

* The contractual term of subordinated loans received in 2014 is 10 years and the interest rate is fixed at 7,25%. The contractual term of subordinated loans received in 2012 is 8 years. The interest rate will be changed annually after 3 years.

3.4 Liquidity risk

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Group's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Group's liquidity management reflects a conservative approach towards liquidity risk. The liquidity risk management includes stress testing and business continuity plan for liquidity management. Stress testing framework includes a survival period metrics, which represents a combined liquidity risk scenario, including both idiosyncratic and market-wide stress. Internal metrics are complemented by the Basel III metrics - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which the Group is fully compliant with as of 31.12.2014 ja 31.12.2013. The aim of the liquidity coverage ratio (LCR) standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 31.12.2014 was 190%.

The objective of the net stable funding ratio (NSFR) is to ensure that the Group has adequate stable funding sources to finance longer-term assets. According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the Group's NSFR level as at 31.12.2014 was 138%. 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 the Group's liabilities by maturities is monitored. To enable covering unexpected monetary outflows, the Group holds a liquidity buffer. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the Treasury, which can be readily sold or used as a collateral in funding operations with the central bank. The Group has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2014 and 31.12.2013, 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. In 2013 it was decided to reclassify the held to maturity bond portfolio to portfolio held at market value and to sell most of it.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and therefore, the tables do not reconcile to the positions in the balance sheet. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows). Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6.

31.12.2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	272 830	76 666	110 303	15 292	982	**476 073**
Subordinated loans	0	301	904	4 823	21 890	**27 918**
Other liabilities	0	4 855	0	0	0	**4 855**
Unused loan commitments	0	61 334	0	0	0	**61 334**
Financial guarantees by contractual amounts	0	9 791	0	0	0	**9 791**
Interest rate swaps	0	24	161	118	0	**303**
Total liabilities	**272 830**	**152 971**	**111 368**	**20 233**	**22 872**	**580 274**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	83 149	980	0	0	0	**84 129**
Financial assets at fair value	0	55 516	51 555	33 279	5 353	**145 703**
Loans and advances to customers	0	26 635	78 501	211 142	27 174	**343 451**
Other advances to customers	0	1 566	0	0	0	**1 566**
Total assets held for managing liquidity risk	**83 149**	**84 697**	**130 056**	**244 421**	**32 527**	**574 849**
Maturity gap from assets and liabilities	**-189 681**	**-68 274**	**18 688**	**224 188**	**9 655**	**-5 425**

31.12.2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	160 697	96 888	92 717	5 687	1 268	**357 257**
Subordinated loans	0	1 366	1 047	5 721	23 787	**31 921**
Other liabilities	0	6 318	0	0	0	**6 318**
Unused loan commitments	0	32 629	0	0	0	**32 629**
Financial guarantees by contractual amounts	0	6 556	0	0	0	**6 556**
Interest rate swaps	0	24	177	236	0	**436**
Total liabilities	**160 697**	**143 781**	**93 941**	**11 644**	**25 055**	**435 117**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	152 183	126	0	0	0	**152 309**
Financial assets at fail value	0	12 626	9 335	22 423	408	**44 792**
Loans and advances to customers	0	32 168	54 288	137 794	19 356	**243 606**
Other advances to customers	0	1 507	0	0	0	**1 507**
Total assets held for managing liquidity risk	**152 183**	**46 427**	**63 623**	**160 217**	**19 764**	**442 214**
Maturity gap from assets and liabilities	**-8 514**	**-97 354**	**-30 318**	**148 573**	**-5 291**	**7 097**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below. As at 31.12.2014, the loans issued to 3 customers and 2 correspondent banks (2013: total 6) had a large risk exposure, i.e. more than 10% of the net own funds (NOF) of Group either individually or via group risk, totalling 75% of NOF (2013: 70%). The Group has invested in the bonds of 5 issuers (2013: 2) with a large risk exposure, totalling 170% of NOF (2013: 43%). Unused loan commitments in amount of 61 334 thousand euros are for Estonian residents (2013: 32 629 thousnad).

31.12.2014	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Balances with banks and inv. companies	61 800	295	2 504	1 902	550	1	2 691	14 268	118	**84 129**
Financial assets at fail value	6 919	4 237	3 828	0	285	14 313	76 287	43 656	0	**149 525**
Loans and advances to customers	264 008	521	30 919	2 444	15	0	3 108	0	17	**301 032**
Other receivables from customers	1 383	2	180	0	0	0	0	0	1	**1 566**
Other financial assets	108	0	0	0	0	0	0	675	0	**783**
Total financial assets	**334 218**	**5 055**	**37 431**	**4 346**	**850**	**14 314**	**82 086**	**58 599**	**136**	**537 035**
Deposits from customers and loans received	402 500	1 556	1 680	361	2	125	53 992	598	14 199	**475 013**
Subordinated liabilities	16 688	0	0	0	0	0	0	0	0	**16 688**
Other financial liabilities	2 835	0	708	0	0	0	13	3	0	**3 559**
Total financial liabilities	**422 023**	**1 556**	**2 388**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**495 260**

31.12.2013	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Balances with banks and inv. companies	143 768	518	2 427	1 150	452	1	2 526	1 359	108	**152 309**
Financial assets at fail value	5 437	0	790	201	282	6 020	29 501	815	5 558	**48 605**
Loans and advances to customers	159 116	580	25 897	16 996	15	0	3 163	0	1	**206 768**
Other receivables from customers	1 342	2	163	0	0	0	0	0	0	**1 507**
Other financial assets	8	0	0	0	0	0	0	642	0	**650**
Total financial assets	**309 671**	**1 100**	**29 277**	**18 347**	**749**	**6 021**	**35 191**	**2 815**	**5 667**	**408 838**
Deposits from customers and loans received	349 985	860	1 850	569	2	42	2 358	129	585	**356 381**
Subordinated liabilities	19 716	0	0	0	0	0	0	0	0	**19 716**
Other financial liabilities	2 193	0	3 075	0	0	0	11	2	0	**5 281**
Total financial liabilities	**371 894**	**860**	**4 925**	**569**	**2**	**42**	**2 370**	**131**	**585**	**381 378**

Distribution of loans granted by industry (gross):	**31.12.2014**	**%**	**31.12.2013**	**%**
Individuals	61 965	20,31%	60 344	28,43%
Real estate	87 516	28,68%	26 039	12,27%
Manufacturing	26 804	8,79%	21 004	9,89%
Art and entertainment	24 812	8,13%	6 048	2,85%
Financial services	22 097	7,24%	43 958	20,71%
Wholesale and retail	14 838	4,86%	9 125	4,30%
Administrative activities	11 321	3,71%	4 200	1,98%
Transport and logistics	11 136	3,65%	7 360	3,47%
Agriculture	8 065	2,64%	5 598	2,64%
Other servicing activities	7 646	2,51%	6 076	2,86%
Construction	4 853	1,59%	3 298	1,55%
Information and communication	4 049	1,33%	2 218	1,05%
Professional, scientific and technical activities	2 443	0,80%	10 204	4,81%
Education	1 717	0,56%	2 249	1,06%
Other areas at activities	15 837	5,19%	4 567	2,15%
Total	**305 099**	**100%**	**212 288**	**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	31.12.2014	Level 1	Level 2	Level 3	31.12.2013
Financial assets at fair value through profit or loss								
equity securities	6 107	0	0	**6 107**	4 676	0	0	**4 676**
debt securities available-for-sale (note 10)	4 273	0	0	**4 273**	11 903	0	0	**11 903**
debt securities at fair value through profit or loss (note 11)	139 145	0	0	**139 145**	32 026	0	0	**32 026**
Total financial assets	**149 525**	**0**	**0**	**149 525**	**48 605**	**0**	**0**	**48 605**
Financial liabilities at fair value through profit or loss								
interest rate swaps	0	302	0	**302**	0	433	0	**433**
Total financial liabilities	**0**	**302**	0	**302**	**0**	**433**	**0**	**433**

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

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 OTC derivatives is calculated as a theoretical net present value (NPV), based on independently sourced market parameters, assuming no risk and uncertainties. Market observable zero coupon yield curve is used for discounting in NPV calculations.

AS at 31.12.2014 the fair value of corporate loans and overdraft is EUR 228 thousand (1%) lower than their carrying amount (31.12.2013: 522 thousand, 0,4% higher) . The loans have been issued at market conditions in the segment that the Group operates in and therefore their fair value is not much different from their carrying amount as at 31.12.2014 and 31.12.2013. The fair value level of corporate loans is 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest).

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

Leveraged loans, hire-purchase and credit cards granted to customers are of sufficiently short-term nature and they have been issued at market terms, therefore the fair market rate of interest and also the fair value of loans do not change significantly during the loan term. The effective interest rate of consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value. The fair value level of leveraged loans, 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 liabilities is 3.

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

The majority of subordinated loans were received in 2014 and the remainder in 2012. These loans carry approximately equal interest rates and considering the short term between the loan received in June 2014 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 principle of duality is used in the Group's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure.

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

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

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of revenue and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 3.2, 9,10, 11, 12 and 13).

According to IAS 39, the Group classified a portion of its bond portfolio as a held-to-maturity portfolio. At the start of 2013, the Group's management estimated that it does not intend to hold the investments until maturity and the bond portfolio that was held-to-maturity was reclassified as available-for-sale portfolio (see also Note 10). As a result of the reclassification of the portfolio, the Group's equity increased by EUR 2.2 million since the market value of the portfolio was higher than the amortised cost recognised in the balance sheet. The difference between carrying amount and fair value of the portfolio was at first recognized in other comprehensive income and after selling most of the portfolio reclassified to statement of profit or loss. According to IAS 39 the Group cannot classify debt securities to held-to-maturity for the next two years because of the breach of held-to-maturity criteria set in IAS 39.

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

NOTE 5 Subsidiaries and associated companies, goodwill

As at 31.12.2014, the Group's subsidiaries which have been consolidated in these financial statements include:

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

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

As at 31.12.2014, the Group's associates include:

- OÜ Svipe (Estonia, ownership interest 33%, acquired in 2013)

Total book value of associates as of 31.12.2014 is 36 thousand euros (as of 31.12.2013: 131 thousand euros). In 2014 the interest of associates AS LHV Capital for the amount of 79 thousand euros and SIA Euveca Livonia Partner for the amount of 2 thousand euros were sold and investment of OÜ Svipe was discounted by 14 thousand euros.

As at 31.12.2014, goodwill in amount EUR 1 044 thousand in the consolidated financial statements of AS LHV Group consists of:

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

Impairment tests were performed as at 31.12.2014 and as at 31.12.2013. The cash generating unit of goodwill is AS LHV Varahaldus. The calculation of the value in use is based on the following assumptions:

- The volume of assets under management is expected to increase 22% per annum (2013: 29%)
- Increase of income of fund manager is expected to be average of 13% per annum (2013: 21%);
- Due to the economic environment, growth of 4% in indirect costs is expected per annum (2013: 14%);
- The discount rate used is 13% (2013: 11%)

When using the main assumptions, the management used previous years' experience and its best estimate in respect of probable expectations. Expectations are more conservative due to the changes in the market situation and legislatsion. Based on the results of the impairment test performed as at 31.12.2014 and as at 31.12.2013, the recoverable amount of cash generating units is higher than its carrying amount, as a result of which no impairment losses have been recognized.

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

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

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

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

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

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

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

Summarised statement on Financial Position	UAB Mokilizingas 31.12.2014	UAB Mokilizingas 31.12.2013	AS LHV Finance 31.12.2014	AS LHV Finance 31.12.2013
Loans and advances to customers and other current assets	31 877	30 494	12 628	4 861
Non-current assets	79	87	143	93
Liabilities	28 104	27 345	12 104	4 734
Total net assets	**3 852**	**3 236**	**667**	**220**

Summarised statement of Comprehensive Income	UAB Mokilizingas 2014	UAB Mokilizingas II half-year 2013	AS LHV Finance 2014	AS LHV Finance 2013
Total net revenue	4 615	2 119	1 624	290
Profit before income tax	767	496	446	-280
Income tax expense	-151	-84	0	0
Net profit	**616**	**412**	**446**	**-280**
Total comprehensive income	616	412	446	-280
Comprehensive income allocated to non-controling interests	308	206	156	-98

Summarised statement of Cash Flows	UAB Mokilizingas 2014	UAB Mokilizingas II half-year 2013	AS LHV Finance 2014	AS LHV Finance 2013
Cash generated from operations	-1 686	-3 394	-6 393	-4 056
Interest paid	-1 138	-493	-286	-32
Income tax paid	-151	-84	0	0
Net cash generated from / used in operating activities	-2 975	-3 971	-6 679	-4 088
Net cash generated from/used in investing activities	-41	-10	-96	-108
Net cash generated from/used in financing activities	3 000	4 867	6 775	4 196
Net decrease/increase in cash and cash equivalents	**-16**	**886**	**0**	**0**
Cash, cash equivalents at beginning of year	1 190	304	0	0
Cash and cash equivalents at end of year	1 174	1 190	0	0

NOTE 6 Net interest income

Interest income	**2014**	**2013**
From balances with credit institutions and investment	43	24
From balances with central bank	19	45
From debt securities	501	1 105
incl. debt securities available-for-sale	*79*	*601*
incl. debt securities at fair value through profit or loss	*422*	*504*
Leasing	1 024	441
incl. loans to related parties	*159*	*198*
Leverage loans and lending of securities	833	833
Consumer loans	1 993	773
Hire purchase	4 442	334
Loans to companies	9 768	6 623
Other loans	876	1 329
Total	**19 499**	**11 507**
Interest expense		
Deposits from customers and loans received and subprdinated loans	-3 025	-2 401
Incl.loans to related parties (note 24)	*-390*	*-206*
Total	**-3 025**	**-2 401**
Net interest income	**16 474**	**9 106**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	**2014**	**2013**
Estonia	13 837	8 229
Latvia	37	42
Lithuania	5 062	2 062
Total	**18 936**	**10 333**

NOTE 7 Net fee and commission income

Fee and commission income	2014	2013
Security brokerage and commissions	2 175	2 066
incl. related parties (Note 24)	*0*	*3*
Asset management and similar fees	9 212	6 429
*Incl. funds managed by the Group**	*8 093*	*5 675*
Currency convert revenues	393	350
Fees from cards and payments	770	399
Fees related to collection of debts	7	0
Fee for Snoras portfolio administration**	526	515
Other fee and commission income	608	340
Total	**13 691**	**10 099**
Commission expense		
Security brokerage and commissions paid	-517	-504
Other fee expense	-626	-361
Total	**-1 143**	**-865**
Net fee and commission income	**12 548**	**9 234**

* Commission fees from pension and investment funds are calculated as a fixed percentage of total assets of the fund and varies between 0.9% -2%.

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

Fee income by customer location:	2014	2013
Estonia	11 921	8 883
Latvia	113	120
Lithuania	972	888
Finland	20	0
Sweden	665	208
Total	**13 691**	**10 099**

NOTE 8 Operating expenses

	2014	2013
Wages, salaries and bonuses	6 489	4 633
Social security and other taxes	2 065	1 525
Total staff costs	**8 554**	**6 158**
IT expenses	1 209	855
Information services and bank services	584	453
Marketing expenses	4 198	2 966
Office expenses	418	355
Transportation and communication costs	178	122
Training and travelling expenses of employees	260	166
Other outsourced services	1 899	1 695
Other administrative expenses	1 003	868
Depreciation	682	515
Operating lease payments	850	760
Other operating expenses	94	197
Other operating expenses	**11 375**	**8 952**
Total operating expenses	**19 929**	**15 110**

NOTE 9 Balances with central bank, credit institutions and investment companies

	31.12.2014	31.12.2013
Term deposits with maturity less than 3 months *	38 702	18 470
Statutory reserve capital at central bank	4 498	3 397
Other receivables from central bank *	40 929	130 442
Total	**84 129**	**152 309**
* cash and cash equivalents in the statement of cash flows	79 631	148 912

Distribution of receivables by countries is presented in Note 3.5. Balances with investment companies amounting to EUR 14 484 thousand (2013: EUR 1 466 thousand) are included under demand deposits. All other demand and term deposits are held at credit institutions or the central bank. Mandatory banking reserve as at 31.12.2014 was 1% (2013: 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 10 Available-for-sale financial assets

The Group has available-for-sale bond portfolio in amount of 4 273 thousand euros as of 31.12.2014 (31.12.2013: 11 903) which resulted from reclassification of held-to-maturity portfolio. The balance of other reserv in equity is 6 thousand euros (31.12.2013: 27 thousand euros).

In 2014 a gain of 4 thousand euros from the sales of bonds was recognized in statement of comprehensive income. In 2013, as a result of reclassification and sales of the portfolio a gain of 2 228 thousand euros was recognized in statement ofcomprehensive income. Interest income from bond portfolio is recognized in interest income in the amount of 79 thousand euros (2013: 602 thousand euros), refer to note 6.

NOTE 11 Financial assets and liabilities at fair value through profit or loss

Securities held for trading:	**31.12.2014**	**31.12.2013**
Equity securities	519	460
Debt securities	139 145	32 026
Designated as at fair value through profit or loss upon initial recognition:		
Fund units	5 588	4 216
incl. investments in managed pension funds	*5 588*	*4 006*
incl. investments in managed investment funds	*0*	*210*
Total financial assets	**145 252**	**36 702**
Interest rate swaps	302	433
Total financial liabilities	**302**	**433**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2014, a gain of 280 thousand euros was recognised on the revaluation of bonds (2013: -43 thousand euros) and a loss arose on the revaluation of interest rate swaps in the amount of 70 thousand euros (2013: 7 thousand euros). Interest income from bonds is recognized in interest income in the amount of 422 thousand euros (2013: 503 thousand euros), refer to note 6.

The volume of pension and investent fund assets managed by the Group as at 31.12.2014 was 504 million euros (31.12.2013: 374 million euros)

NOTE 12 Discontinued operations

At 09.01.2015, 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.

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:	**2014**	**2013**
Interest income	4 649	3 403
Fee and commissions income	384	341
Total expenses	-3 111	-3 949
Net profit for the year from discontinued operations	**1 922**	**-205**

NOTE 13 Loans and advances to customers

	31.12.2014	**31.12.2013**
Loans to legal persons	**243 135**	**151 945**
incl. corporate loans	207 506	128 819
incl. overdraft	6 871	3 918
incl. hire-purchase	64	0
incl. leveraged loans	4 164	4 218
incl. leasing	24 469	14 900
incl. credit card loans	61	47
incl. mortgage loans	0	43
Loans to individuals	**61 964**	**60 344**
incl. consumer loans	9 470	23 792
incl. hire-purchase	34 086	23 102
incl. leveraged loans	5 032	5 739
incl. leasing	4 393	3 468
incl. credit card loans	2 898	2 251
incl. mortgage loans	5 980	1 948
incl. credit lines	92	29
Incl. other loans	13	15
Total	**305 099**	**212 288**
incl. related parties (note 24)	*2 023*	*894*
Impairment provisions	-4 067	-5 520
Total	**301 032**	**206 768**

Changes in impairments in 2014	**Corporate loans**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leverage loans**	**Total**
Balance as at January 1	-870	-2 775	-83	-1 417	-357	-18	**-5 520**
Impairment provisions set up during the year	-671	-1 158	-43	-913	31	0	**-2 754**
Written off during the year	0	1 374	35	1 262	33	0	**2 704**
Re-classified impairment provisions from discountinued operations	0	1 503	0	0	0	0	**1 503**
Balance as at December 31	**-1 541**	**-1 056**	**-91**	**-1 068**	**-293**	**-18**	**-4 067**

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

Net and gross investments on finance leases according to remaining maturity	Net investment	Unearned future interest income	Gross investment
up to 1 year	8 217	842	9 059
1-5 years	20 518	1 211	21 729
over 5 years	78	197	275
Total as at 31.12.2014	**28 813**	**2 250**	**31 063**
up to 1 year	6 018	422	6 440
1-5 years	12 145	836	12 981
over 5 years	72	120	192
Total as at 31.12.2013	**18 235**	**1 378**	**19 613**

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 6.

NOTE 14 Other receivables from customers

	31.12.2014	31.12.2013
Asset management fees from customers	783	594
incl. related parties (Note 26)	*735*	*549*
Other fees for providing services to customers	548	687
Payments in transit	60	1
Other receivables related to collection of receivables	1	12
Other receivables	174	213
Kokku	**1 566**	**1 507**

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 15 Other assets

	31.12.2014	31.12.2013
Guarantee deposits of Baltic stock exchanges	8	8
Guarantee deposits of VISA and MasterCard	775	642
Prepayments to Financial Supervision Authority	162	144
Tax prepayments	141	114
Repossessed assets	19	15
Prepayments to merchants for registered customer contracts	66	2 629
Other prepayments *	877	339
Total	**2 048**	**3 892**

* 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 16 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2012			
Cost	1 706	801	2 507
Accumulated depreciation and amortisation	-1 071	-322	-1 393
Carrying amount	**635**	**479**	**1 114**
Changes occurred in 2013:			
Purchase of non-current assets	64	422	486
Acquisition of subsidiary	92	8	100
Depreciation/amortisation charge	-300	-288	-588
Balance as at 31.12.2013			
Cost	1 862	1 231	3 093
Accumulated depreciation and amortisation	-1 371	-610	-1 981
Carrying amount	**491**	**621**	**1 112**
Changes occurred in 2014:			
Purchase of non-current assets	166	364	530
Write-off of non-current assets	-20	-47	-67
Depreciation/amortisation charge	-269	-408	-677
Balance as at 31.12.2014			
Cost	2 008	1 548	3 556
Accumulated depreciation and amortisation	-1 640	-1 018	-2 658
Assets of discontinued opertaions (note 12)	-60	0	-60
Carrying amount	**308**	**530**	**838**

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

In 2014 and 2013, there was no indication of impairment of tangible and intangible assets.

NOTE 17 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	**31.12.2014 total**	Individuals	Legal entities	Public sector	**31.12.2013 total**
Demand deposits	77 492	194 976	1 199	**273 667**	49 187	105 720	5 790	**160 697**
Term deposits	78 637	98 915	6 117	**183 669**	80 857	86 505	24 226	**191 588**
Loans received	0	13 534	3 557	**17 091**	0	107	3 422	**3 529**
Accrued interest liability	315	246	25	**586**	322	202	43	**567**
Total	**156 444**	**307 671**	**10 898**	**475 013**	**130 366**	**192 534**	**33 481**	**356 381**
incl. related parties (Note 24)	*2 770*	*8 862*	*0*	*11 632*	*673*	*1 726*	*0*	*2 399*

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of 3 557 thousand euros (31.12.2013: 3 529 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 13 005 thousand (31.12.2013: 0) 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.

NOTE 18 Accounts payable and other liabilities

Financial liabilities	**31.12.2014**	**31.12.2013**
Trade payables	*1 845*	*1 503*
Payables to merchants	*490*	*2 873*
Other short-term liabilities	*515*	*678*
Payments in transit	*611*	*158*
Financial guarantee contracts issued	*98*	*69*
Subtotal	**3 559**	**5 281**
Non-financial liabilities		
Performance guarantee contracts issued	*182*	*122*
Tax liabilities	*491*	*371*
Payables to employees	*902*	*734*
Other short-term liabilities	*301*	*383*
Subtotal	**1 575**	**1 610**
Total	**5 435**	**6 891**

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 19 Operating lease

The Group leases office premises under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The minimum unilaterally non-cancellable lease payable in the next period amounts to EUR 2 971 thousand (2013: EUR 1 190 thousand), the current portion of which amounts to EUR 637 thousand (2013: EUR 558 thousand) and the non-current portion amounts to EUR 2 334 thousand (2013: EUR 633 thousand). In 2014, the operating lease payments for office premises in the amount of EUR 663 thousand (2013: EUR 629 thousand).

NOTE 20 Subordinated loans

The Group has received subordinated loans in order to increase share capital. In the case of default of the Group, the subordinated debts are repayable arter all ohter debts have been paid, but before debts to shareholders are paid. As at 31.12.2014, subordinated loans include bonds issued in the total amount of EUR 16 650 thousand (31.12.2013: EUR 18 635 thousand).

In June 2014, subordinated bonds were issued totalling 15 900 thousand euros carrying a rate of interest at 7.25%. The due date of the bonds is 20 June 2024. In June 2013, subordinated bons were isused totalling 15 450 thousand eurot, which were redeemned in the same amount in Juna 2014. In addition, subordinated bonds isused in June 2011 were redeemed totalling 1 000 thousand euros.

In December 2012, subordinated bonds were issued totalling 4 500 thousand euros. Most of these bonds have been converted to share capital (refer to note 21) and the remaing bonds total to 750 thousand euros as at balace sheet date. The due date of the bonds is 20 June 2020 and the interest rate is 7% during the first three-year period and 7% + 3 months EURIBOR onwards. . After three years, the issuer has the right to prematurely redeem the bonds. During three years, investors have the right to convert their bonds to the issued shares of the Group.

Interest expenses on subordinated bonds in the amount of EUR 1 245 thousand (2013: EUR 526 thousand) are included within interest expenses in the statement of comprehensive income. As of 31 December 2014, the accrued interest liability of subordinated bonds was EUR 38 thousand (31 December 2013: EUR 48 thousand). Interest liabilities are accounted in the statement of financial position using the effective interest rate.

NOTE 21 Shareholders' equity in the public limited company

Transactions with share capital	**Date**	**Share price**	**Share capital**	**Share premium**	**Total**
Share capital as at 31.12.2012			**17 382**		
Conversion of subordinated bonds issued in 2010 to share capital	March 2013	2.50	1 200	1 800	3 000
Conversion of subordinated bonds issued in 2012 to share capital	June 2013	3.00	433	867	1 300
Paid in share capital	July 2013	3.00	187	377	564
Total transactions in 2013					**4 864**
Share capital as at 31.12.2013			**19 202**		
Conversion of subordinated bonds issued in 2012	June 2014	3.75	654	1 796	2 450
Paid in share capital	June 2014	3.95	3 500	10 325	13 825
Total transactions in 2014					**16 275**
Share capital as at 31.12.2014			**23 356**		

Share capital is paid in in full through cash contributions. The nominal value of the shares is 1 euro and as at 31.12.2014 the number of shares ampunted to 23 356 005 (31.12.2013: 19 202 669).

According to the Company's articles of association, the minimum share capital is EUR 15 million and the maximum share capital is EUR 60 million (31.12.2013 10 and 40 million respectively).

Rain Lõhmus who owns 28,0% of the voting rights and Andres Viisemann who owns 8,9% of the voting rights in AS LHV Group have significant influence over the company (31.12.2013: 34,5% and 10,3%, respectively).

As at 31.12.2014, the accumulated deficit of the Group totalled EUR 2 041 thousand (31.12.2013: accumulated deficit EUR 11 032 thousand). Thus, it is not possible to pay dividends to the shareholders.

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

(in thousands of euros)	**31.12.2014**	**31.12.2013**
Revaluation reserve of held-for-sale securities	-6	-27
Conversion option of subordinated bonds	0	15
Reserv of share-options granted to staff	138	0
Total	**132**	**-12**

NOTE 22 Assets under management

LHV Pank, operating as an account manager for its customers, has custody of or intermediates the following customer assets:	**31.12.2014**	**31.12.2013**
Cash balance of customers	6 047	5 620
Securities of customers	540 751	317 989
incl. shareholders of the parent company and related entities	*22 029*	*17 708*
Total	**546 798**	**323 609**

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

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

NOTE 23 Contingent assets and liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Unused loan commitments	Total
Liability in contractual amount 31.12.2014	6 892	2 899	61 334	**71 125**
Liability in contractual amount 31.12.2013	5 025	1 531	32 629	**39 185**

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 2013. The Group's management estimates 2014 that there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

NOTE 24 Transactions with related parties

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

- owners that have significant impact on the Group and the entities related to them;
- associated;
- members of the management board, head of internal audit unit 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	Lisa	2014	2013
Interest income	6	**159**	**198**
incl. management		*4*	*1*
incl. shareholders, related entities and close relatives that have significant influence		*155*	*197*
Fee and commission income	7	**0**	**3**
incl. management		*0*	*3*
Interest expenses from deposits	6	**63**	**1**
incl. management		*1*	*1*
incl. shareholders, related entities and close relatives that have significant influence		*62*	*0*
Interest expenses from subordinated loans	6	**327**	**205**
incl. management		*21*	*10*
incl. shareholders, related entities and close relatives that have significant influence		*306*	*195*

Balances	Lisa	31.12.2014	31.12.2013
Loans and receivables as at the year-end		**2 023**	**894**
incl. management	*12*	*347*	*345*
incl. shareholders, related entities and close relatives that have significant influence	*12*	*1 676*	*549*
Deposits as at the year-end		**11 632**	**2 399**
incl. management	*17*	*1 010*	*474*
incl. shareholders, related entities and close relatives that have significant influence	*17*	*10 622*	*1 925*
Subordinated loans as at the year-end		**5 700**	**3 450**
incl. management	*20*	*300*	*300*
incl. shareholders, related entities and close relatives that have significant influence	*20*	*5 400*	*3 150*

The table provides an overview of the material balances and transactions involving related parties. All other transactions involving the close relatives and the entities related to members of the management board and supervisory board and the minority shareholders of the parent company AS LHV Group have occurred according to the overall price list.

Loans granted to related parties are issued at market conditions.

As at 31.12.2014 as well as 31.12.2013, 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%, refer to note 20. The subordinated loan received in December 2012 has the interest rate of 7% during the first three years and 3 months EURIBOR + 7% since December 2015.

In 2014, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 778 thousand (2013: EUR 743 thousand), including all taxes. As at 31.12.2014, remuneration for December and accrued holiday pay in the amount of EUR 140 thousand (31.12.2013: EUR 75 thousand) is reported as a payable to management (Note 18). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2014 and 31.12.2013 (pension liabilities, termination benefits, etc.). In 2014, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 25 thousand (2013: EUR 23 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 22.

NOTE 25 Subsequent events

At 09.01.2015, the Group disposed of the business of its branch in Finland. As a result, the assets and liabilities of the sold business unit have been presented in these financial statements as assets and liabilities held for sale in the balance sheet and the results of the sold business unit have been presented separately in the income statement from continued operations.

NOTE 26 Separate financial statements of parent company

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

Statement of comprehensive income of the parent

(in thousands of euros)	**2014**	**2013**
Interest income	836	462
Interest expenses	-1 245	-525
Net interest income	**-409**	**-63**
Net gains from investments to subsidiaries	53	0
Foreign exchange rate losses	-12	-4
Other financial income	0	112
Net gains from financial assets	**41**	**108**
Operating expenses	-289	-131
Net loss for the year	**-657**	**-86**
Total comprehensive loss for the year	**-657**	**-86**

Statement of financial position of the parent

(in thousands of euros)	**31.12.2014**	**31.12.2013**
Assets		
Due from banks and investment companies	3 025	3 596
Loans granted	12 803	10 579
Other receivables and assets	7	0
Investments in subsidiaries	54 420	42 290
Investments in associates	36	62
Total assets	**70 291**	**56 527**
Liabilities		
Accrued expenses and other liabilities	41	23
Subordinated liabilities	16 688	18 683
Total liabilities	**16 729**	**18 706**
Shareholders' equity		
Share capital	23 356	19 202
Share premium	33 992	21 871
Reserves	435	223
Other reserves	138	15
Accumulated deficit	-4 359	-3 490
Total shareholders' equity	**53 562**	**37 821**
Total shareholders' equity and liabilities	**70 291**	**56 527**

Statement of cash flows of the parent

(in thousands of euros)	**2014**	**2013**
Cash flows from operating activities		
Interest received	836	462
Interest paid	-1 245	-525
Other financial income received	-206	112
Operating and other expenses	-95	-135
Cash flows from operating activities before change in operating assets and liabilities	**-710**	**-86**
Net increase/decrease in operating liabilities::		
Net increase/decrease of other assets	-231	336
Net increase/decrease of other liabilities	146	-194
Net cash used in / generated from operating activities	**-795**	**56**
Cash flows from investing activities		
Loans granted	-8 000	-3 550
Repayments of loans granted	6 000	0
Acquisitions and disposals of subsidiaries and associates	-12 051	-10 952
Net cash used in/ generated from investing activities	**-14 051**	**-14 502**
Cash flows from financing activities		
Payment to share capital (incl. share premium)	13 825	564
Disposal of treasury shares	0	1
Subordinated loans paid back	-15 450	0
Subordinated loans received	15 900	15 450
Net cash from financing activities	**14 275**	**16 015**
Increase/decrease in cash and cash equivalents	**-571**	**2 027**
Cash and cash equivalents at the beginning of the financial year	3 596	1 569
Cash and cash equivalents at the end of the financial year	**3 025**	**3 596**

Statement of changes in shareholders' equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	Total
Balance as at 01.01.2013	**17 382**	**18 827**	**223**	**232**	**-3 404**	**-1**	**33 259**
Conversion of subordinated bonds issued in 2010 to share capital	1 200	1 800	0	-210	0	0	**2 790**
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	**1 293**
Paid-in share capital	187	377	0	0	0	0	**564**
Disposal of treasury shares	0	0	0	0	0	1	**1**
Total comprehensive income for 2013	0	0	0	0	-86	0	**-86**
Balance as at 31.12.2013	**19 202**	**21 871**	**223**	**15**	**-3 490**	**0**	**37 821**
Carrying amount of holdings under control and significant influence	0	0	0	0	-41 459	0	**-41 459**
Value of holdings under control and significant influence under equity method	0	0	0	-27	33 917	0	**33 917**
Adjusted unconsolidated equity as at 31.12.2013	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**
Balance as at 01.01.2014	**19 202**	**21 871**	**223**	**15**	**-3 490**	**0**	**37 821**
Conversion of subordinated bonds issued in 2012 to share capital	654	1 796	0	-15	0	0	**2 435**
Paid-in share capital	3 500	10 325	0	0	0	0	**13 825**
Paid in statutory reserve capital	0	0	212	0	-212	0	**0**
Share options	0	0	0	138	0	0	**138**
Total comprehensive income for 2014	0	0	0	0	-657	0	**-657**
Balance as at 31.12.2014	**23 356**	**33 992**	**435**	**138**	**-4 359**	**0**	**53 562**
Carrying amount of holdings under control and significant influence	0	0	0	0	-53 589	0	**-53 589**
Value of holdings under control and significant influence under equity method	0	0	0	-6	55 907	0	**55 901**
Adjusted unconsolidated equity as at 31.12.2014	**23 356**	**33 992**	**435**	**132**	**-2 041**	**0**	**55 874**

Signatures of the Management Board to the Consolidated Annual Report

The Management Board has prepared the management report and the consolidated financial statements of AS LHV Group for the financial year ended 31 December 2014. The consolidated financial statements present a true and fair view of the Group's financial position, the results of operations and its cash flows.

25.03.2015

Erkki Raasuke /signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Group

We have audited the accompanying consolidated financial statements of AS LHV Group and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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 Group and its subsidiaries as of 31 December 2014, 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

25 March 2015

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

Proposal for profit distribution

The Management Board of LHV Group proposes to the General Meeting of Shareholders to distribute the profit of the financial year 2014 as follows:

- to add EUR 460 thousand to statutory reserve capital
- to add the profit for reporting period attributable to shareholders of the parent in the amount of EUR 8 743 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.

01.04.2015

Chairman of the Supervisory Board:

Rain Lõhmus /signed/

Members of the Supervisory Board:

Raivo Hein /signed/

Heldur Meerits /signed/

Tiina Mõis /signed/

Hannes Tamjärv /signed/

Tauno Tats /signed/

Andres Viisemann /signed/

Allocation of income according to EMTA classificators

Consolidated:

EMTAK	Activity	2014	2013
66121	Security and commodity contracts brokerage	3 324	3 435
64191	Credit institutions (banks) (granting loans)	25 419	15 664
64911	Finance lease	1 024	441
66301	Fund management	8 456	5 810
	Total income	**38 223**	**25 350**

Separate:

EMTAK	Activity	2014	2013
64201	Activities of holding companies	889	570
	Total income	**889**	**570**

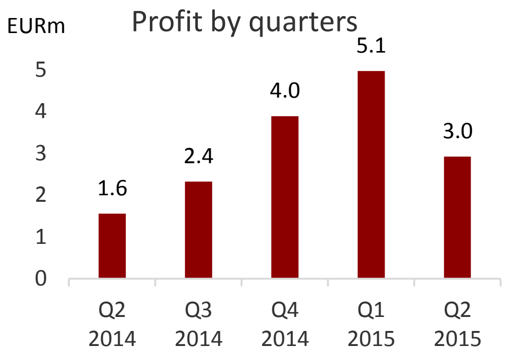
Interim Report January – June 2015
Summary of Results

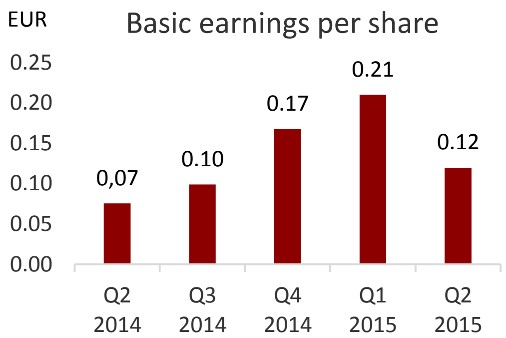
Q2 2015 in comparison with Q1 2015

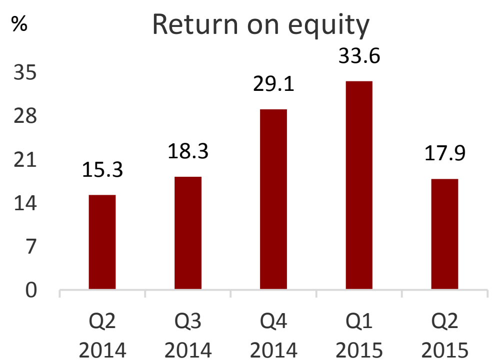
- Net profit EUR 3,0 m (EUR 5,1 m), of which EUR 2,8 m (EUR 4,9 m) is attributable to owners of the parent
- Earnings per share EUR 0,12 (EUR 0,21)
- Net income EUR 8,8 m (EUR 9,0 m)
- Operating expenses EUR 5,6 m (EUR 5,5 m)
- Loan provisions EUR 0,1 m (EUR 0,7 m)
- Return on equity 17,9% (33,6%)
- Capital adequacy 20,6% (21,4%)

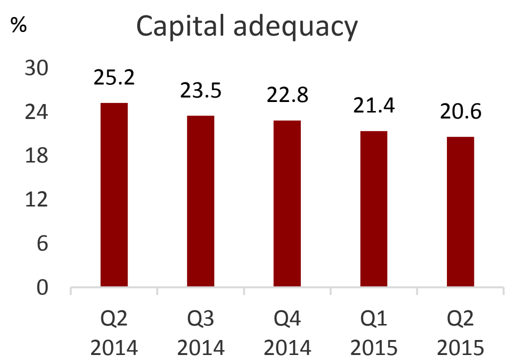
Q2 2015 in comparison with Q2 2014*

- Net profit EUR 3,0 m (EUR 1,6 m), of which EUR 2,8 m (EUR 1,5 m) is attributable to owners of the parent
- Earnings per share EUR 0,12 (EUR 0,07)
- Net income EUR 8,8 m (EUR 7,0 m)
- Operating expenses EUR 5,6 m (EUR 5,1 m)
- Loan provisions EUR 0,1 m (EUR 0,5 m)
- Return on equity 17,9% (15,6%)
- Capital adequacy 20,6% (25,2%)









* Data for 2014 does not include the income and expenses of discontinued operations

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

Managing Director's Statement

The economic environment in the Baltic states was stable in Q2. A deflationary period that lasted more than a year is now ending, with a return to low inflation. As local productivity is seeing slow growth, the situation on export markets has not improved and little investment is taking place, there is no expectation that economic growth will accelerate any time soon. The risks in regard to external shocks persist, however the trend is to continuously learn to live with them better. The primary securities markets saw a limited correction in Q2, which also had a minor negative impact on LHV's economic results.

LHV's consolidated profit for Q2 2015 was EUR 3.0 million, which is EUR 2.1 million less than in Q1 2015 and EUR 1.4 million more than in Q2 2014. The results for the two preceding quarters were influenced in a positive direction by the sell-off of LHV's Finnish operation and thus the results are not suitable for assessing longer term trends and developments. Not including income and expenses of a one-time nature, the quarterly results were in the expected range. Consolidated loans grew by EUR 31 million (Q1: +EUR 26 million) and deposits grew EUR 21 million (Q1: + EUR 31 million). The volume of funds managed by LHV grew by EUR 2 million (Q1: +EUR 21 million).

In the first six months of 2015, LHV Group has earned EUR 8.1 million in profit. Loans grew by EUR 57 million, deposits by EUR 52 million and the volume of funds managed by LHV by EUR 23 million.

The bank's profit was EUR 1.8 million in Q2, which is EUR 2.0 million less than in the previous quarter. With regard to primary income, net income from interest and net income from fees and commissions grew. In connection with a drop in securities prices, net financial income was negative: EUR -0.2 million.

The bank's loan portfolio grew EUR 31 million in Q2 and reached EUR 354 million. Lending activity has been active and the number of signed but as yet undispensed loans is the largest in history. Credit quality remains strong. The decrease in the average risk level of portfolios led to a decrease in impairment of loans of EUR 0.2 million. The bank's deposits grew EUR 23 million (Q1: EUR 33 million) and reached EUR 518 million by the end of the quarter.

Asset Management posted a profit of EUR 1.2 million in Q2, which is EUR 75,000 less than in the previous quarter. Profit was impacted negatively by the abovementioned securities market correction and higher expenses – this being a one-off occurrence – in connection with the relocation of the Persian Gulf Fund to Luxembourg jurisdiction. During Q2, the volume of funds grew by EUR 2 million, of which Pillar 2 pension fund growth was EUR 3 million. The volume of the Persian Gulf Fund dropped by EUR 1 million.

While the EPI index – descriptive of Estonia's obligatory pension fund yields – rose 5.8% in Q1, then in Q2 the EPI fell 1.98%. LHV's funds that invest into equity markets held up better in the face of the declining market than those of competitors did. Funds that invested primarily into bonds found themselves in the same narrow range of yields as competitors. During the quarter, the number of active Pillar 2 pension customers dropped by 2,400 and stood at 127,660 by the end of the quarter.

Mokilizingas's profit in Q2 was EUR 0.2 million – the same level as the previous quarter. The loan portfolio grew by EUR 2 million, driven by successful hire-purchase sales. The quality of loans remains strong. The Lithuanian consumer credit market is characterized by strong price competition, which also affects Mokilizingas. In Q3, we will introduce new offer to the market, through which we hope to gradually boost the profitability of the business.

The LHV Group shareholders' meeting took place on April 29. The shareholders decided to select Sten Tamkivi as the new member of the supervisory board. Tamkivi was the director of Skype Estonia from 2005–2012, served as the presidential adviser on innovation, was an entrepreneur-in-residence at the venture capital firm Andreessen Horowitz and is currently CEO of the company Teleport, which he co-founded.

The first half of 2015 has gone fairly well for LHV Group. Most of the set targets have been fulfilled, but there is also room for improvement. The second half of the year will expectedly be very active and full of new offers for current and new customers.

Erkki Raasuke

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Financial Summary

Income statement EUR million	**Q2** **2015**	**Q1** **2015**	**Quarter** **over quarter**	**Q2** **2014**	**Year** **over year**
Net interest income	5,44	5,22	4%	3,82	42%
Net fee and commission income	3,60	3,34	8%	3,05	18%
Other financial income	-0,30	0,47	-164%	0,15	-300%
Total net operating income	8,74	9,03	-3%	7,02	25%
Other income	0,03	0,00	N/A	-0,01	-400%
Operating expenses	-5,59	-5,45	3%	-5,05	11%
Loan losses	-0,11	-0,66	-83%	-0,50	-78%
Income tax expenses	-0,07	-0,07	0%	-0,02	250%
Discontinued operations	0,00	2,26	N/A	0,16	N/A
Net profit	3,00	5,11	-41%	1,60	87%
including attributable to owners of the parent	2,80	4,90	-43%	1,55	81%

Business volumes EUR million	**Q2** **2015**	**Q1** **2015**	**Quarter** **over quarter**	**Q2** **2014**	**Year** **over year**
Loan portfolio*	357,6	326,8	9%	238,9	50%
Financial investments	141,3	146,8	-4%	102,5	38%
Deposits of customers	510,2	489,4	4%	358,8	42%
Equity (including minority interest)	66,3	63,2	5%	51,4	29%
Equity (owners' share)	63,7	60,8	5%	49,4	29%
Volume of funds managed	527,5	525,1	0,5%	467,5	13%
Assets managed by bank	589,7	582,4	1%	474,5	24%

* Data for 2014 does not include the loan portfolio of discontinued operations

Ratios EUR million	**Q2** **2015**	**Q1** **2015**	**Quarter** **over quarter**	**Q2** **2014**	**Year** **over year**
Average equity (attributable to owners of the parent)	62,3	58,4	3,9	39,8	22,5
Return on equity (ROE), %	17,9	33,6	-15,7	15,6	2,4
Interest-bearing assets, average	578,9	559,4	19,5	408,5	170,4
Net interest margin (NIM) %	3,76	3,73	0,02	3,74	0,02
Price spread (SPREAD) %	3,68	3,66	0,02	3,68	0,00
Cost/income ratio %	63,7	60,3	3,4	72,0	-8,3

* Data for 2014 does not include the loan portfolio of discontinued operations

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

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

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

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

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

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

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

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

Operating Environment

The first half of 2015 is characterized by continued central bank intervention in money markets as a stimulus measure. China started lowering prime interest rates last November and with economic growth continuing to slow down, this is a process that will last for some time. The US is expected to hike interest rates in Q4, yet in June the Federal Reserve downgraded the economic outlook and the workforce market is sending out ambiguous signals.

In parallel, the European Central Bank is continuing the measures it launched in Q1, which are primarily designed to achieve higher growth in consumer prices. Buying up sovereign bonds is intended to stimulate higher prices of assets and spur companies and individuals to invest and consume more. According to Eurostat, this May consumer prices in the Eurozone were 0.3% higher than they were a year ago. The European Central Bank is aiming at a target of 2% growth in prices.

The increase in the money supply has, as expected, had an effect on the euro's value against other currencies – the EUR dropped against USD close to 15% in the first half of the year. The weaker euro has a significant impact on Eurozone companies' competitiveness on global markets, and this should start having a knock-on effect in the real economy. In Q1, all four of the Eurozone's biggest economies – Germany, France, Italy and Spain – were back in growth, for the first time since 2010. Moreover, the gross domestic product of the Eurozone grew faster than the corresponding figures in the US and the UK.

In the Q2, the problematic situation facing Greece was in the spotlight. The second bailout package agreed by creditors expired and negotiations on further steps have thus far been unfruitful. The list of consequences that a default might have is long, ranging from a Greek exit from the Eurozone and loss of European taxpayer money to escalation of economic and political problems in other southern European countries.

In Estonia's immediate neighbourhood, Russia's economic and political situation and the related economic sanctions continue to spawn tensions. The establishment of sanctions has had a direct negative impact on the Baltic states' economies as formerly close trading relations have sustained noteworthy damage. Scandinavia – key trade partners for the Baltics – is also impacted, although increasingly less over time. The exchange rate of the rouble, which was in freefall last year, recovered substantially in the first half of 2015, translating into improved prospects for trading partners exporting to Russia.

The price of oil, which dropped significantly last year, hit a bottom in Q1 of this year and has stabilized at a slightly higher price level in Q2, while still remaining much lower than it was in 2014. The easing of economic sanctions against Iran may exert significant influence on the oil prices in near future – the negotiations related ti the sanctions are hoped to be concluded in Q3. Savings from the drop in energy prices improves the financial standing of local companies and consumers, with the direct influence manifested mainly in lower prices for fuel and electricity.

The Baltics have moderately good prospects for this year. Analysts project that the economies will grow 2% or more, which will lay a positive footing for a stable business environment. In the economic projections published in June, the Bank of Estonia marginally upgraded Estonia's economic growth projections for this year and emphasized that growth of external demand had an important role. Although the growth factors vary from one country to another, increased domestic consumption and investments are, broadly speaking, the drivers of the economy. Growth of real wages and employment makes a substantial contribution. A key objective for LHV in all three Baltics, but above all in Latvia and Lithuania, is finding new export markets to compensate for the loss of the Russian market.

LHV's position with regard to 2015 is moderately optimistic. The economy will grow, investment volume will increase and credit institutions are open to financing. The drop in interest rates has led to an increase in competition between banks on Baltic markets, which has a positive effect for local businesses. In the case of Estonia, risks are higher than average in agriculture, and about to increase in tourism-related sectors. In addition, LHV has become more cautious toward the real estate market, following developments on the local and Scandinavian markets. Supply has increased both for residential property and real estate properties with rent flows. To preserve balance, it would be wise to pursue stabilization of the quantity of supply and prices.

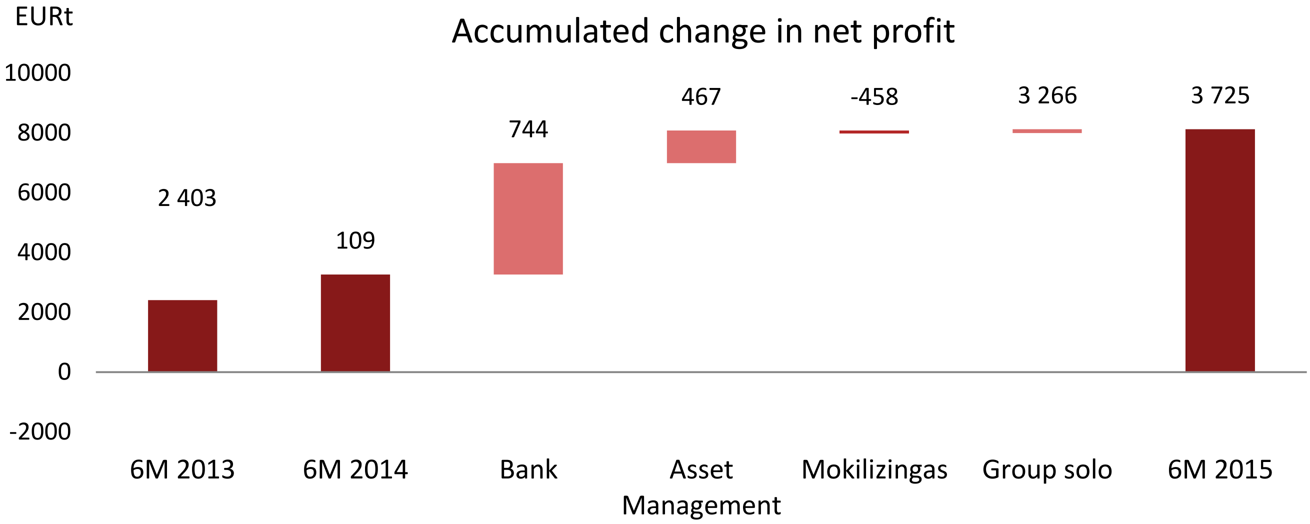
Due to the economic environment, LHV is also placing emphasis not just on the selection of high-quality financing projects but general portfolio management as well. The strategy for the near future calls for a rise in the share of lower-risk projects being financed. To achieve the goal, LHV is offering competitive interest rates on projects with solid fundamentals.

Financial Results of the Group

Compared to Q1, the Group's net interest income grew by 4%, standing at EUR 5,4 (Q1: 5,2) million. Net fee and commission income grew by 8% and stood at EUR 3,6 (Q1: 3,3) million. Financial income decreased by 164% and stood at EUR -0,3 (Q1: 0,5) million. In total, the net income of the Group decreased by 3% in Q2, compared to Q1, amounting to EUR 8,7 (Q1: 9,0) million, with expenses climbing by 3% and amounting to EUR 5,6 (Q1: 5,4) million. The Group's operating profit for Q2 amounted to EUR 3,2 (Q1: 3,6) million. Impairments amounted to EUR 0,1 (Q1: 0,7) million in Q2. The Group's total profit for Q2 amounted to EUR 3,0 million (Q1: 5,1 million, of which 2,85 million can be attributed to continued operations and 2,25 million to discontinued operations).

Compared to Q2 2014, the Group's net interest income increased by 42% and net fee and commission income by 18%, with financial income decreasing by 300%.

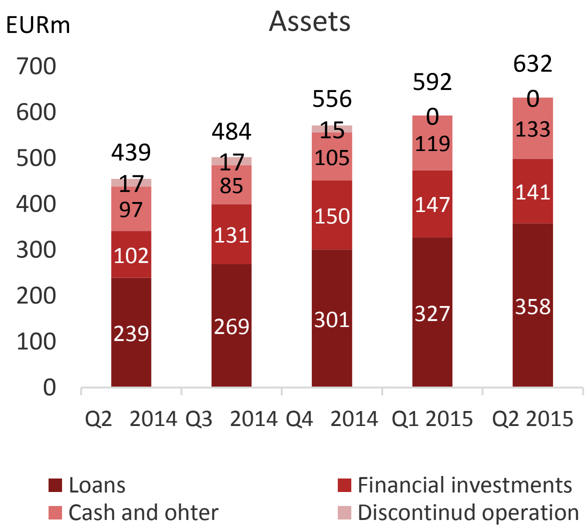
In terms of business entities, AS LHV Pank posted a consolidated profit of EUR 1,8 million, AS LHV Varahaldus a profit of EUR 1,2 million and UAB Mokilizingas a profit of EUR 0,2 million. The LHV Group separately posted a loss of EUR 0,1 million, as it does not have a separate revenue generating unit and the main type of expense of the Group is interest expense from subordinated liabilities.



The Group's volume of deposits as at the end of Q2 amounted to EUR 510 (Q1: 489) million, of which demand deposits formed EUR 305 (Q1: 275) million and term deposits EUR 205 (Q1: 214) million.

As at the end of Q2, the volume of loans granted by the Group amounted to EUR 358 (Q1: 327) million and the volume of financial investments to EUR 141 (Q1: 147) million, which respectively is 9% more and 4% less than at the end of Q1.

Compared to Q2 2014, the volume of the Group's deposits has increased by 42%, the volume of loans by 50% and the volume of financial investments by 38%.



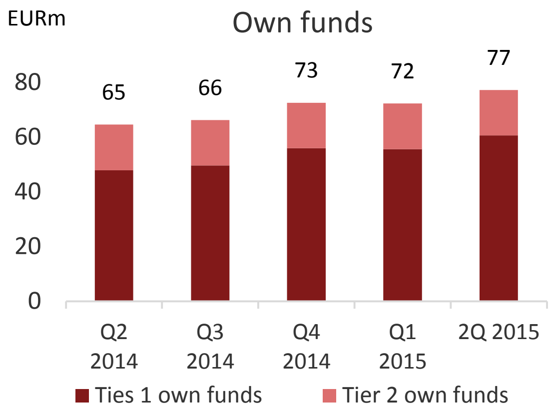
The Group's Liquidity, Capitalisation and Asset Quality

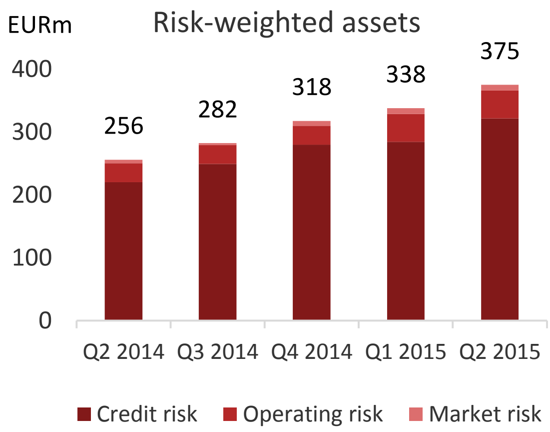
As at 30 June 2015, the Group's own funds stood at EUR 77,2 million (31 December 2014: EUR 72,5 million). The own funds of the Group increased in Q2 due to the interim audit of the Q1 in April.

The Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 20,6% (31 December 2014: 22,8%).

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 204,93% as at the end of June (31 December 2014: 190%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 42% of the balance sheet (31 December 2014: 41%). The ratio of loans to deposits stood at 70% as at the end of the second quarter (31 December 2014: 70%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of June, provisions for estimated loan losses amounted to EUR 4,4 million in the balance sheet, i.e. approximately 1,2% of the loan portfolio (31 December 2014: EUR 4,1 million, 1,3%). Estimated loan losses make up 239,8% of the portfolio of loans overdue for more than 90 days.



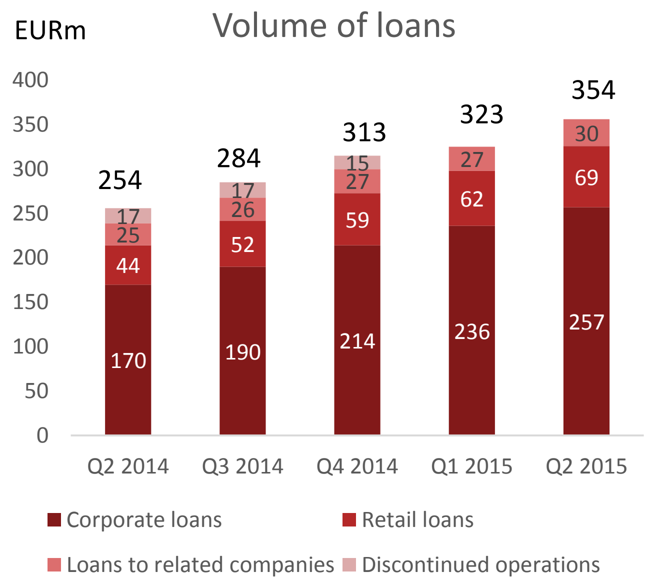


EUR thousand	30.06.2015	Proportion	31.12.2014	Proportion	30.06.2014	Proportion
Loans to customers	362 011		305 099		244 988	
including overdue loans:	14 565	4,0%	12 420	4,1%	10 930	4,5%
1-30 days	7 000	1,9%	4 910	1,6%	5 245	2,1%
31-60 days	2 546	0,7%	1 328	0,4%	1 585	0,6%
61-90 days	3 168	0,9%	2 755	0,9%	1 134	0,5%
91 and more days	1 850	0,5%	3 427	1,1%	2 966	0,2%
Impairment of loans	-4 438	-1,2%	-4 067	-1,3%	-4 765	-1,9%
Impairment % of loans overdue for more than 90 days	239,8%		118,7%		160,7%	

Capital base	30.06.2015	31.12.2014
Paid-in share capital	23 356	23 356
Share premium	33 992	33 992
Reserves	435	435
Accumulated loss	-2 043	-11 244
Intangible assets (subtracted)	-1 639	-1 574
Profit for the reporting period	4 903	9 203
Non-controlling interest	1 550	1 727
Total Tier 1 capital	**60 554**	**55 895**
Subordinated liabilities	16 650	16 650
Total Tier 2 capital	**16 650**	**16 650**
Net own funds for calculation of capital adequacy	**77 204**	**72 545**
Risk-weighted assets		
Credit institutions and investment companies under standard method	16 320	8 237
Companies under standard method	186 742	153 250
Retail claims under standard method	99 582	101 741
Overdue claims under standard methods	8 675	5 438
Units and shares of investment funds under standard method	5 729	5 608
Shares of associated companies	36	0
Other assets under standard method	4 524	5 675
Total capital required for credit risk and counterparty's credit risk	**321 608**	**279 949**
Currency risk	5 875	5 735
Interest position risk	3 073	2 028
Share position risk	82	96
Operating risk under base method	44 367	30 066
Total risk-weighted assets	**375 005**	**317 874**
Capital adequacy (%)	**20,59**	**22,82**
Tier 1 capital ratio (%)	**16,15**	**17,58**

Overview of AS LHV Pank Consolidation Group

- Strong profit in Q2
- (Net) growth in loan volume in Q2 – EUR 31 million (Q1: EUR 25 million
- As of 1 April, the bank has a Latvian branch, following transformation from the previous cross-border activities



EUR million	Q2 2015	Q1 2015	Change %	Q2 2014	Change %	From the beginning of 2015	From the beginning of 2014	Change %
Net interest income	4,35	4,17	4%	3,03	44%	8,52	5,70	49%
Net fee and commission income	1,01	1,01	0%	0,8	27%	2,02	1,71	18%
Other financial income	-0,21	0,24	-188%	0,07	-397%	0,03	0,26	-88%
Total net operating income	5,15	5,42	-5%	3,9	32%	10,57	7,66	38%
Other income	0,05	0,01	400%	0,0	N/A	0,06	0,02	200%
Operating expenses	-3,56	-3,45	3%	-2,77	28%	-7,01	-5,50	27%
Loan losses	0,15	-0,43	-136%	-0,33	-147%	-0,28	-0,55	-49%
Discontinued operations	0	2,26	N/A	0,16	N/A	2,26	0,24	N/A
Net profit	1,79	3,81	-53%	0,95	88%	5,6	1,87	199%
Loan portfolio	354	323	10%	237	49%			
Financial investments	135	140	-4%	96	41%			
Deposits of customers	518	495	5%	362	43%			
Subordinated liabilities	12	12	0%	12	0%			
Equity	51	49	4%	41	24%			

In the overview of financial results, the revenue, expenses and loan portfolio of the Finnish branch – a now discontinued operation – are listed separately.

Q2 was successful both in terms of growth of business volumes and profitability. In Q2, LHV Pank earned EUR 4.4 million in net interest income and EUR 1.0 million in net fee and commission income. The bank's net income amounted to EUR 5.2 million, expenses to EUR 3.6 million and loan provisions to EUR -0.2 million. The bank’s Q2 profit from continued operations was EUR 1.8 million.

LHV Bank’s Q2 net profit from continued operations was EUR 1.8 million, which is 15% more than in Q1 2015 (EUR 1.5 million) and 88% more than in Q2 2014 (EUR 1.0 million). Net interest income grew by 4% during the quarter, while net fee and commission income remained at the same level as in Q1. Net operating income shrank by 5% due to a drop in bond prices.

Securities brokerage remained the biggest contributor to fee and commission income, but the contribution of card fees and transaction fees is already showing a significant trend of growth.

The huge increase in net interest income stems from growth in business volumes. By the end of Q2, the total volume of the bank’ loan portfolios amounted to EUR 354 million (2014: EUR 298 million). The volume of portfolios grew 10% over the quarter. Loans to companies account for the largest portion of the loan portfolio, having increased by 9% over the quarter to a level of EUR 257 (Q1: 236) million. The portfolio of retail loans has grown by 11%, amounting to EUR 69 (Q1: 62) million). Total volume of loan growth in Q2 was EUR 31 (Q1: 25) million.

Revaluation of loans resulted in the recognition of EUR 0.2 million as income in Q2. The volume of deposits grew by EUR 23 million over the quarter – 5% – and by the end of June stood at EUR 518 million (Q1: EUR 495 million). Of total deposits, EUR 310 million was demand deposits and EUR 208 million was term deposits. Demand deposits grew by EUR 29 million and term deposits shrank by EUR 7 million. In a low-interest-rate environment, it is natural for demand deposits to grow faster than term deposits and customers devote less attention to opening and renewing term deposits.

In Q2, more than 4,600 new customers opened accounts, as a result of which the number of customers reached 66,800 by the end of the quarter. Close to 80% of the bank's customers are individuals and 20% are SMEs. Customer activity in payments and making and receiving card payments remained high, setting new records in each successive month. The numbers of both payments and card payments have reached 250,000 payments a month.

The growth of the corporate credit portfolio that contains loans and quarantees met the set target, growing by EUR 92.4 million during the year (+52%) and EUR 25.2 million (+10%) in the quarter. The greatest source of the growth was the financial services and insurance field, which grew by EUR 22.1 million compared to the year before (+118%). It was followed by real estate activity, which is traditionally the field that receives the greatest financing from commercial banks. Compared to the previous year, loans and guarantees for real estate activity grew by EUR 21.9 million (+32%). In addition, loans in the field of art and entertainment, including sports federations, grew the most (EUR 11.5 million, +84%).

Compared to last quarter, the most loans and guarantees were provided to real estate activities (EUR 10.9 million; +14%), wholesale and retail trade (EUR 4.2 million, +36%), and water supply, sewerage, waste treatment and pollution abatement sector (EUR 2.8 million; +47%).

The most corporate loans were granted in the real estate sector, which makes up 33% of the bank's corporate credit portfolio. The bulk of the real estate loans have been issued to projects with a high-quality rent flow; a second major category comprises real estate development projects. The majority of the real estate developments financed are located in Tallinn, some are in the city of Tartu. LHV's market share in the financing of new developments in Tallinn was approximately 18% at the end of Q2. The drop in the market share compared to previous quarters reflects the growing risks in the sector, in the fact that the number of listings on the secondary market for apartments has seen a noteworthy increase. Yet transaction activity has also grown along with the supply, and this has supported the market. LHV's real estate development portfolio is well-positioned should market trends change – financed developments are sited in good locations, the major developments are nearing completion and the average risk to price ratio is around 50%.

Alongside the real estate sector, the most credit was provided to companies pursuing financial and insurance activities (share: 15%) and the processing industry (share: 13%). Agriculture, which is under increased attention due to the geopolitical situation, accounts for just 2% of the portfolio. Credit provided to the agricultural sector saw a quarterly decrease of 10%.

In Q2, interest rates were cut on demand and term deposits. In the case of the term deposits, interest rates were decreased in the case of shorter terms, and opening of deposits for terms of less than one month was discontinued. The interest rate for a one-year deposit stayed at 1%. The interest rate for demand deposits was lowered from 0.1% to 0.01%.

From April 1, a branch of the bank is operating in Latvia. The bank's heretofore cross-border activity in Latvia – meaning all contracts with customers, employees and third parties – were migrated to the Latvian branch. The customers at the Latvian branch are offered payment, deposit and investment services.

The legal formalities of liquidation of the Finnish operation were completed in Q2. On April 24, the cross-border representation was dissolved, followed by LHV Finance OY on June 26 and the bank's Finnish branch on June 30.

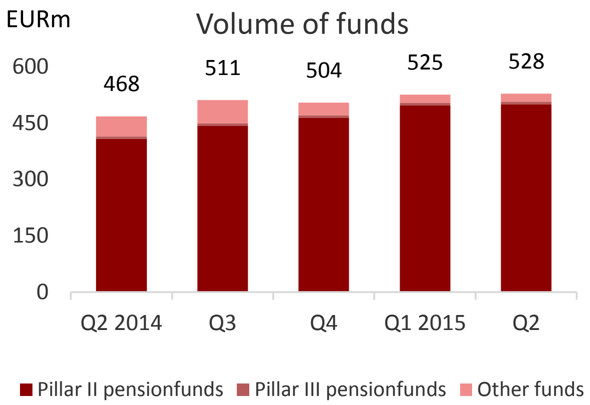
As to new developments, testing of CUBER APP began and the first quantity of cuber certificates of deposit was issued.

In March, the bank became the first pan-Baltic advisor on the First North market. The bank has taken an active role to help institutional clients enter the market and operate there, serving as contractual advisor on both Nasdaq Baltic stock exchange and the alternative market. The first company to receive advice from LHV in listing its shares on the Baltic First North alternative market was Estonian beverage manufacturer AS Linda Nektar.

As to internal corporate activities, a major, long-term mid-level manager development programme and product manager training programme were launched. An Intranet was introduced to improve the flow of information.

Overview of AS LHV Varahaldus

- Market share of Pillar 2 by volume as at the end of Q2: 20,4% (as at the end of 2014: 21,1%)
- Total volume of Pillar 2 funds: EUR 500 million (as at the end of 2014: EUR 464 million)



EUR million	Q2 2015	Q1 2015	Change %	Q2 2014	Change %	From the beginning of 2015	From the beginning of 2014	Change %
Net fee and commission income	2,43	2,19	11%	2,06	18%	4,61	3,83	20%
Net financial income	-0,11	0,23	-147%	0,07	-265%	0,12	0,1	17%
Operating expenses	-1,15	-1,17	2%	-1,31	-12%	-2,31	-2,6	-11%
Profit	1,18	1,25	-6%	0,82	44%	2,43	1,34	81%
Financial investments	6,44	6,97	-8%	6,44	0%			
Subordinated liabilities	1,50	1,50	0%	0,55	173%			
Equity	8,97	7,77	15%	6,53	37%			
Assets under management	527,5	525,1	0,5%	467,5	13%			

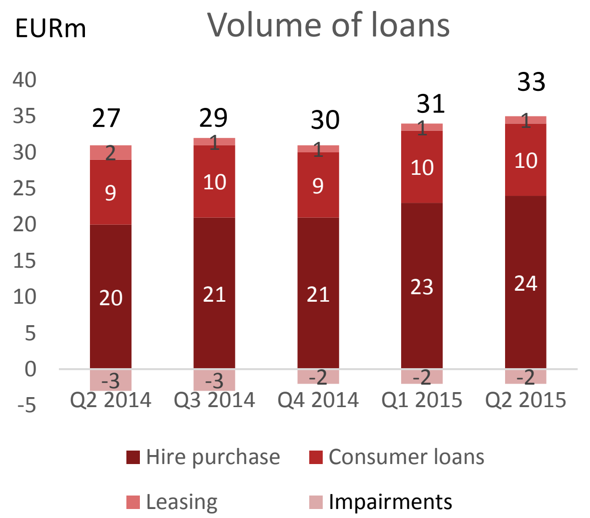
The financial results of LHV Varahaldus were similar to Q1. Operating income was EUR 2.43 million in Q2, increasing by EUR 0.24 million during the quarter, mainly due to pension fund redemption fees. Operating expenses were EUR 1.15 million, a decrease of EUR 0.02 million. Volume of managed funds rose by EUR 2.4 million during the quarter + 0.5% growth. The number of active Pillar 2 pension customers dropped by 2,400.

While the EPI index – descriptive of Estonia's obligatory pension fund yields – rose 5.8% in Q1, then in Q2 the EPI fell 1.98%. LHV pension funds have reduced stock market risk and in Q2, when there was a general drop in securities prices in Estonian pension funds, LHV's equity-investing pension funds fared the best. Starting in mid-April, bond markets also sagged, and the value of fund units fell, even at Estonia's most conservative retirement funds. The yields on the latter were clustered in a narrow 0.45% range and two LHV funds were in the first and last position in this ranking.

In February, LHV Varahaldus notified that LHV Persian Gulf Fund would be relocating to Luxembourg, which took place by way of cross-border merger on April 13. The new name of the fund is SEF-LHV Persian Gulf Fund. The fund manager is Swedbank Management Company S.A. and LHV Varahaldus provides investment advice service to the fund. The LHV Varahaldus fee for managing investments remained at the same level. As expected, the relocation to Luxembourg makes the fund more attractive for European institutional investors. The yield on the fund was +5.0% in Q2.

Overview of UAB Mokilizingas

- Loan portfolio grew by 6% in Q2



EUR million	Q2 2015	Q1 2015	Change %	Q2 2014	Change %	From the beginning of 2015	From the beginning of 2014	Change %
Net interest income	1,1	1,1	0%	0,9	22%	2,2	1,7	29%
Net fee and commission income	0,2	0,2	0%	0,2	0%	0,4	0,5	-20%
Operating expenses	-0,8	-0,8	0%	-0,9	-11%	-1,6	-1,5	7%
Loan losses	-0,2	-0,2	0%	-0,2	0%	-0,4	-0,2	100%
Income tax expenses	-0,1	-0,1	0%	0,0	N/A	-0,2	-0,1	100%
Profit	0,2	0,2	0%	0,0	N/A	0,4	0,4	0%
Loan portfolio	33,2	31,3	6%	27,4	21%			
Equity	4,2	4,1	2%	3,7	14%			

The consumer credit market, which consists of hire-purchase and consumer loan segments, has been expanding steadily during FY2014 and is expected to grow steadily during FY2015 as well.

Hire-purchase sales in March exceeded expectations, and the gained momentum and trend continued into Q2 as well. An anticipated decrease in sales after the end of Easter was present; however, the monthly performance of April and the performance of the whole quarter exceeded the budgeted targets. With the competition remaining intense, the result achieved for the first half-year suggests a further strengthening of the current position in the market. The growth of Q2 was achieved due to long-term strategic actions taken in the past which focused on the needs of the client and strong partnership with several of the largest partners as well as constant care for smaller ones.

The consumer loan segment is expected to have increased in Q2 with the increase being larger than in the hire-purchase segment. The small loan market (up to EUR 290) remained stable during FY2014 and decreased during Q1 2015, suggesting that the full capacity has been reached, which results in payday loan providers actively targeting and moving into the larger loans segment. With increased focus on the clients and intensive marketing, the segment of loans above EUR 290 has been growing at substantial rates during FY2014 and Q1 2015 and is expected to continue at a similar pace in Q2 as well. Mokilizingas has been working on improvements of products and extra features available to clients, which were followed by several campaigns, which should continue in the second half year as well. The effort put in throughout the first half-year showed positive results which resulted in the increase in sales volume and portfolio and which are expected to continue in the upcoming quarters.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

EUR thousand	Note	Q2 2015	6 months 2015	Q2 2014	6 months 2014
Continued operations					
Interest income		6 485	12 699	4 560	8 677
Interest expense		-1 046	-2 038	-739	-1 494
Net interest income	9	**5 439**	**10 661**	**3 821**	**7 183**
Fee and commission income		4 057	7 794	3 272	6 439
Fee and commission expense		-457	-852	-208	-443
Net fee and commission income	10	**3 600**	**6 942**	**3 064**	**5 996**
Net gains/losses from financial assets measured at fair value		-362	120	150	368
Foreign exchange gains/losses		60	43	-5	-9
Net gains from financial assets		**-302**	**163**	**145**	**359**
Other income and expenses		34	35	-11	0
Personnel expenses	11	-2 725	-5 310	-2 138	-4 109
Operating expenses	11	-2 865	-5 728	-2 915	-5 602
Profit before impairment losses on loans and advances		**3 181**	**6 763**	**1 966**	**3 827**
Impairment losses on loans		-105	-761	-498	-721
Profit before tax		**3 076**	**6 002**	**1 468**	**3 106**
Income tax expense		-67	-136	-23	-79
Net profit for the reporting period from continued operations		**3 009**	**5 866**	**1 445**	**3 027**
Profit from discontinued operations	12	**0**	**2 258**	**158**	**239**
Net profit for the reporting period	2	**3 009**	**8 124**	**1 603**	**3 266**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
Revaluation of available-for-sale financial assets		7	-1	18	24
Total comprehensive income for the reporting period		**3 016**	**8 123**	**1 621**	**3 290**
Total profit of the reporting period attributable to:					
Owners of the parent		2 796	7 699	1 549	2 975
Non-controlling interest		213	425	54	291
Total profit for the reporting period	2	**3 009**	**8 124**	**1 603**	**3 266**
Total comprehensive income attributable to:					
Owners of the parent		2 803	7 698	1 567	2 999
Non-controlling interest		213	425	54	291
Total comprehensive income for the reporting period		**3 016**	**8 123**	**1 621**	**3 290**
Basic earnings per share (in euros)	17	0,12	0,33	0,08	0,15
Diluted earnings per share (in euros)	17	0,11	0,32	0,08	0,15

The Notes on pages 17 to 28 are an integral part of the consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

EUR thousand	Note	30.06.2015	31.12.2014
Assets			
Balances with central banks	4, 5, 6, 13	56 241	45 427
Due from credit institutions	4, 5, 6, 13	17 100	24 218
Due from investment companies	4, 6, 13	53 735	14 484
Available-for-sale financial assets	4, 6, 7	3 876	4 273
Financial assets designated at fair value through profit and loss	4, 6, 7	137 391	145 252
Assets of discontinued operations, classified as held for sale		0	15 473
Loans and advances to customers	4, 6, 8	357 574	301 032
Other receivables from customers		1 677	1 566
Other assets		2 693	2 048
Goodwill		1 044	1 044
Property, plant and equipment		334	308
Intangible assets		596	530
Investments in associates		36	36
Total assets	2	**632 297**	**555 691**
Liabilities			
Deposits of customers and loans received	14	532 184	475 013
Financial liabilities designated at fair value through profit and loss	6	218	302
Accounts payable and other liabilities	15	16 884	5 435
Liabilities of discontinued operations, classified as held for sale		0	220
Subordinated liabilities	6	16 683	16 688
Total liabilities	2	**565 969**	**497 658**
Owner's equity			
Share capital		23 356	23 356
Share premium		33 992	33 992
Statutory reserve capital		435	435
Other reserves		303	132
Retained earnings / accumulated deficit		5 658	-2 041
Total equity attributable to owners of the parent		**63 744**	**55 874**
Non-controlling interest		2 584	2 159
Total equity		**66 328**	**58 033**
Total liabilities and equity		**632 297**	**555 691**

The Notes on pages 17 to 28 are an integral part of the consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

EUR thousand	Note	Q2 2015	6M 2015	Q2 2014	6M 2014
Cash flow from operating activities					
Interest received		6 395	13 446	4748	8 898
Interest paid		-924	-2 021	-677	-1 364
Fee and commission income and other income received		3 961	7 974	3 237	6 374
Fees and commissions paid		-459	-854	-208	-443
Personnel expenses paid		-2 639	-5 148	-1 951	-3 883
Administrative and other operating expenses paid		-3 025	-5 424	-2 761	-4 934
Income tax paid		-67	-136	-23	-79
Cash flow from operating activities before change in operating assets and liabilities		**3 242**	**7 837**	**2 365**	**4 569**
Net increase/decrease in operating assets:					
Net acquisition/disposal of trading portfolio		-35	-31	-265	-56
Loans and advances to customers		-31 104	-43 650	-21 648	-47 714
Term deposits with banks		0	0	0	-494
Mandatory reserve at central bank		-278	-583	-15	-78
Security deposits		-4	-111	-105	-305
Other assets		-263	-50	1 147	2 035
Net increase/decrease in operating liabilities:					
Demand deposits of customers		27 481	29 817	3 458	14 162
Term deposits of customers		-6 818	22 214	-2 273	-8 377
Loans received		5 864	5 645	354	215
Repayments of loans received		-570	-747	-46	-107
Financial liabilities held for trading at fair value through profit and loss		-66	-84	-63	-62
Other liabilities		10 840	11 174	1 641	539
Net cash generated/used in operating activities from continuing operations		**8 289**	**31 431**	**-15 450**	**-35 673**
Cash generated from/ used in operating activities from discontinued operations		0	2 858	-692	-1 799
Net cash generated from/used in operating activities		**8 289**	**34 289**	**-16 142**	**-37 472**
Cash flow from investing activities					
Purchase of non-current assets		-176	-363	-152	-251
Acquisition and disposal of associates		0	0	79	79
Proceeds from disposal and redemption of investment securities available for sale		406	423	1 043	7 687
Net change of investments at fair value through profit or loss		4 745	7 971	-46 440	-61 115
Net cash flow from investing activities		**4 975**	**8 031**	**-45 470**	**-53 600**
Cash flow from financing activitises					
Contribution in share capital		0	0	13 825	13 825
Subordinated loans received		0	0	15 900	15 900
Repayment of subordinated debt		0	0	-15 450	-16 450
Net cash flow from financing activities		**0**	**0**	**14 275**	**13 275**
Effect of exchange rate changes on cash and cash equivalents	**6**	**60**	**43**	**-5**	**-9**
Net decrease/increase in cash and cash equivalents		**13 324**	**42 363**	**-47 342**	**-77 806**
Cash and cash equivalents at the beginning of the period		108 671	79 632	118 448	148 912
Cash and cash equivalents at the end of the period	**13**	**121 995**	**121 995**	**71 106**	**71 106**

The Notes on pages 17 to 28 are an integral part of the consolidated interim financial statements

Condensed Consolidated Interim Statement of Changes in Equity

EUR thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumu-lated profit/-deficit	**Total equity attributable to owners of the parent**	Non-controlling interest	**Total equity**
Balance as at 1.01.2014	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**30 252**	**1 695**	**31 947**
Conversion of subordinated bonds issued in 2012 to share capital	627	1 723	0	-15	0	2 335	0	**2 335**
Paid in share capital	3 500	10 325	0	0	0	13 825	0	**13 825**
Profit for the year	*0*	*0*	*0*	*0*	*2 975*	*2 975*	*291*	***3 266***
Other comprehensive income	*0*	*0*	*0*	*24*	*0*	*24*	*0*	***24***
Total comprehensive income for the reporting period	0	0	0	24	2 975	2 999	291	**3 290**
Balance as at 30.06.2014	**23 329**	**33 919**	**223**	**-3**	**-8 057**	**49 411**	**1 986**	**51 397**
Balance as at 1.01.2015	**23 356**	**33 992**	**435**	**132**	**-2 041**	**55 874**	**2 159**	**58 033**
Share options	0	0	0	172	0	172	0	**172**
Net profit	*0*	*0*	*0*	*0*	*7 699*	*7 699*	*425*	***8 124***
Other comprehensive income	*0*	*0*	*0*	*-1*	*0*	*-1*	*0*	***-1***
Total comprehensive income for the reporting period	0	0	0	-1	7 699	7 698	425	**8 123**
Balance as at 30.06.2015	**23 356**	**33 992**	**435**	**303**	**5 658**	**63 744**	**2 584**	**66 328**

The Notes on pages 17 to 28 are an integral part of the consolidated interim financial statements

Notes to the Condensed Consolidated Interim Financial Statements

NOTE 1 Accounting Policies

The interim financial statements have been prepared in accordance with the international financial reporting standard IAS 34 "Interim Financial Reporting", as adopted in the European Union. The interim financial statements should be viewed together with the Annual Report for the financial year ended on 31 December 2014, which has been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the year ended 31 December 2014.

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

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

The new and revised standard and interpretations which entered into force on 1 January 2015 have no significant impact on the Group's financial statements as at the moment of the preparation of the interim financial statements. These condensed consolidated interim financial statements have been reviewed, not audited and do not contain the entire range of data required for the preparation of the financial statements.

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

At 09.01.2015, the Group disposed of the business of the branch in Finland. In the overview of financial results, the revenue, expenses and loan portfolio of the Finnish branch – a now discontinued operation – are listed separately.

NOTE 2 Business Segments

The Group divides its business activities into segments according to its legal structure. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating profit by the Group's decision-maker. The Management Board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

The revenue of a reported segment includes gains from transactions between the segments, i.e. loans granted by AS LHV Pank to other group companies. The division of interest income and fee and commission income by customer location has been presented in Notes 9 and 10. The breakdown of interest income by customer location does not include the income from current accounts, deposits and investments in securities. The Group does not have any customers, whose income would account for more than 10% of the corresponding type of revenue.

	Q2 2015				Q2 2014			
Income of reported segments	**Interest income**	**Intra-segment income**	**Fee and commission income**	**Income from external customers**	**Interest income**	**Intra-segment income**	**Fee and commission income**	**Income from external customers**
AS LHV Pank (consolidated)	5 314	-285	1 457	6 486	3 637	-275	1 013	4 375
AS LHV Varahaldus	11	0	2 428	2 439	0	0	2 062	2 062
UAB Mokilizingas	1 445	0	172	1 617	1 197	0	197	1 394
Total	**6 770**	**-285**	**4 057**	**10 542**	**4 834**	**-275**	**3 272**	**7 831**

Generation of operating profit and net profit	Q2 2015 Operating profit	Impair-ments	Income tax	Dis-continued operations	Net profit	Q2 2014 Operating profit	Impair-ments	Income tax	Dis-continued operations	Net Profit
AS LHV Pank (consolidated)	1 637	154	0	0	1 791	1 123	-328	0	158	953
AS LHV Varahaldus	1 175	0	0	0	1 175	819	0	0	0	819
UAB Mokilizingas	501	-259	-67	0	175	234	-170	-23	0	41
AS LHV Group	-132	0	0	0	-132	-210	0	0	0	-210
Total	**3 181**	**-105**	**-67**	**0**	**3 009**	**1 966**	**-498**	**-23**	**158**	**1 603**

Income of reported segments	6M 2015 Interest income	Intra-segment income	Fee and commission income	Income from external customers	6M 2014 Interest income	Intra-segment income	Fee and commission income	Income from external customers
AS LHV Pank (consolidated)	10 386	-540	2 853	12 699	6 897	-552	2 184	8 529
AS LHV Varahaldus	28	0	4 615	4 643	27	0	3 834	3 861
UAB Mokilizingas	2 825	0	326	3 151	2 305	0	421	2 726
Total	**13 239**	**-540**	**7 794**	**20 493**	**9 229**	**-552**	**6 439**	**15 116**

Generation of operating profit and net profit	6M 2015 Operating profit	Impair-ments	Income tax	Dis-continued operations	Net profit	6M 2014 Operating profit	Impair-ments	Income tax	Dis-continued operations	Net Profit
AS LHV Pank (consolidated)	3 617	-276	0	2 258	5 599	2 184	-549	0	239	1 874
AS LHV Varahaldus	2 425	0	0	0	2 425	1 339	0	0	0	1 339
UAB Mokilizingas	1 005	-485	-136	0	384	717	-172	-79	0	466
AS LHV Group	-284	0	0	0	-284	-413	0	0	0	-413
Total	**6 763**	**-761**	**-136**	**2 258**	**8 124**	**3 827**	**-721**	**-79**	**239**	**3 266**

	30.06.2015 Assets	Liabilities	31.12.2014 Assets	Liabilities
AS LHV Pank (consolidated)	631 153	579 967	551 863	506 397
AS LHV Varahaldus	10 947	1 977	9 794	941
UAB Mokilizingas	35 730	31 494	31 956	28 104
AS LHV Group	70 193	16 743	70 291	16 729
Intercompany assets/liabilities	-115 726	-64 212	-108 213	-54 513
Total	**632 297**	**565 969**	**555 691**	**497 658**

NOTE 3 Risk Management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2014.

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

NOTE 4 Breakdown of Financial Assets and Liabilities by Countries

30.06.2015	**Estonia**	**Latvia**	**Lit-huania**	**Finland**	**Nether-lands**	**Ger-many**	**Other EU**	**USA**	**Other**	**Total**
Balances with other banks and investment companies	67 117	11	2 498	0	172	3	3 356	53 630	289	**127 076**
Financial instruments and securities	6 855	4 232	3 378	0	284	13 073	96 016	17 429	0	**141 267**
Loans to customers	303 830	115	33 856	14 550	9	0	5 195	0	19	**357 574**
Receivables from customers	1 379	105	189	3	0	0	0	0	1	**1 677**
Other financial assets	108	0	0	0	0	0	0	786	0	**894**
Total financial assets	**379 289**	**4 463**	**39 921**	**14 553**	**465**	**13 076**	**104 567**	**71 845**	**309**	**628 488**
Deposits of customers and loans received	460 067	1 061	9 484	480	181	2 973	27 569	6 416	23 953	**532 184**
Subordinated liabilities	16 683	0	0	0	0	0	0	0	0	**16 683**
Other financial liabilities	13 469	0	899	0	0	0	13	3	0	**14 384**
Total financial liabilities	**490 219**	**1 061**	**10 383**	**480**	**181**	**2 973**	**27 582**	**6 419**	**23 953**	**563 251**

Unused loan commitments in the amount of EUR 98 943 thousand are for the residents of Estonia.

31.12.2014	**Estonia**	**Latvia**	**Lit-huania**	**Finland**	**Nether-lands**	**Ger-many**	**Other EU**	**USA**	**Other**	**Total**
Balances with other banks and investment companies	61 800	295	2 504	1 902	550	1	2 691	14 268	118	**84 129**
Financial instruments and securities	6 919	4 237	3 828	0	285	14 313	76 287	43 656	0	**149 525**
Loans to customers	264 008	521	30 919	2 444	15	0	3 108	0	17	**301 032**
Receivables from customers	1 383	2	180	0	0	0	0	0	1	**1 566**
Other financial assets	108	0	0	0	0	0	0	675	0	**783**
Total financial assets	**334 218**	**5 055**	**37 431**	**4 346**	**850**	**14 314**	**82 086**	**58 599**	**136**	**537 035**
Deposits of customers and loans received	402 500	1 556	1 680	361	2	125	53 992	598	14 199	**475 013**
Subordinated liabilities	16 688	0	0	0	0	0	0	0	0	**16 688**
Other financial liabilities	2 835	0	708	0	0	0	13	3	0	**3 559**
Total financial liabilities	**422 023**	**1 556**	**2 388**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**495 260**

Unused loan commitments in the amount of EUR 61 334 thousand are for the residents of Estonia.

NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates

30.06.2015	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits of customers and loans received	305 575	87 059	124 708	15 013	846	**533 201**
Subordinated liabilities	0	301	904	4 823	21 288	**27 316**
Other liabilities	0	16 057	0	0	0	**16 057**
Unused loan commitments	0	98 943	0	0	0	**98 943**
Financial and performance guarantees by contractual amounts	0	14 105	0	0	0	**14 105**
Interest rate swaps	0	25	167	26	0	**218**
Total liabilities	**305 575**	**216 490**	**125 779**	**19 862**	**22 134**	**689 840**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with other banks and investment companies	127 076	0	0	0	0	**127 076**
Bonds at market value	0	19 372	59 840	53 627	3 006	**135 845**
Loans to customers	0	35 262	115 252	219 356	27 220	**397 091**
Receivables from customers	0	1 566	0	0	0	**1 566**
Total assets held for managing liquidity risk	**127 076**	**56 200**	**175 092**	**272 983**	**30 226**	**661 578**
Maturity gap from financial liabilities and assets	**-178 499**	**-160 290**	**49 313**	**253 121**	**8 092**	**-28 262**

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

31.12.2014	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits of customers and loans received	272 830	76 666	110 303	15 292	982	**476 073**
Subordinated liabilities	0	301	904	4 823	21 890	**27 918**
Other liabilities	0	4 855	0	0	0	**4 855**
Unused loan commitments	0	61 334	0	0	0	**61 334**
Financial guarantees by contractual amounts	0	9 791	0	0	0	**9 791**
Interest rate swaps	0	24	161	118	0	**303**
Total liabilities	**272 830**	**152 971**	**111 368**	**20 233**	**22 872**	**580 274**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with other banks and investment companies	83 149	980	0	0	0	**84 129**
Bonds at market value	0	55 516	51 555	33 279	5 353	**145 703**
Loans to customers	0	26 635	78 501	211 142	27 174	**343 451**
Receivables from customers	0	1 566	0	0	0	**1 566**
Total assets held for managing liquidity risk	**83 149**	**84 697**	**130 056**	**244 421**	**32 527**	**574 849**
Maturity gap from financial liabilities and assets	**-189 681**	**-68 274**	**18 688**	**224 188**	**9 655**	**-5 425**

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

NOTE 6 Open Foreign Currency Positions

30.06.2015	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and investment companies	98 333	570	18 050	707	8 325	1 091	**127 076**
Securities	123 824	0	0	2	17 436	5	**141 267**
Loans granted	356 765	0	0	1	782	26	**357 574**
Receivables from customers	1 675	0	0	0	1	1	**1 677**
Other assets	206	0	0	0	688	0	**894**
Total assets bearing currency risk	**580 803**	**570**	**18 050**	**710**	**27 232**	**1 123**	**628 488**
Liabilities bearing currency risk							
Deposits of customers and loans received	482 232	453	10 817	694	37 037	951	**532 184**
Interest rate swaps	218	0	0	0	0	0	**218**
Accrued expenses and other liabilities	17 913	116	7 227	14	-9 810	470	**15 930**
Subordinated liabilities	16 683	0	0	0	0	0	**16 683**
Total liabilities bearing currency risk	**517 046**	**569**	**18 044**	**708**	**27 227**	**1 421**	**565 015**
Off-balance sheet assets by contractual amounts	0	0	0	0	10 000	0	**10 000**
Off-balance sheet liabilities by contractual amounts	10 000	0	0	0	0	0	**10 000**
Open foreign currency position	**53 757**	**1**	**6**	**2**	**10 006**	**-299**	**63 473**

31.12.2014	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and investment companies	79 917	826	576	538	1 507	765	**84 129**
Securities	102 888	2 970	0	2	43 664	1	**149 525**
Loans granted	271 057	29 019	6	19	915	16	**301 032**
Receivables from customers	1 390	174	0	0	2	0	**1 566**
Other assets	149	0	0	0	634	0	**783**
Total assets bearing currency risk	**455 401**	**32 989**	**582**	**559**	**46 722**	**782**	**537 035**
Liabilities bearing currency risk							
Deposits of customers and loans received	416 865	808	275	521	55 866	678	**475 013**
Interest rate swaps	302	0	0	0	0	0	**302**
Accrued expenses and other liabilities	747	3 321	305	35	133	314	**4 855**
Subordinated liabilities	16 688	0	0	0	0	0	**16 688**
Total liabilities bearing currency risk	**434 602**	**4 129**	**580**	**556**	**55 999**	**992**	**496 858**
Off-balance sheet assets by contractual amounts	33 608	0	0	0	9 275	0	**42 883**
Off-balance sheet liabilities by contractual amounts	9 275	33 608	0	0	0	0	**42 883**
Open foreign currency position	**45 132**	**-4 748**	**2**	**3**	**-2**	**-210**	**40 177**

NOTE 7 Fair Value of Financial Assets and Liabilities

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

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

	Level 1	Level 2	Level 3	30.06.2015	Level 1	Level 2	Level 3	31.12.2014
Financial assets at fair value through profit and loss								
Shares and fund units*	0	6 049**	0	**6 049**	0	6 107**	0	**6 107**
Available-for-sale bonds	3 876	0	0	**3 876**	4 273	0	0	**4 273**
Bonds at fair value through profit and loss	131 342	0	0	**131 342**	139 145	0	0	**139 145**
Total financial assets	**135 218**	**6 049**	**0**	**141 267**	**143 418**	**6 107**	**0**	**149 525**
Financial liabilities at fair value through profit and loss								
Interest rate swaps	0	218	0	**218**	0	302	0	**302**
Total financial liabilities	**0**	**218**	**0**	**218**	**0**	**302**	**0**	**302**

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 5 708 (31.12.2014: 5 588) thousand. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 1% of the number of units in each of the mandatory pension fund managed by it.

** The mandatory pension fund shares were disclosed as level 1 in 2014 financial statements, however due to above information the comparatives information has been restated in this condensed interim financial statements.

Hierarchy levels:

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

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

AS at 30.06.2015 the fair value of corporate loans and overdraft is EUR 850 thousand (0.3%) lower than their carrying amount (31.12.2014: 228 thousand, 1% lower) . Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of loans does not materially differ from their carrying amount as at 30 June 2015 and 31 December 2014. In determining the fair value of loans, considerable management judgements are used (discounted cash flow method with current market interest is used for the valuation). Loans issued are thus categorised under hierarchy level 3.

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

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

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

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

A bulk of the subordinated loans were received in 2014, and the remainder in 2012. The interest rate levels of these loans are more or less the same. Considering the short term of the loan received in June 2014, no major changes have occurred in the interest rate levels. Thus, the fair value of the loans does not materially differ from their net book value. In determining the fair value of loans, considerable management judgements are used. Loans issued are thus categorised under hierarchy level 3.

NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

	30.06.2015	%	31.12.2014	%
Individuals	71 371	19,70%	61 965	20,32%
Real estate activities	98 140	27,11%	87 516	28,68%
Financial activities	31 607	8,73%	22 097	7,24%
Manufacturing	34 863	9,63%	26 804	8,79%
Professional, scientific and technical activities	4 107	1,13%	2 443	0,80%
Wholesale and retail trade	17 081	4,72%	14 838	4,86%
Other service activities	9 851	2,72%	7 646	2,51%
Arts and entertainment	26 449	7,31%	24 812	8,13%
Transportation and storage	14 355	3,97%	11 136	3,65%
Agriculture	8 770	2,42%	8 065	2,64%
Administrative and support service activities	14 770	4,08%	11 321	3,71%
Construction	6 076	1,68%	4 853	1,59%
Education	1 684	0,47%	1 717	0,56%
Information and communication	6 757	1,87%	4 049	1,33%
Other sectors	16 130	4,46%	15 837	5,19%
Total	**362 011**	**100%**	**305 099**	**100%**

The loan portfolio has been provisioned in the amount of EUR 4 437 thousand (31 December 2014: EUR 4 067 thousand). As at 30 June 2015, the loan portfolio totalled EUR 357 574 thousand (31 December 2014: EUR 301 032 thousand).

NOTE 9 Net Interest Income

Interest income	**Q2 2015**	**6M 2015**	**Q2 2014**	**6M 2014**
Balances with credit institutions and investment companies	24	44	8	15
Balances with the central bank	-36	-67	27	48
Bonds	98	213	112	273
Leasing	334	641	238	445
Leverage loans and lending of securities	193	404	215	431
Consumer loans	592	1 148	457	888
Hire purchase	1 616	3 152	1 029	1 927
Business loans	3 409	6 671	2 259	4 244
Other loans	255	493	215	406
Total	**6 485**	**12 699**	**4 560**	**8 677**
Interest expense				
Deposits of customers and loans received	-746	-1 441	-430	-856
Subordinated liabilities	-300	-597	-309	-638
including loans between related parties	*-100*	*-200*	*-69*	*-129*
Total	**-1 046**	**-2 038**	**-739**	**-1 494**
Net interest income	**5 439**	**10 661**	**3 821**	**7 183**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	**Q2 2015**	**6M 2015**	**Q2 2014**	**6M 2014**
Estonia	4 925	9 626	3 191	5 985
Latvia	6	16	7	15
Lithuania	1 468	2 867	1 215	2 341
Total	**6 399**	**12 509**	**4 413**	**8 341**

NOTE 10 Net Fee and Commission Income

Fee and commission income	Q2 2015	6M 2015	Q2 2014	6M 2014
Security brokerage and commissions paid	605	1 194	489	1 176
Asset management and similar fees	2 669	5 077	2 240	4 186
Currency conversion revenues	91	251	70	150
Fees from cards and payments	409	730	167	304
Fee from Snoras's portfolio management*	75	159	142	311
Other fee and commission income	208	383	164	312
Total	**4 057**	**7 794**	**3 272**	**6 439**
Fee and commission expense				
Security brokerage and commissions paid	-156	-305	-104	-227
Other fee and commission expense	-301	-547	-104	-216
Total	**-457**	**-852**	**-208**	**-443**
Net fee and commission income	**3 600**	**6 942**	**3 064**	**5 996**

** Mokilizingas provides portfolio management services to Snoras Bank, to whom the portfolio was sold in 2011.*

Fee and commission income by customer location:	Q2 2015	6M 2015	Q2 2014	6M 2014
Estonia	3 724	7 127	2 774	5 492
Finland	3	8	5	8
Latvia	25	48	32	65
Lithuania	268	515	249	541
Sweden	37	96	212	333
Total	**4 057**	**7 794**	**3 272**	**6 439**

NOTE 11 Operating Expenses

	Q2 2015	6M 2015	Q2 2014	6M 2014
Wages, salaries and bonuses	2 072	4 042	1 623	3 121
Social security and other taxes	653	1 268	515	988
Total personnel expenses	**2 725**	**5 310**	**2 138**	**4 109**
IT expenses	301	641	275	562
Information services and bank services	180	343	137	271
Marketing expenses	742	1 582	1 097	2 155
Office expenses	87	215	94	198
Transportation and communication expenses	53	103	41	81
Staff training and business trip expenses	90	147	74	124
Other outsourced services	630	1 250	508	885
Other administrative expenses	353	614	246	505
Depreciation of non-current assets	165	318	218	365
Operational lease payments	226	443	205	409
Other operating expenses	38	72	20	47
Total other operating expenses	**2 865**	**5 728**	**2 915**	**5 602**
Total operating expenses	**5 590**	**11 038**	**5 053**	**9 711**

NOTE 12 Discontinued operations

Profit from discontinued operations	Q2 2015	6 M 2015	Q2 2014	6M 2014
Other financial income	0	2 936	0	0
Net interest income	0	0	982	1 872
Net fee and commission income	0	0	53	105
Personnel expenses	0	0	-121	-278
Operating expenses	0	-78	-326	-676
Impairment losses on loans	0	0	-430	-784
Income tax expenses	0	-600	0	0
Net profit from discontinued operations	**0**	**2 258**	**158**	**239**

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

	30.06.2015	31.12.2014
Term deposits with maturity less than 3 months*	81 643	38 702
Legal reserve with the central bank	5 081	4 498
Other receivables from central bank*	40 352	40 929
Total	**127 076**	**84 129**
*Cash and cash equivalents in the Statement of Cash Flows	121 995	79 631

The breakdown of receivables by countries has been presented in Note 4. Demand deposits include receivables from investment companies in the total amount of EUR 53 735 thousand (31 December 2014: EUR 14 484 thousand). All other demand and term deposits are held with credit institutions and the central bank. The minimum reserve requirement as at 30 June 2015 was 1% (2014: 1%) of all financial resources (customer deposits and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign financial assets approved by the central bank.

NOTE 14 Deposits of Customers and Loans Received

Deposits/loans by type	30.06.2015	31.12.2014
Demand deposits	305 568	273 732
Term deposits	204 617	184 190
Loans received	21 999	17 091
Total	**532 184**	**475 013**
Deposits/loans by customer category		
Individuals	183 215	156 444
Legal persons	339 660	307 671
Public sector	9 309	10 898
Total	**532 184**	**475 013**

Loans received include loans granted by the Estonian Rural Development Foundation in the amount of EUR 2 810 thousand (31 December 2014: EUR 3 557 thousand) for the purpose of financing loans to small companies in rural areas, overdraft received, and the loan from the European Central Bank in the amount of EUR 13 010 thousand (31 December 2014: EUR 13 005 thousand). As a rule, the nominal interest rate of the deposits of customers and loans granted equals to their effective interest rate, as no other significant fees have been paid.

NOTE 15 Accounts payable and other liabilities

Financial liabilities	**30.06.2015**	**31.12.2014**
Trade payables	*1 266*	*1 845*
Payables to merchants	*379*	*490*
Other short-term liabilities	*587*	*613*
Payments in transit	*11 979*	*611*
Subtotal	**14 211**	**3 559**
Non-financial liabilities		
Tax liabilities	*634*	*491*
Payables to employees	*1 185*	*902*
Other short-term liabilities	*854*	*483*
Subtotal	**2 673**	**1 876**
Total	**16 884**	**5 435**

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

NOTE 16 Contingent Liabilities

Irrevocable transactions	**Performance guarantees**	**Financial guarantees**	**Unused loan commitments**	**Total**
Liability in the contractual amount as at 30 June 2015	8 756	5 349	98 943	**113 048**
Liability in the contractual amount as at 31 December 2014	6 892	2 899	61 334	**71 125**

NOTE 17 Basic Earnings and Diluted Earnings Per Share

In order to calculate basic earnings per share, net profit has been divided by the weighted average number of shares issued. In order to calculate diluted earnings per share, contingent shares have been added to ordinary shares in accordance with the right of the shareholders of subordinated shares issued in December 2012 to convert bonds to shares, if the issuer conducts a new issue of shares with a price up to 10% lower than the price of the new issue of shares.

	Q2 2015	**6M 2015**	**Q2 2014**	**6M 2014**
Profit attributable to owners of the parent (EUR thousand)	2 796	7 699	1 549	2 975
Weighted average number of shares (in thousands of units)	23 356	23 356	20 578	19 890
Basic earnings per share (EUR)	0,12	0,33	0,08	0,15
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	24 464	24 324	21 436	20 853
Diluted earnings per share (EUR)	0,11	0,32	0,08	0,15

NOTE 18 Capital Management

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

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

The amount of capital that the Group managed as of 30.06.2015 was 77 204 thousand euros (31.12.2014: 72 545 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 adquatly capitalized at all times, ensuring the necessary capital to ensure economic preservation and enables financing of new profitable growth opportunities;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorbe losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided in two: 1) regulative minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowerinf of the regulative minimumcapital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will esure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires marinating higher capital buffer.

Capital base	**30.06.2015**	**31.12.2014**
Paid-in share capital	23 356	23 356
Share premium	33 992	33 992
Reserves	435	435
Accumulated loss	-2 043	-11 244
Intangible assets (subtracted)	-1 639	-1 574
Profit for the reporting period	4 903	9 203
Non-controlling interest	1 550	1 727
Total Tier 1 capital	**60 554**	**55 895**
Subordinated liabilities	16 650	16 650
Total Tier 2 capital	**16 650**	**16 650**
Total net own funds	**77 204**	**72 545**

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

NOTE 19 Transactions with related parties

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

- owners that have significant impact on the Group and the entities related to them;
- associates;
- members of the management board, head of internal audit unit 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	6M 2015	6M 2014
Interest income	**24**	**32**
incl. management	*1*	*1*
incl. shareholders and their related entities that have significant influence	*23*	*31*
Fee and commission income	**5**	**0**
incl. shareholders and their related entities that have significant influence	*5*	*0*
Interest expenses from deposits	**19**	**63**
incl. management	*0*	*1*
incl. shareholders and their related entities that have significant influence	*19*	*62*
Interest expenses from subordinated loans	**199**	**128**
incl. management	*11*	*11*
incl. shareholders and their related entities that have significant influence	*188*	*117*

Balances	30.06.2015	31.12.2014
Loans and receivables as at the year-end	**2 442**	**2 023**
incl. management	*532*	*347*
incl. shareholders and their related entities that have significant influence	*1 910*	*1 676*
Deposits as at the year-end	**6 247**	**11 632**
incl. management	*18*	*1 010*
incl. shareholders and their related entities that have significant influence	*6 229*	*10 622*
Subordinated loans as at the year-end	**5 700**	**5 700**
incl. management	*300*	*300*
incl. shareholders and their related entities that have significant influence	*5 400*	*5 400*

The table provides an overview of the material balances and transactions involving related parties. All other transactions involving the close relatives and the entities related to members of the management board and supervisory board and the minority shareholders of the parent company AS LHV Group have occurred according to the overall price list.

Loans granted to related parties are issued at market conditions.

In the first half of 2015, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 563 thousand (6M 2014: EUR 520 thousand), including all taxes. As at 30.06.2015, remuneration for June and accrued holiday pay in the amount of EUR 82 thousand (31.12.2014: EUR 140 thousand) is reported as a payable to management (Note 15). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 30.06.2015 and 31.12.2014 (pension liabilities, termination benefits, etc.). In the first half of 2015, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 20 thousand (6M 2014: EUR 6 thousand).
Management is related to the share-based compensation plan. In the first half of 2015 the share-based compensation to management amounted to 62 thousand euros (6M 2014: 0 thousand euros).

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

Shareholders of AS LHV Group

AS LHV Group has a total of 23 356 005 ordinary shares, with a nominal value of 1 euro.

As at 30 june 2015, AS LHV Group has 268 shareholders:

- 13 370 738 shares (57,2%) were held by members of the Supervisory Board and Management Board, and related parties.
- 9 201 778 shares (39,4%) were held by Estonian entrepreneurs and investors, and related parties.
- 783 489 shares (3,4%) was held by LHV's current and former employees, and related parties.

Top ten shareholders as at 30 June 2015:

Number of	Participation	Name of shareholder
3 357 920	14,4%	AS Lõhmus Holdings
2 978 367	12,8%	Rain Lõhmus
1 637 897	7,0%	Andres Viisemann
1 418 000	6,1%	Ambient Sound Investments OÜ
1 210 215	5,2%	OÜ Krenno
995 000	4,3%	AS Genteel
931 978	4,0%	AS Amalfi
696 297	3,0%	OÜ Kristobal
653 165	2,8%	SIA Krugmans
576 667	2,5%	Bonaares OÜ

Shares held by members of the Management Board and Supervisory Board

Erkki Raasuke holds 80 000 shares.
Rain Lõhmus holds 2 978 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 200 000 shares.
Andres Viisemann, parties related to him and Viisemann Holdings OÜ hold a total of 2 472 822 shares.
Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 418 000 shares.
Tiina Mõis does not hold shares. AS Genteel holds 995 000 shares.
Heldur Meerits does not hold shares. AS Amalfi holds 931 978 shares.
Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 536 651 shares.
HTB Investeeringute OÜ and parties related to Hannes Tamjärv hold 400 000 shares.

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

AS LHV Group
Supervisory Board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Hannes Tamjärv (until 29.04.2015), Tauno Tats, Andres Viisemann, Sten Tamkivi (since 29.04.2015)
Management Board: Erkki Raasuke

AS LHV Varahaldus
Supervisory Board: Erki Kilu, Erkki Raasuke, Andres Viisemann
Management Board: Mihkel Oja, Joel Kukemelk

AS LHV Pank
Supervisory Board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Erkki Raasuke, Hannes Tamjärv (until 29.04.2015), Andres Viisemann, Sten Tamkivi (since 29.04.2015)
Management Board: Jüri Heero, Erki Kilu, Andres Kitter, Martin Lengi, Indrek Nuume, Martti Singi

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

Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to June 2015 period the condensed consolidated interim financial statements of AS LHV Group for the 6-month period ended 30 June 2015. The condensed consolidated interim financial statements present a true and fair view of the Group's financial position, the results of operations and its cash flows.

28.09.2015

Erkki Raasuke

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders of AS LHV Group

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of AS LHV Group (the Company) and its subsidiaries (the Group) as of 30 June 2015 and the related condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the three-month and six-month period then ended, and condensed consolidated statement of changes in equity for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management Board is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, 'Interim financial reporting', as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No. 325

Verner Uibo
Auditor's Certificate No. 568

28 September 2015

TERMS AND CONDITIONS OF SUBORDINATED BONDS

AS LHV Group ("**Issuer**") issues subordinated bonds, each bond with a nominal value of EUR 50,000 (fifty thousand euros), totalling up to EUR 15,450,000 (fifteen million four hundred and fifty thousand euros) with a maturity at 20 June 2024 (jointly "**Bonds**" and severally "**Bond**"). This document provides for the terms and conditions of the Bonds ("**Terms**").

1. Bonds

(1) Bonds represent the Issuer's unsecured debt to the person that has acquired Bonds ("**Investor**").

(2) Bonds are issued in an intangible form. Bonds are not numbered.

(3) Bonds represent subordinated bonds in the meaning of subsection 4 of this section 1.

(4) The claims arising from the Bonds are subordinated to all unsubordinated claims against the Issuer (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds). Subordination of the Bonds means that in the event of liquidation or bankruptcy of the Issuer, all liabilities of the Issuer arising from the Bonds or Terms (including but not limited to the claims for redemption and interest, claims for late payment interest, claims for contractual penalties and damages, and all other financial liabilities of the Issuer) become collectible and are settled after all the acknowledged unsubordinated claims have been fully settled pursuant to applicable legislation. Therefore, upon liquidation or bankruptcy of the Issuer, the Investors are not entitled to any payments arising from the Bonds or Terms until the unsubordinated claims of other creditors of the Issuer have been fully settled in the manner prescribed. By subscribing to Bonds, the Investor unconditionally and irrecoverably agrees to such subordination of claims arising from any Bonds or Terms. For the purpose of clarity, as long as the liquidation or bankruptcy proceeding of the Issuer has not been initiated or such proceedings have not otherwise started, the Issuer settles the claims arising from Bonds and Terms when they become collectible pursuant to the Terms. Notwithstanding any rights of the Investor under these Terms or law, by subscribing to Bonds the Investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds.

(5) The Bonds are registered in the Estonian Central Register of Securities ("**Register**"). Bonds may be subscribed for only by such persons that have a securities account with the Register.

(6) The issue and subscription for Bonds, payments related to Bonds and registration of Bonds in the Register are organised and the documents to be submitted pursuant to the Terms are collected and safekept by AS LHV Pank (registry code 10539549, hereinafter "**Agent**").

(7) Bonds are issued in one issue ("**Issue**") on the basis of the resolution of the 21 May 2014 resolution of the Supervisory Board of the Issuer. The issue volume is up to 309 Bonds.

(8) The nominal value of one Bond is EUR 50,000. The issue price of a Bond is EUR 50,000 per a Bond ("**Issue Price**").

(9) The Bonds are issued on 20 June 2014 ("**Launch Date**").

(10) Bonds are redeemed on 20 June 2024 or prematurely before the maturity date in case of premature redemption ("**Final Date**").

(11) The amount of annual coupon interest payable on a Bond is set forth in subsection 2 of section 9.

2. Issue

(1) The terms and conditions of organising the Issue, incl. the number of Bonds to be issued, Issue Price, issue date and deadline for payment for Bonds is determined based on the 21 May2014 resolution of the Supervisory Board of the Issuer.
(2) All the Bonds issued through the Issue bear the same rights and obligations.
(3) The provisions of the Terms apply to all the Bonds issued through the Issue.
(4) Bonds may be offered to persons upon first dissemination and on the secondary market only subject to such conditions that do not qualify the relevant offer as a public offer for the purposes of the Securities Market Act. Each investor is individually responsible for offering Bonds on the grounds excluding public offer.

3. Subscription for Bonds

(1) Persons can subscribe for Bonds to be issued during the subscription period specified in subsection 2 of section 3 by submitting a subscription application to the Agent. The subscription application must set out:
   (a) name, registry or personal identification code and contact data (telephone, e-mail) of the subscriber;
   (b) current account number and securities account number of the subscriber;
   (c) date of filing the subscription application;
   (d) number of Bonds the subscriber wishes to acquire.

   The subscription application must be signed by a person authorised to perform this task.
(2) The subscription period begins on 9 June 2014 and ends of 16 June 2014.
(3) The subscription application must be submitted to the Agent at the latest by 12:00 (EEST) of the final day of the subscription period.
(4) A subscription application is deemed accepted, Bonds subscribed for, and the acquisition agreement of Bonds entered into as well as the relevant rights and obligations of the Investor evolved when the Agent sends to the Investor a confirmation to this effect (“**Subscription Confirmation**”), specifying the number of Bonds allocated to the Investor. The Agent sends the Subscription Confirmation to the Investor on behalf of the Issuer and subject to approval of the Issuer at the latest by 18 June 2014.
(5) Provided that the Agent has delivered the Subscription Confirmation to the Investor, the Investor is required, at the latest by 19 June 2014 at 12:00, transfer the Issue Price of the Bonds subscribed for to the current account of the Issuer with LHV Pank (current account number EE677700771000205956). Where the Agent delays delivery of the Subscription Confirmation to the Investor, the due date of paying the Issue Price of Bonds is postponed by the delayed period.
(6) Collection of the Issue Price on the account specified in subsection 5 of section 3, the Issue Price is deemed to have been properly paid by the Investor to the Issuer.
(7) The Bonds subscribed for by Investors the Issue Price of which has been properly paid by Investors are transferred to the securities accounts of relevant Investors at the latest within ten (10) workdays after registration of the Bonds with the Register. Irrespective of the time of registration of Bonds with the Register, interest on Bonds is calculated as from the Launch Date.
(8) If the Issuer delays transfer of Bonds to an Investor, such an Investor may withdraw, without prior notice, from the acquisition agreement of Bonds entered into by the exchange of the subscription application and the Subscription Confirmation, and claim from the Issuer prompt return of the Issue Price and/or compensation for losses and damages and/or resort to other legal remedies. Where transfer of the Bonds to the securities accounts of Investors is delayed but not caused by the Registrar, neither the Agent nor the Issuer are required to compensate for losses, costs and damages incurred due to the delay.
(9) Where the current account of a subscriber to which euro currency can be transferred and to which the subscriber refers in the subscription application is not with the Agent, delays caused by the activities of other banks in collecting payments arising from Bonds on the Investor’s current account do not constitute a breach of these Terms and neither the Agent nor the Issuer are required to remedy the delay or compensate for losses, costs or damages caused thereby.

4. Agent's role

(1) Hereby, the Issuer discloses that the Agent is its subsidiary. By subscribing for Bonds, the Investors acknowledge that they are aware of the fact, accept it and have no claims in this respect against the Issuer or Agent.

(2) Pursuant to an agreement between the Issuer and the Agent, the Agent has agreed to act as the mediator of documents between the Issuer and Investors, organise registration of the Bonds in the Register as well as subscription for Bonds, and making of subscription, interest and redemption payments.

(3) In carrying out its duties, the Agent acts as a representative of the Issuer and is not a party to the legal relationship created between the Issuer and Investors as a result of the issue and acquisition of Bonds; however, the Agent has assumed an obligation to the Issuer and Investors to act in the interests of Investors when performing certain duties. The Agent is not liable to the Investors if the Issuer is in breach of obligations arising from these Terms. Agent's breach of obligations arising from these Terms is also deemed to constitute a breach of obligations by the Issuer and the Issuer is liable to the Investors for the Agent's breach as if it were the Issuer's breach. If the Agent fails to properly perform its obligation to forward to the Issuer any document submitted by or payment made by an Investor under the Terms or in connection with Bonds, the Investor is deemed to have submitted the relevant document or made the payment to the Issuer at the moment when the Agent was supposed to perform its relevant obligation.

(4) The Agent's structural unit providing agency services (in connection with Bonds) is treated as separate and independent from other structural units of the Agent in the context of the Terms. Should the Agent receive information which, as assessed by the Agent, was not received by the structural unit providing the agency services while performing its duties (or was not submitted to the Agent), such information is not treated as information received by the Agent in connection with providing services related to Bonds and this does not create rights or obligations for the Agent.

5. Representations and warranties of Issuer

(1) The Issuer represents and warrants to the Investors as at the date of approval of the Terms and each interest payment day as well as over the entire period until full redemption of the Bonds that:

- (a) The Issuer is a commercial undertaking duly established and existing under Estonian law;
- (b) The assets of the Issuer and each of its subsidiary are owned by the Issuer or subsidiary, respectively, under the right of ownership and the Issuer may organise its economic activities as it is done at this moment;
- (c) The obligations assumed by the issue of Bonds are lawful, valid, binding on the Issuer, and enforceable;
- (d) The issue Bonds and performance of related obligations by the Issuer are not contrary to:
  - (1) any legislative act;
  - (2) statutory documents of the Issuer; or
  - (3) any contract or agreement in effect in respect of the Issuer or its assets.
- (e) The Issuer has the rights and powers to issue Bonds and perform related obligations and the Issuer has fulfilled all formalities required to issue Bonds and perform related obligations;
- (f) Entire information disclosed to the Investors and Agents in connection with the issue of Bonds is true, full and accurate as at the date of giving such information and is not misleading in any part;
- (g) No court proceedings in a court of law, arbitration court or institution have been initiated or pending to be initiated against the Issuer or any of its subsidiaries (to the Issuer's knowledge) where an unfavourable outcome may be reasonably expected to have a negative impact on the economic situation of the Issuer or its subsidiaries;
- (h) The Issuer and all of its subsidiaries have fulfilled all obligations that have become due.

6. Disclosure of information

(1) The Issuer's quarterly reports and annual reports are made available to the Investors on the subsite of the Agent's Web page at lhv.ee/investorile.

7. Register

(1) The Agent organises the registration of the Bonds in the Register and their deletion from the Register upon their redemption.
(2) The Issuer organises transfer of Bonds to the securities accounts of Investors via the Registrar.
(3) Ownership of a Bond is deemed to have changed in respect of the Issuer as from the moment a relevant entry is made in the Register.
(4) The Registrar may temporarily block Bonds on an Investor's securities account to ensure registration of Bonds.

8. Payments

(1) The Agent organises subscription, redemption and interest payments pursuant to these Terms.
(2) The Issuer is liable to the Investors for the timely transfer of redemption, interest payments and other amounts payable in connection with the Bonds. If the Issuer fails to transfer any amount payable to an Investor under these Terms (incl. amounts payable in connection with Bonds) by the due date, the Issuer undertakes to pay a fine for delay to the Investor on the outstanding amount as from the payment deadline until actual payment at a rate of 0.05% (zero point zero five per cent) per day.
(3) The redemption and interest payments are made to persons that according to the Register are owners of Bonds at 23.59 on the day preceding the payment day.
(4) All payments made by the Issuer in connection with Bonds are calculated and paid without set-off or counter-claims (and without any deductions).
(5) Hereby, the Investor waives any rights of set-off in connection with claims arising from Bonds.
(6) The Issuer pays all amounts payable by the Issuer in relation to Bonds without withholding or deducting any taxes, except state taxes that are required to be withheld or deducted by law. Where under the law the Issuer is required to withhold or deduct state taxes on the interest payments in connection with Bonds, the Issuer notifies the Investor and withholds and pays the required taxes according to the procedure and to the extent provided by law.

9. Interest

(1) Interest is calculated for Bonds on the basis of the nominal value of the Bond as from the issue date until the redemption date.
(2) Interest is calculated at a rate of 7.25 % (seven point twenty-five per cent) per year from the Launch Date (inclusive) to the Final Date (inclusive);
(3) Interest is payable annually on 20 March, 20 June, 20 September and 20 December from 20 September 2014 to 20 June 2024. Where Bonds are redeemed prematurely, the Issuer pays the interest accumulated and unpaid by the redemption date plus the redemption payment.
(4) Interest is calculated daily based on a 30-day month (adding or subtracting days at the end of month as needed) and a 360-day year (30/360).
(5) Interest is calculated by the Agent within the framework of its day-to-day activities and such calculation is deemed to be ultimate evidence in this relation unless an obvious error is detected.
(6) Where an interest payment date falls on a day that is not a banking day, the payment is made on the banking day directly following the relevant date.

10. Redemption on Final Date

(1) The Issuer redeems (i.e., makes redemption payments) the issued Bonds in one part, paying 100% of the nominal value of redeemable Bonds plus all accumulated and unpaid interest on 20 June 2024.

11. Premature redemption of Bonds

(1) The Issuer may redeem the Bonds in part or in full prematurely at any time after five (5) years have elapsed from the Launch Date, i.e., as from 20 June 2019, giving the Investors a prior notice of at least 30 days.
(2) If the regulatory classification of Bonds changes and the Issuer believes that the Bonds are not likely to qualify as regulatory capital of a credit institution, or the Issuer believes that a tax change that is introduced has a major impact on the Bonds and the Issuer could not have reasonably been expected to foresee such changes upon issue of Bonds, the Issuer may redeem the Bonds in full prematurely, before five (5) years have elapsed from the Launch Date (i.e., before 20 June 2019), giving the Investors a prior notice of at least 30 days.
(3) Premature redemption of Bonds as set forth in subsections 1 and 2 of this section occurs only in the case where the Financial Supervision Authority (or European Banking Authority if mandated to give their consent) has prior consented to this.
(4) The Financial Supervision Authority (or European Banking Authority if mandated) may consent to premature redemption as from 20 June 2019 only if the provisions of Article 78 (1) of Regulation (EU) 575/2013 ("**Regulation**") are met, and to premature redemption before 20 June 2019 only if the provisions of Article 78 (4) of the Regulation are met.
(5) An investor severally or the Investors jointly have no right to demand premature redemption of Bonds.
(6) Upon redemption of Bonds on the grounds set forth in this section 11, the Issuer pays to the Investors as the redemption payment the nominal value of Bonds plus the interest accumulated and unpaid by the moment of redemption.
(7) Where the redemption payment date falls on a day that is not a banking day, the payment is made on the first banking day following the relevant date.

12. Notices and requests

(1) All notices submitted in connection with Bonds must be submitted in Estonian by means that enable to produce a written record such as e-mail, post or fax, to the contact data specified in the Terms.
(2) Notices and requests from the Issuer to the Investors are submitted by the Issuer to the Agent who organises their forwarding to the Investors. The Agent sends notices to the contact data of Investors specified in the securities accounts opened for Investors in the Register. Notices are deemed to have been received by the Investors after reasonable time has passed from their sending.
(3) Any notices, claims and other documents sent by Investors to the Issuer must be addressed to the Agent at AS LHV Pank Tartu mnt 2, Tallinn 10145. A notice must include a reference to Bonds. The Agent forwards the notices and documents to the Issuer.

13. Final clauses

(1) Issue of Bonds and the related rights and obligations are governed by Estonian legislation.
(2) Any disputes in connection with Bonds are attempted to be settled by negotiations. In case of failure to reach agreement in reasonable time, the disputes shall be settled by an Estonian court. Harju County Court shall serve as the court of first instance.
(3) Where a provision of the Terms is found to be void or is cancelled or declared inapplicable by competent authorities, it does not affect or change the validity, legitimacy or applicability of the remaining provisions and the Issuer undertakes to make every effort to replace such a provision with one that is the most similar to the intent of the parties as expressed by the replaced provision.
(4) The Terms may be amended only by a written agreement of the Issuer and all the Investors. Except in the cases where amendments are necessary due to changes in legislation that is mandatory in respect of the Issuer. In such a case, an amendment to the Terms enters into force 30 days after the Issuer notified the Investors of the fact. In cases prescribed by law, amendments to the Terms need consent from the Financial Supervision Authority or other competent authorities to enter into force.

TERMS AND CONDITIONS OF SUBORDINATED BONDS

AS LHV Group ("**Issuer**") issues subordinated bonds, each bond with a nominal value of EUR 1,000 (one thousand euros), totalling up to EUR 10,000,000 (ten million euros), with a maturity at 29 October 2025 (jointly "**Bonds**" and severally "**Bond**") and with the Issuer having the right, in case of oversubscription, to increase the total amount of Bonds to EUR 15,000,000 (fifteen million euros). This document provides for the terms and conditions of the Bonds ("**Terms**").

1. Bonds

(1) Bonds represent the Issuer's unsecured debt to the person that has acquired Bonds ("**Investor**").
(2) Bonds are issued in an intangible form. Bonds are not numbered.
(3) Bonds represent subordinated bonds in the meaning of subsection 4 of this section 1.
(4) The claims arising from the Bonds are subordinated to all unsubordinated claims against the Issuer (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds). Subordination of the Bonds means that in the event of liquidation or bankruptcy of the Issuer, all liabilities of the Issuer arising from the Bonds or Terms (including but not limited to the claims for redemption and interest, claims for late payment interest, claims for contractual penalties and damages, and all other financial liabilities of the Issuer) become collectible and are settled after all the acknowledged unsubordinated claims have been fully settled pursuant to applicable legislation. Therefore, upon liquidation or bankruptcy of the Issuer, the Investors are not entitled to any payments arising from the Bonds or Terms until the unsubordinated claims of other creditors of the Issuer have been fully settled in the manner prescribed. By subscribing to Bonds, the Investor unconditionally and irrecoverably agrees to such subordination of claims arising from any Bonds or Terms. For the purpose of clarity, as long as the liquidation or bankruptcy proceeding of the Issuer has not been initiated or such proceedings have not otherwise started, the Issuer settles the claims arising from Bonds and Terms when they become collectible pursuant to the Terms. Notwithstanding any rights of the Investor under these Terms or law, by subscribing to Bonds the Investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds.
(5) The Bonds are registered in the Estonian Central Register of Securities ("**Register**"), and assigned an ISIN code. Bonds may be subscribed for only by such persons that have a securities account with the Register.
(6) The issue and subscription for Bonds, payments related to Bonds and registration of Bonds in the Register are organised and the documents to be submitted pursuant to the Terms are collected and safekept by AS LHV Pank (registry code 10539549, hereinafter "**Agent**").
(7) Bonds are issued in one issue ("**Issue**"). The issue volume is 10,000 Bonds, with the Issuer having the right, in case of over-subscription, to issue up to 15,000 Bonds.
(8) The nominal value of one Bond is EUR 1,000. The issue price of a Bond is EUR 1,000 per a Bond ("**Issue Price**").
(9) The Bonds are issued on 29 October 2015 ("**Launch Date**").
(10) Bonds are redeemed on 29 October 2015 or prematurely before the maturity date in case of premature redemption ("**Final Date**").
(11) The amount of annual coupon interest payable on a Bond is set forth in subsection 2 of section 9.
(12) There will be a public offering of the Bonds ("Offering") in accordance with the Public Offering, Listing and Admission to Trading Prospectus ("**Prospectus**"). The Prospectus is registered with the Financial Supervision Authority on 2 October 2015 and is available at https://www.lhv.ee/en/for-investors/?l3=en.
(13) In case of oversubscription, the Management Board of the Issuer shall decide on the allocation of Bonds between Investors.
(14) The allocation of the Bonds among the Investors shall be determined in accordance with the terms and conditions described in the Prospectus upon a relevant resolution of the Company.

2. Issue

(1) All the Bonds issued through the Issue bear the same rights and obligations.
(2) The provisions of the Terms apply to all the Bonds issued through the Issue.
(3) Bonds may be offered to persons upon first dissemination and on the secondary market only subject to such conditions that do not qualify the relevant offer as a public offer for the purposes of the Securities Market Act. Each investor is individually responsible for offering Bonds on the grounds excluding public offer.

3. Subscription for Bonds

(1) The subscription of the Bonds shall be conducted in accordance with the terms and conditions described in the Prospectus
(2) According to the terms and conditions of the Offering up to 10,000 Bonds shall be issued. Upon over-subscription of the Bonds in the course of the Offering, the Company shall be entitled to increase the number of the Bonds to be issued to up to 15,000 Bonds and the total amount of the issue of the Bonds to EUR 15,000,000. The issue of the additional Bonds shall be decided by the Management Board of the Company in accordance with the terms and conditions of the Offering described in the Prospectus.

4. Agent's role

(1) Pursuant to an agreement between the Issuer and the Agent, the Agent has agreed to act as the mediator of documents between the Issuer and Investors, organise registration of the Bonds in the Register as well as subscription for Bonds, and making of subscription, interest and redemption payments.
(2) In carrying out its duties, the Agent acts as a representative of the Issuer and is not a party to the legal relationship created between the Issuer and Investors as a result of the issue and acquisition of Bonds; however, the Agent has assumed an obligation to the Issuer and Investors to act in the interests of Investors when performing certain duties. The Agent is not liable to the Investors if the Issuer is in breach of obligations arising from these Terms. Agent's breach of obligations arising from these Terms is also deemed to constitute a breach of obligations by the Issuer and the Issuer is liable to the Investors for the Agent's breach as if it were the Issuer's breach. If the Agent fails to properly perform its obligation to forward to the Issuer any document submitted by or payment made by an Investor under the Terms or in connection with Bonds, the Investor is deemed to have submitted the relevant document or made the payment to the Issuer at the moment when the Agent was supposed to perform its relevant obligation.

5. Representations and warranties of Issuer

(1) The Issuer represents and warrants to the Investors as at the date of approval of the Terms and each interest payment day as well as over the entire period until full redemption of the Bonds that:
   (a) The Issuer is a commercial undertaking duly established and existing under Estonian law;
   (b) The assets of the Issuer and each of its subsidiary are owned by the Issuer or subsidiary, respectively, under the right of ownership and the Issuer may organise its economic activities as it is done at this moment;
   (c) The obligations assumed by the issue of Bonds are lawful, valid, binding on the Issuer, and enforceable;
   (d) The issue Bonds and performance of related obligations by the Issuer are not contrary to:
      (1) any legislative act;
      (2) statutory documents of the Issuer; or
      (3) any contract or agreement in effect in respect of the Issuer or its assets.
   (e) The Issuer has the rights and powers to issue Bonds and perform related obligations and the Issuer has fulfilled all formalities required to issue Bonds and perform related obligations;

(f) Entire information disclosed to the Investors and Agents in connection with the issue of Bonds is true, full and accurate as at the date of giving such information and is not misleading in any part;
(g) No court proceedings in a court of law, arbitration court or institution have been initiated or pending to be initiated against the Issuer or any of its subsidiaries (to the Issuer's knowledge) where an unfavourable outcome may be reasonably expected to have a negative impact on the economic situation of the Issuer or its subsidiaries;
(h) The Issuer and all of its subsidiaries have fulfilled all obligations that have become due.

6. Listing of Bonds

The Company shall submit, after conducting the Offering, an application for the listing of the Bonds in the Baltic Bond List of the Nsadaq Tallinn Stock Exchange (regulated market operated by NASDAQ OMX Tallinn AS (register code 10359206).

7. Disclosure of information

If the Bonds are listed in accordance with the Prospectus and these Terms, the Company shall disclose information required of being disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange (including the quarterly reports and annual reports of the Company) via the information system of the Nasdaq Tallinn Stock Exchange.

8. Register

(1) The Agent organises the registration of the Bonds in the Register and their deletion from the Register upon their redemption.
(2) Bonds shall be transferred to the securities accounts of Investors under the terms and conditions stipulated in the Prospectus.
(3) Ownership of a Bond is deemed to have changed in respect of the Issuer as from the moment a relevant entry is made in the Register.
(4) The Registrar may temporarily block Bonds on an Investor's securities account to ensure registration of Bonds.

9. Payments

(1) The Agent organises redemption and interest payments pursuant to these Terms.
(2) The Issuer is liable to the Investors for the timely transfer of redemption, interest payments and other amounts payable in connection with the Bonds. If the Issuer fails to transfer any amount payable to an Investor under these Terms (incl. amounts payable in connection with Bonds) by the due date, the Issuer undertakes to pay a fine for delay to the Investor on the outstanding amount as from the payment deadline until actual payment at a rate of 0.05% (zero point zero five per cent) per day.
(3) The redemption and interest payments are made to persons that according to the Register are owners of Bonds at 23.59 on the day preceding the payment day.
(4) All payments made by the Issuer in connection with Bonds are calculated and paid without set-off or counter-claims (and without any deductions).
(5) Hereby, the Investor waives any rights of set-off in connection with claims arising from Bonds.
(6) The Issuer pays all amounts payable by the Issuer in relation to Bonds without withholding or deducting any taxes, except state taxes that are required to be withheld or deducted by law. Where under the law the Issuer is required to withhold or deduct state taxes on the interest payments in connection with Bonds, the Issuer notifies the Investor and withholds and pays the required taxes according to the procedure and to the extent provided by law.

10. Interest

(1) Interest is calculated for Bonds on the basis of the nominal value of the Bond as from the issue date until the redemption date.
(2) Interest is calculated at a rate of 6.5 % (six point five per cent) per year from the Launch Date (inclusive) to the Final Date (inclusive);
(3) Interest is payable annually on January 29, April 29, July 29 and October 29 from 2016 to 2025. Where Bonds are redeemed prematurely, the Issuer pays the interest accumulated and unpaid by the redemption date plus the redemption payment.
(4) Interest is calculated daily based on a 30-day month (adding or subtracting days at the end of month as needed) and a 360-day year (30/360).
(5) Interest is calculated by the Agent within the framework of its day-to-day activities and such calculation is deemed to be ultimate evidence in this relation unless an obvious error is detected.
(6) Where an interest payment date falls on a day that is not a banking day, the payment is made on the banking day directly following the relevant date.

11. Redemption on Final Date

(1) The Issuer redeems (i.e., makes redemption payments) the issued Bonds in one part, paying 100% of the nominal value of redeemable Bonds plus all accumulated and unpaid interest on 29 September 2025.

12. Premature redemption of Bonds

(1) The Issuer may redeem the Bonds in part or in full prematurely at any time after five (5) years have elapsed from the Launch Date, i.e., as from 29 October 2020, giving the Investors a prior notice of at least 30 days.
(2) If the regulatory classification of Bonds changes and the Issuer believes that the Bonds are not likely to qualify as regulatory capital of a credit institution, or the Issuer believes that a tax change that is introduced has a major impact on the Bonds and the Issuer could not have reasonably been expected to foresee such changes upon issue of Bonds, the Issuer may redeem the Bonds in full prematurely, before five (5) years have elapsed from the Launch Date (i.e., before 29 October 2020), giving the Investors a prior notice of at least 30 days.
(3) Premature redemption of Bonds as set forth in subsections 1 and 2 of this section occurs only in the case where the Financial Supervision Authority (or European Banking Authority if mandated to give their consent) has prior consented to this.
(4) The Financial Supervision Authority (or European Banking Authority if mandated) may consent to premature redemption as from 29 October 2020 only if the provisions of Article 78 (1) of Regulation (EU) 575/2013 ("**Regulation**") are met, and to premature redemption before 29 October 2020 only if the provisions of Article 78 (4) of the Regulation are met.
(5) An investor severally or the Investors jointly have no right to demand premature redemption of Bonds.
(6) Upon redemption of Bonds on the grounds set forth in this section 12, the Issuer pays to the Investors as the redemption payment the nominal value of Bonds plus the interest accumulated and unpaid by the moment of redemption.
(7) Where the redemption payment date falls on a day that is not a banking day, the payment is made on the first banking day following the relevant date.

13. Notices and requests

(1) All notices submitted in connection with Bonds must be submitted in Estonian by means that enable to produce a written record such as e-mail, post or fax, to the contact data specified in the Terms.
(2) Notices and requests from the Issuer to the Investors are submitted by the Issuer to the Agent who organises their forwarding to the Investors. The Agent sends notices to the contact data of Investors specified in the securities accounts opened for Investors in the Register. Notices are deemed to have been received by the Investors after reasonable time has passed from their sending.

(3) Any notices, claims and other documents sent by Investors to the Issuer must be addressed to the Agent at AS LHV Pank Tartu mnt 2, Tallinn 10145. A notice must include a reference to Bonds. The Agent forwards the notices and documents to the Issuer.

14. Final provisions

(1) Issue of Bonds and the related rights and obligations are governed by Estonian legislation.

(2) Any disputes in connection with Bonds are attempted to be settled by negotiations. In case of failure to reach agreement in reasonable time, the disputes shall be settled by an Estonian court. Harju County Court shall serve as the court of first instance.

(3) Where a provision of the Terms is found to be void or is cancelled or declared inapplicable by competent authorities, it does not affect or change the validity, legitimacy or applicability of the remaining provisions and the Issuer undertakes to make every effort to replace such a provision with one that is the most similar to the intent of the parties as expressed by the replaced provision.